

EXAMINATION REPORT

OF

**SAFE HARBOR INSURANCE COMPANY**

TALLAHASSEE, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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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

Safe Harbor 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 January 1, 2009 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**

Subsequent to the examination date, the Company resolved the findings noted during this examination period. However, the findings or exceptions are discussed in detail in the body of the examination report.

### **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.

### **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)-(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, submitted to the Office on February 23, 2011, was 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 was incorporated in Florida on February 21, 2006, and commenced business on June 1, 2006.

The Company was party to Consent Order 84921-06, filed February 9, 2006, regarding the application for the issuance of a Certificate of Authority. The Company complied with the provisions of this consent order.

The Company was also party to Consent Order 130506-13-CO, filed January 8, 2013, and Consent Order 143285-13, filed October 25, 2013, under which the Company was approved for a March 2013, and September 2013 policy take-out assumption from Citizens Property and Casualty Insurance Company. The Company complied with the provisions of the consent orders.

The Company was authorized to transact insurance coverage in Florida on May 4, 2006 and continued to be authorized for the following coverages as of December 31, 2014:

Allied Lines	Fire
Homeowners Multiple-Peril	Mobile Home Multiple-Peril
Mobile Home Physical Damage	

The Company amended its Articles of Incorporation on November 29, 2012, to increase the authorized amount of capital stock. The Company filed the Articles of Amendment to the Articles of Incorporation with the Office and received approval on December 27, 2012.

## **Dividends**

In accordance with Section 628.371, Florida Statutes, the Company declared and paid a dividend to its stockholders in 2014 in the amount of \$2,000,000.

## **Capital Stock and Capital Contributions**

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

Number of authorized common capital shares	2,500,000
Number of shares issued and outstanding	2,097,988
Total common capital stock	\$2,097,988
Par value per share	\$1.00

As of December 31, 2014, RM Ocean Harbor Holding, Inc. (RM Holding), Blue Fin Investment Company (Blue Fin) and Blue Fin II Investment Company (Blue Fin II) respectively owned 83.02 percent, 12.31 percent and 4.67 percent of the Company's issued and outstanding common stock. RM Holding 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. Ocean Harbor Casualty Insurance Company (OHCIC) issued a dividend of its common stock holdings of the Company and GNW Holding, Inc. (GNW), to its parent RM Holding. RM Holding then contributed its common stock holdings of OHCIC to GNW. GNW then contributed its common stock holdings of Great Northwest Insurance Company (GNIC) and Hawaiian Insurance and Guaranty Company (HIG) to OHCIC. As a result of the reorganization, the Company became a direct subsidiary of RM Holding.

Effective December 31, 2012, pursuant to a stock subscription agreement, the Company issued an additional 97,988 shares of common stock, a 4.67 percent interest in the Company, to Blue Fin II. In 2012, the Company received \$640,000 in paid-in capital from Blue Fin II for the 97,988 shares of common stock.

### **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 had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

## **CORPORATE RECORDS**

The recorded minutes of the Shareholders, 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 69O-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

<b>Name and Location</b>	<b>Principal Occupation</b>
Michael Keith Eigen Atlantic Beach, New York	Vice President and Secretary, Director Safe Harbor Insurance Company
Beth Ann McDougal Monticello, Florida	Vice President, Director Safe Harbor Insurance Company
Michael Lee McNitt La Jolla, CA	Vice President, Director Safe Harbor Insurance Company
Ralph Milo Fisher Island, Florida	Chairman of the Board, Director Safe Harbor Insurance Company
William Emerson Roche Brooklyn, New York	President and Treasurer, Director Safe Harbor Insurance Company

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
Beth Ann McDougal	Vice President
Michael Lee McNitt	Vice President
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:

**Audit Committee**

Michael Keith Eigen  
Beth Ann McDougal  
Michael Lee McNitt  
Ralph Milo<sup>1</sup>  
William Emerson Roche

**Investment Committee**

Michael Keith Eigen  
Beth Ann McDougal  
Michael Lee McNitt  
Ralph Milo<sup>1</sup>  
William Emerson Roche

**Nominating Committee**

Michael Keith Eigen  
Beth Ann McDougal  
Michael Lee McNitt  
Ralph Milo  
William Emerson Roche<sup>1</sup>

