

REPORT ON EXAMINATION
OF
CASTLEPOINT FLORIDA INSURANCE
COMPANY
FORT LAUDERDALE, FLORIDA

AS OF
DECEMBER 31, 2010

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS.....	2
PRIOR EXAM FINDINGS.....	2
HISTORY	3
GENERAL	3
DIVIDENDS TO STOCKHOLDERS.....	4
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS DEBENTURES.....	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	5
CORPORATE RECORDS	5
CONFLICT OF INTEREST.....	5
MANAGEMENT AND CONTROL.....	5
MANAGEMENT	5
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
TAX ALLOCATION AGREEMENT.....	9
COST ALLOCATION AGREEMENT	9
MANAGING GENERAL AGENT AGREEMENT.....	9
FIDELITY BOND AND OTHER INSURANCE.....	10
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
TERRITORY AND PLAN OF OPERATIONS.....	10
TREATMENT OF POLICYHOLDERS	10
COMPANY GROWTH	10
PROFITABILITY OF COMPANY	11
LOSS EXPERIENCE	11
REINSURANCE.....	12
ASSUMED	12
CEDED	12
ACCOUNTS AND RECORDS	13
CUSTODIAL AGREEMENT	13
MANAGING GENERAL AGENT AGREEMENT.....	13
CLAIMS ADMINISTRATION AGREEMENT	14
CLAIMS THIRD PARTY ADMINISTRATION AGREEMENT	14
INDEPENDENT AUDITOR AGREEMENT	14
INFORMATION TECHNOLOGY REPORT	15

STATUTORY DEPOSITS	15
FINANCIAL STATEMENTS PER EXAMINATION.....	15
ASSETS.....	16
LIABILITIES, SURPLUS AND OTHER FUNDS	17
STATEMENT OF INCOME	18
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	19
COMMENTS ON FINANCIAL STATEMENTS.....	20
ASSETS.....	20
LIABILITIES	20
CAPITAL AND SURPLUS	20
CONCLUSION.....	21

January 25, 2012

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 690-138.005, 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, 2010, of the financial condition and corporate affairs of:

**CASTLEPOINT FLORIDA INSURANCE COMPANY
500 WEST CYPRESS CREEK ROAD
FORT LAUDERDALE, FLORIDA 33309**

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, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on October 4, 2011, to October 7, 2011. The fieldwork commenced on October 24, 2011, and concluded as of January 25, 2012.

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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2009, along with resulting action taken by the Company in connection therewith.

General

The Company was a party to the Consent Order 100214-08-CO, dated December 12, 2008, regarding the application for the issuance of a certificate of authority. The Company was not in compliance with Sections c (1), d, and e (7) of Paragraph 17 of this Consent Order which required that all agreements with affiliated companies be in writing, be approved by the Office, and specify all fees and charges for services. The Company and its ultimate parent, Tower Group (TG), provided and/or received services to/from other companies within the holding company system without a written cost sharing agreement nor were there any mechanisms to allocate the related costs. Prior to this examination the Office had not been made aware of, nor approved,

this agreement. During the exam period, the Company continued to receive/perform services for a related party for which a written agreement was not in place and approved by the Office.

Resolution: The Company, starting with the First Quarter 2012, documented that all service and related expenses/payments were managed through their agreement with CastlePoint Management, Inc. (CPM).

HISTORY

General

The Company was incorporated in Florida on January 10, 2009, and commenced business on February 19, 2009, as CastlePoint Florida Insurance Company.

The Company was party to Consent Order 1001214-08-CO filed December 12, 2008, regarding the application for the issuance of a Certificate of Authority. The Company failed to comply with the following provisions of Paragraph 17 of this consent order:

- c (1) Which required monthly cash settlement of any expenses incurred.
- d) Which required that all agreements with a related party be in writing and submitted to the Office for review and prior written approval.
- e (7) Which required that fees and charges be specified in the contract and must be comparable to fees charged other insurers.

