REPORT ON EXAMINATION

OF

SEMINOLE CASUALTY INSURANCE COMPANY

WEST PALM BEACH, FLORIDA

AS OF

DECEMBER 31, 2002

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

November 21, 2003

Kevin M. McCarty
Director
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316/641.27, 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, 2002, of the financial condition and corporate affairs of:

SEMINOLE CASUALTY INSURANCE COMPANY
2393 Congress Avenue, 2nd floor
WEST PALM BEACH, FLORIDA 33333

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, 2000 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1999. This examination commenced with planning at the Office on June 26, 2003 to July 2, 2003. The fieldwork commenced on August 25, 2003 and was concluded as of November 21, 2003. 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 Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 4-137.001(4) and 4-138.001, 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, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) 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, 2002. Transactions subsequent to year-end 2002 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

Other Expenses
Taxes, Licenses and Fees

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 1999, along with resulting action taken by the Company in connection therewith.

Corporate Records

There was no documentation in the minutes reviewed that the previous examination report was reviewed by the Company's directors.

Resolution: There was documentation in the minutes reviewed that the previous examination report was reviewed by the Company's directors.

The Company did not maintain fidelity bond coverage.

Resolution: The Company still did not have fidelity bond coverage and has stated that they have been unable to find an insurance company willing to provide the coverage.

HISTORY

General

The Company was incorporated in Florida on June 9, 1988 and commenced business on December 21, 1988 as Seminole Casualty Insurance Company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2002:

PPA Physical Damage
Private Passenger Auto Liability

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	2,000,000
Total common capital stock	$2,000,000
Par value per share	$1.00

Control of the Company was maintained by its majority shareholder, Carl Seaman, who owned 94 percent of the stock issued by the Company. The remaining six percent was evenly divided between Peter Bergman, James Blake, and Frank Lozano.

Profitability of Company

The Company had reported underwriting losses of $2,788,377, $1,595,379, and $2,100,444 for the years ending December 31, 2000, 2001, and 2002, respectively. For each of those years the Company reported net investment gains of $646,842, $669,195, and $533,465, respectively. The Company's Quarterly Statement ending September 30, 2003 reported an underwriting loss of $204,752 with a net investment gain of $636,067.

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company had not declared or paid dividends to its stockholders.

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, 2002, were:

Directors

Name and Location	Principal Occupation
Carl Seaman New York, New York	Chairman, majority shareholder
Peter Henry Bergman Boca Raton, Florida	President of Company
James Willard Blake, Jr. Wellington, Florida	Treasurer, Secretary, Vice-President and CFO
Joseph Gerard Prendamano West Palm Beach, Florida	Vice-President of ETI Financial Corporation
Lewis Stein New York, New York	Financial Consultant

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

Senior Officers

Name	Title
Peter Henry Bergman	President
James Willard Blake, Jr.	Treasurer, Secretary, Vice President & CFO

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. The following are the principal internal board committees and their members as of December 31, 2002:

Audit Committee	Investment Committee
Carl Seaman[1]	Carl Seaman[1]
Peter Henry Bergman	Peter Henry Bergman
Lewis Stein	James Willard Blake, Jr.

[1] Chairman

Conflict of Interest Procedure

The Company had 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 Audit and Investment Committee meetings 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.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance during the examination period.

Surplus Debentures

The Company had surplus debentures in the amount of $3,770,000 as of December 31, 2002. These surplus notes were held by Carl Seaman, the majority shareholder. These surplus notes were approved by the Office.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 4-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on May 9, 2003, as required by Section 628.801, FS, and Rule 4-143.046, FAC.

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

Tax Allocation Agreement

The Company, along with its wholly owned subsidiary, Seminole Insurance Services, Inc. (SIS), filed a consolidated federal income tax return. On December 31, 2002, the method of allocation between the Company and its subsidiary was to allocate the amount of tax liability/assets proportionate to the taxable income/loss generating the associated tax liabilities/assets. The Company was responsible for remitting balances to the Internal Revenue Service and receiving any refunds accordingly. The Company settles balances due to or from SIS within 30 days.