<sup>1</sup> Chairman

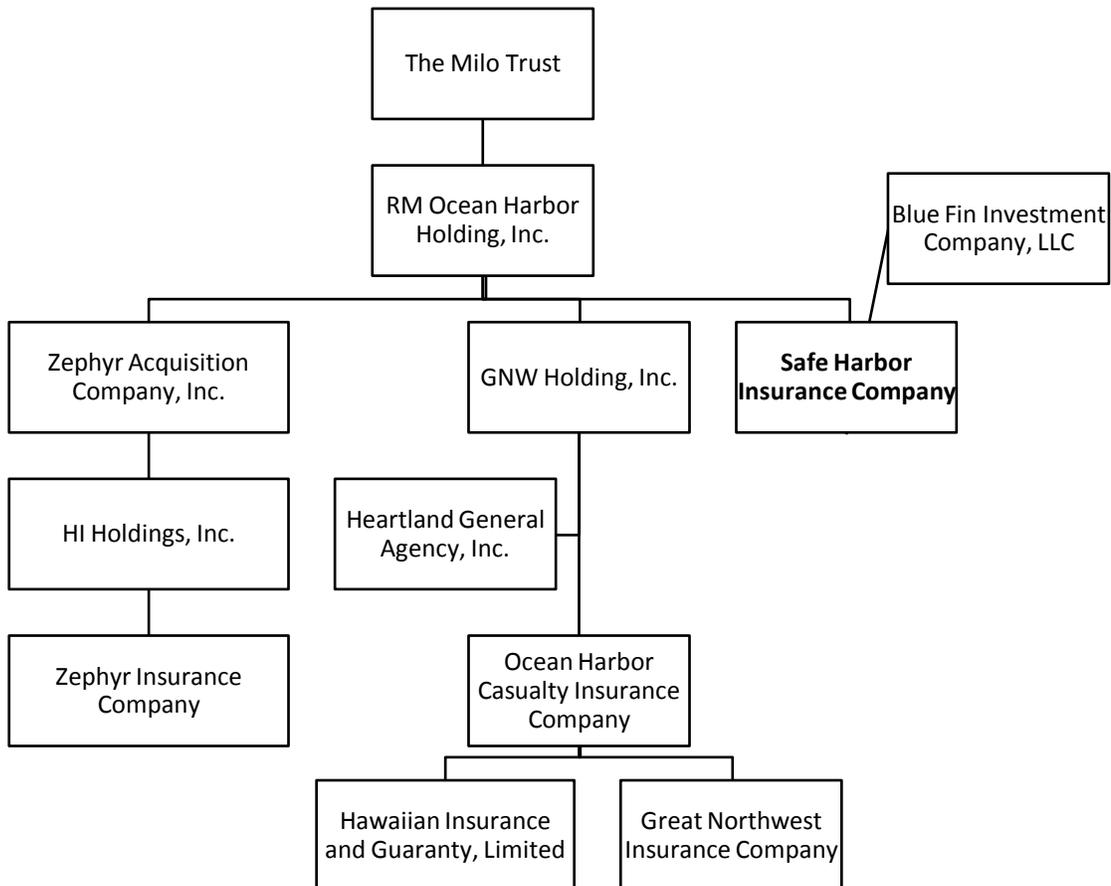
The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

**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

## Safe 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 OHCIC 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 were calculated quarterly and settled within 30 days on a net basis. Expenses allocated to the Company under this agreement during 2014 and 2013 from its affiliate, OHCIC, were \$884,694 and \$716,054, respectively.

### **Managing General Agent Agreement**

Effective November 1, 2006, the Company entered into a Managing General Agent (MGA) agreement with Cabrillo General Insurance Agency, Inc. (Cabrillo), under which the Company authorized Cabrillo with underwriting, billing, and collecting authority. Cabrillo is an affiliated party to the Company in that Cabrillo owned 56.4 percent of Blue Fin, who in turn maintained a 12.31 percent interest in the Company as of December 31, 2014. On June 1, 2010, Cabrillo

was split into two entities. One of these entities, Cabrillo Coastal General Insurance Agency, Inc., became the MGA under the agreement and assumed all responsibility for administering the Company's business effective June 1, 2010. The agreement provides for a 20 percent commission and is cancelable by either party with 90 days prior written notice.

### **Claims Management Agreement**

The Company entered into a claims management agreement with Harbor Claims, Inc. (Harbor Claims), effective June 1, 2010. Harbor Claims, a Florida corporation, is a related party to the Company in that the owners of Harbor Claims are also the owners of Cabrillo General Insurance Agency. The agreement provides for a service fee of 3.5 percent of earned premium. All legal, expert, independent adjustment and medical expenses associated with claims are not included in the fee agreement and are paid in addition to the fee as Allocated Loss Adjustment Expense. A separate fee was established for catastrophe claims. The former claims management agreement with Tidewater Claims was terminated on a cut off basis, effective June 1, 2010.