Subsequent Event: Starting with the First Quarter, 2012, the Company reported all affiliated transactions through the agreement with CPM.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The unanimous written consent of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The unanimous written consent 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 annual 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 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

Directors

Name and Location	Principal Occupation
Michael H. Lee New York, New York	Director, CEO
William E. Hitselberger West Windsor, New Jersey	Director, CFO
Gary S. Maier Tenafly, New Jersey	Director, SVP and Chief Underwriting Officer
Joel S. Weiner New Hope, Pennsylvania	Director, SVP, Chief Actuary and Strategic Planning
Elliot S. Orol New York, New York	Director, SVP, Secretary and General Counsel

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

Senior Officers

Name	Title
Michael H. Lee	President
William E. Hitselberger	EVP and CFO
Elliot S. Orol	Secretary

The Company's Board did not appoint internal committees. The Company's Board adopted the Holding Company's Audit Committee as the Company's Audit Committee. The following was the principal board committee and their members as of December 31, 2010:

Audit Committee

Austin P. Young III, CPA ¹
Charles A. Bryan
William W. Fox, Jr.
William A Robbie

¹ Chairman

Affiliated Companies

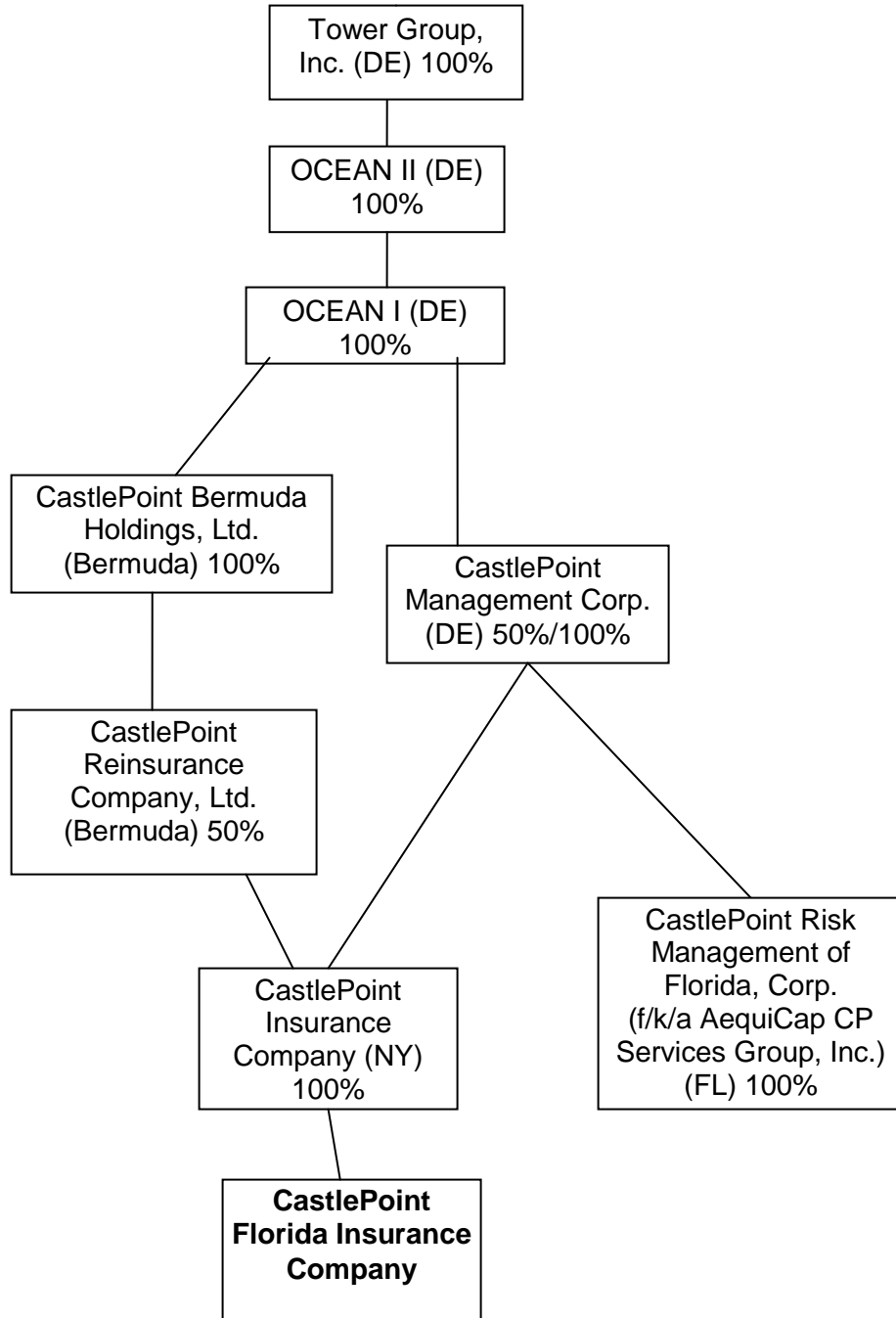
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 31, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