General Expense Allocation Agreement

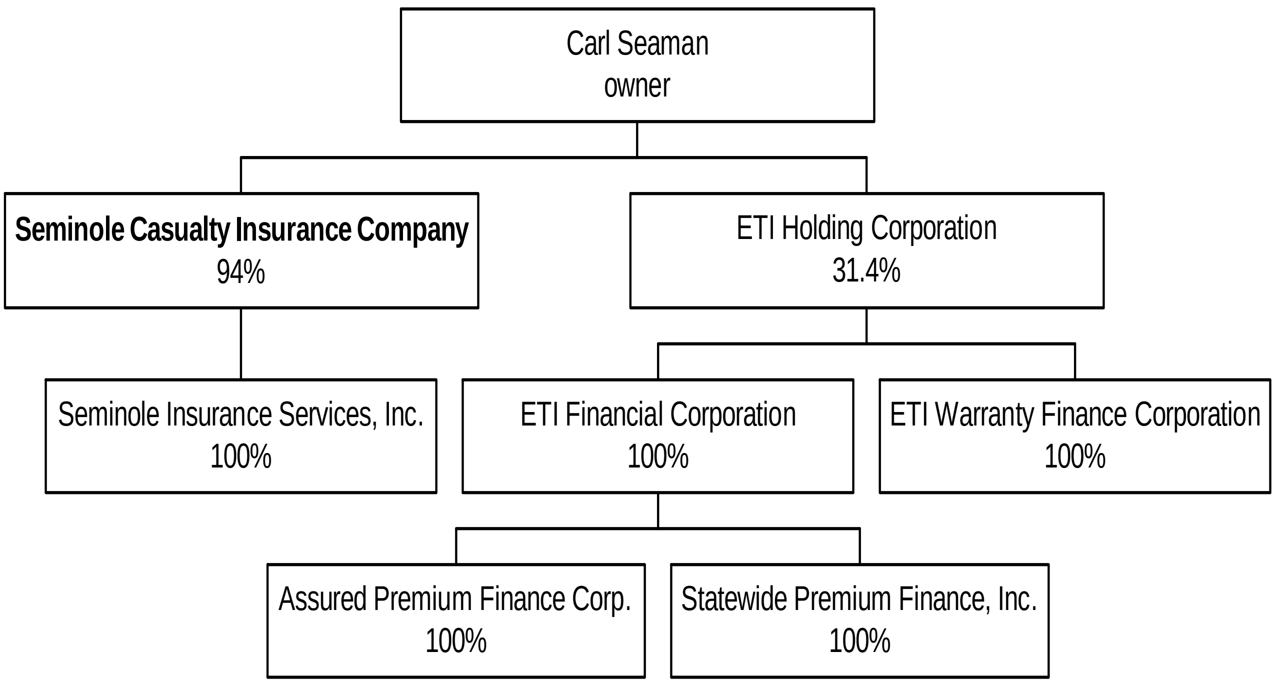
The Company and its wholly owned subsidiary, SIS, allocate expenses incurred by the Company on behalf of SIS in accordance with methods consistent with those recommended by the NAIC. Expense allocations were determined based on actual results as of December 31st of each year.

MGA Agreement

The Company entered into a managing general agency agreement effective January 1, 1993, with SIS. The original agreement was amended in 1997 and 1998 to comply with Section 626.091, FS.

A simplified organizational chart as of December 31, 2002 reflecting the holding company system is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group.

SEMINOLE CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2002



FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage as recommended by the NAIC. The Company stated that they have been unable to find an insurance company willing to provide the coverage. The Company had commercial property, commercial general liability, business auto liability and small computer insurance coverage at year end.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company provided substantially all employees with a 401K plan. Contributions to the plan were strictly voluntary. The Company also provided group health, life, and disability coverage. The Company paid the premium for life and disability coverage. Employees paid 25% of the premium for group health coverage.

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	Cash Deposit	$ 950,000	$ 950,000
TOTAL FLORIDA DEPOSITS		$ 950,000	$ 950,000
Total Special Deposits		$ 950,000	$ 950,000

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company provided private passenger coverage through the use of independent agents located throughout the State of Florida.

Territory and Plan of Operation

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

Florida
Tennessee

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS.

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 assumed no risk during this examination period.

Ceded

The Company ceded risk on a quota share and excess of loss basis to PartnerRe Insurance Company of New York, who is an authorized reinsurer in the State of Florida. The Company ceded on a 30 percent quota share basis.

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 2000, 2001 and 2002, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 4-137.002, 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 West Palm Beach, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a working capital management agreement with Merrill Lynch for safekeeping of its securities. Merrill Lynch is not a qualified custodian per Rule 4-143.041, FAC.

Independent Auditor Agreement

The Company had an agreement with Blackman, Kallick, Bartelstein, LLP for the purpose of auditing and reporting on the balance sheet and statutory financial statements.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

Information Technology (IT)

An investigation performed by the specialist noted the following:

The size of the Company IT staff does not permit an organizational structure that, in every case, assured appropriate separation of duties and cross checks. Written formal procedures and documentation is needed to mitigate this risk, since the lack of documentation created an unacceptable risk and reliance on a part-time consultant and/or code level research for software modifications and analysis. A Business Continuity Plan and Risk Profile Assessment has not been developed. Recovery of IT functions is dependent upon the acquisition of new equipment, the rebuilding of any needed infrastructure and the utilization of backup files maintained offsite by the network administrator. Therefore, considering these facts, the Company has a very limited capability to recover from a total loss of their home office within a reasonable period.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2002, 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."