### **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:

Florida

Louisiana

Mississippi

South Carolina

### **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 did not assume any reinsurance during the period of this examination.

### **Ceded**

The Company participated in the Florida Hurricane Catastrophe Fund (FHCF) at the 90 percent coverage option. In addition to the FHCF, the Company purchased private reinsurance consisting of five layers totaling \$103 million in excess of \$4 million. The Company purchased reinstatement premium protection on layers two and three. Layer four was protected 50 percent with prepaid reinstatement premium protection. All layers provided coverage for second and subsequent events until exhausted. The Company also maintained property excess per risk

coverage during the exam period. All reinsurance contracts written during 2014 were effective June 1 with a term of twelve months, except for the catastrophe excess of loss layer which was effective July 2 and which 50 percent expired on December 15, 2014, with the remaining 50 percent effective through June 1, 2015.

## **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 69O-143.042, Florida Administrative Code.

### **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, 0.5%, 07/31/16	<u>\$ 305,000</u>	<u>\$ 305,143</u>
TOTAL FLORIDA DEPOSITS		\$ 305,000	\$ 305,143
LA	Cash	\$ 150	\$ 150
LA	WHITNEYBKCD, 0.15%, 03/29/16	100,075	100,075
SC	USTNTS, 0.375%, 04/15/15	<u>129,000</u>	<u>129,101</u>
TOTAL OTHER DEPOSITS		<u>\$ 229,225</u>	<u>\$ 229,326</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 534,225</u>	<u>\$ 534,469</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:

**Safe Harbor Insurance Company**

**Assets  
December 31, 2014**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$41,965,502		\$41,965,502
Stocks:			
Common	516,898		516,898
Cash and Short-Term Investments	13,689,881		13,689,881
Investment Income Due and Accrued	545,592		545,592
Agents' Balances:			
Uncollected premium	2,190,247		2,190,247
Deferred premium	4,831,997		4,831,997
Reinsurance Recoverable	155,047		155,047
Current Federal Income Tax			
Recoverable	545,915		545,915
Deferred Tax Asset	1,920,491		1,920,491
Guaranty funds receivable	12,189		12,189
Aggregate write-ins for other than invested assets	269,865		269,865
Totals	<u>\$66,643,625</u>		<u>\$66,643,625</u>

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

	Per Company	Examination Adjustments	Per Examination
Losses	\$10,442,101		\$10,442,101
Loss adjustment expenses	2,053,247		2,053,247
Commissions payable	2,142,022		2,142,022
Other expenses	71,253		71,253
Taxes, licenses and fees	237,599		237,599
Unearned premium	23,948,470		23,948,470
Advance Premium	1,398,786		1,398,786
Ceded reinsurance premiums payable	5,617,756		5,617,756
Remittances and items not allocated	273,495		273,495
Payable to parent, subsidiaries and affiliates	132,948		132,948
Total Liabilities	\$46,317,676		\$46,317,676
Common capital stock	\$2,097,988		\$2,097,988
Gross paid in and contributed surplus	4,542,012		4,542,012
Unassigned funds (surplus)	13,685,949		13,685,949
Surplus as regards policyholders	\$20,325,949		\$20,325,949
Total liabilities, surplus and other funds	\$66,643,625		\$66,643,625

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

**Underwriting Income**

Premiums earned		\$44,625,659
	<b>Deductions:</b>	
Losses incurred		\$15,949,515
Loss expenses incurred		3,947,460
Other underwriting expenses incurred		16,540,412
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$36,437,386</u>
Net underwriting gain or (loss)		\$8,188,272

**Investment Income**

Net investment income earned		\$1,100,436
Net realized capital gains or (losses)		24,258
Net investment gain or (loss)		<u>\$1,124,694</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$386)
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		<u>(\$386)</u>

Net income before dividends to policyholders and before federal & foreign income taxes		\$9,312,580
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$9,312,580
Federal & foreign income taxes		<u>3,649,568</u>
Net Income		<u><u>\$5,663,012</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$16,378,421
Net Income		\$5,663,012
Change in net unrealized capital gains or losses		(111,572)
Change in net deferred income tax		457,939
Change in non-admitted assets		(61,851)
Dividends to stockholders		(2,000,000)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$3,947,528</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$20,325,949</u></u>

**Safe Harbor 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 December 31, 2014, per Annual Statement	\$20,325,949
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$20,325,949

## **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 \$20,325,949 exceeded the minimum of \$5,000,000 required by Section 624.408(1) (g), Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Safe Harbor 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 \$20,325,949, which exceeded the minimum of \$5,000,000 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,

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Robin Brown, CFE  
Chief Examiner  
Florida Office of Insurance Regulation