SEMINOLE CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$7,664,420		$7,664,420
Stocks:			
Common	1,288,295		1,288,295
Real Estate:			
Properties			
occupied by Company	997,798		997,798
Cash:			
On deposit	(270,679)		(270,679)
Short-term investments	5,339,035		5,339,035
Agents' Balances:			
Uncollected premium	(74,942)		(74,942)
Reinsurance recoverable	477,788		477,788
Federal income tax recoverable	363,411		363,411
EDP equipment	45,755		45,755
Interest and dividend			
income due & accrued	135,116		135,116
Receivable from PSA	2,536		2,536
Equities and deposits			
in pools and associations	132,042		132,042
Totals	$16,100,575	$0	$16,100,575

SEMINOLE CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

Losses	$3,376,964		$3,376,964
Loss adjustment expenses	2,283,977		2,283,977
Commissions payable, contingent commissions	531,135		531,135
Other expenses	240,604		240,604
Taxes, licenses and fees	33,079		33,079
Unearned premium	4,445,137		4,445,137
Ceded reinsurance premiums payable	314,644		314,644
Funds held under reinsurance treaties	9,829		9,829
Remittances and items not allocated	721,202		721,202
Payable to parent, subsidiaries, and affiliates	659		659
Payable for securities	100,067		100,067
Total Liabilities	$12,057,297		$12,057,297
Common capital stock	$2,000,000		$2,000,000
Surplus notes	3,770,000		3,770,000
Gross paid in and contributed surplus	6,720,000		6,720,000
Unassigned funds (surplus)	(8,446,721)		(8,446,721)
Surplus as regards policyholders	$4,043,279		$4,043,279
Total liabilities, capital and surplus	$16,100,576	$0	$16,100,576

SEMINOLE CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2002

Premiums earned	$11,728,815
DEDUCTIONS:	
Losses incurred	7,095,707
Loss expenses incurred	3,859,441
Other underwriting expenses incurred	3,562,044
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$14,517,192
Net underwriting gain or (loss)	($2,788,377)
Investment Income	
Net investment income earned	$567,869
Net realized capital gains or (losses)	78,972
Net investment gain or (loss)	$646,841
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($90,533)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	(16,349)
Total other income	($106,882)
Net income before dividends to policyholders and before federal & foreign income taxes	($2,248,417)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($2,248,417)
Federal & foreign income taxes	0
Net Income	($2,248,417)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$3,053,103
Gains and (Losses) in Surplus	
Net Income	($2,248,417)
Net unrealized capital gains or losses	148,298
Change in net deferred income tax	622,208
Change in non-admitted assets	(351,914)
Change in surplus notes	2,820,000
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Change in surplus as regards policyholders for the year	$990,175
Surplus as regards policyholders, December 31 current year	$4,043,278

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $5,660,941

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, 2002, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

SEMINOLE CASUALTY INSURANCE COMPANY.
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2002

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, 2002, Annual Statement				$4,043,279
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
LIABILITIES:				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2002, Per Examination				$4,043,279

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 1999 examination report issued by the Office with the following exception:

The Company did not maintain the suggested minimum fidelity bond coverage as recommended by the NAIC. The Company stated that they have been unable to find an insurance company willing to provide the coverage. **The Company is again directed to obtain the suggested minimum amount of fidelity bond coverage as recommended by the NAIC, in accordance with Rule 4-137.001 and Rule 4-142.011 (11) (b) (16), FAC.**

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, 2002.

Custodial Agreement

The Company utilized the services of Merrill Lynch as a custodian. This was not in compliance with Rule 4-143.041, FAC.

The Company is directed to transfer its funds to a qualified custodian, in accordance with Rule 4-143.041, FAC, and to provide evidence of compliance by December 31, 2004.

Information Technology

The Company did not have a Business Continuity Plan and Risk Profile Assessment.

The Company is directed to address the concerns of the specialist as noted in the IT section of this report and to provide evidence of compliance to the Office within 90 days of the issuance of this report.

Subsequent Events

Peter Bergman resigned as President of the Company on March 5, 2003. Joseph Scaturro was appointed as his replacement, effective that same day.

The Company cancelled their reinsurance agreement with PartnerRe Insurance Company of New York as of December 31, 2002.

The Company negotiated a 30% quota share agreement with Hannover Re Group as of January 1, 2003.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Seminole Casualty Insurance Company** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $4,043,279, which was in compliance with Section 624.408, FS.

In addition to the undersigned, John C. Berry, Financial Examiner/Analyst Supervisor, Doug Haseltine, Actuary, and Jon Winter, IT Specialist, participated in the examination.

Respectfully submitted,

____

Rose M. Cady
Financial Examiner/Analyst II
Florida Office of Insurance Regulation