Subsequent event: The Company filed an updated holding company registration statement on August 15, 2011.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

**CASTLEPOINT FLORIDA INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2010



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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2010, the method of allocation between the Company and its parent was on the Percentage Method. The Company shall pay to the Parent its share of each installment within ten (10) days of receiving notice of such payment from Parent, but in no event later than two (2) days before the due date for each installment.

Cost Allocation Agreement

The Company entered into a Services Agreement with CastlePoint Management Corp. (CPM) on January 14, 2009, to maintain data processing systems and equipment, an office or offices, and a staff of employees sufficient in number and qualifications to perform the duties set forth in the agreement. CPM is reimbursed for its actual expenses, including salaries of its employees, and other expenses typically included within the terms other underwriting expenses in performing the services for the Company. Amounts are due and payable within 45 days of the end of each calendar quarter. Fees incurred under this agreement during the 4th quarter of 2010 amounted to \$423,785.

Managing General Agent Agreement

The Company entered into a Program Underwriting Agency Agreement with its affiliate, CastlePoint Risk Management of Florida, Corp. on February 19, 2009. The agreement continues in force until cancelled or terminated according to the provisions of the contract. MGA fees were based on a provisional commission of 19.5% for Workers Compensation and 21% for

Commercial Automobile, of direct written premium and included the \$25 policy fee. Fees incurred under this agreement during 2010 were not available.

FIDELITY BOND AND OTHER INSURANCE

The Parent Company maintained fidelity bond coverage up to \$60,000,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Employment Practices Liability and Insurance Company Professional Liability insurance coverage up to \$10,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

There was not any pension, stock ownership or insurance plans in place at the Company during the period of this examination.

TERRITORY AND PLAN OF OPERATIONS

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.

COMPANY GROWTH

The Company has been growing through the affiliated insurance agency, CastlePoint Risk Management of Florida Corp., which is a wholly owned subsidiary of CPM, a member of the

holding company. The 90% Quota Share Agreement in place for all premiums written by the Company transfers risk to the Company's Parent CastlePoint Insurance 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.

	2010	2009
Premiums Earned	2,958,143	264,135
Net Underwriting Gain/(Loss)	(388,805)	(1,200,366)
Net Income	(232,325)	(839,840)
Total Assets	33,349,596	20,105,889
Total Liabilities	24,703,189	10,947,729
Surplus As Regards Policyholders	8,646,407	9,158,160

LOSS EXPERIENCE

During the current examination period, the Company showed favorable loss development. The one-year net loss development at the end of the current examination period was favorable at \$49,000. There was no two-year loss development as this was the Company's second year of operations.

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

Ceded

The Company entered into a multi-year net quota share reinsurance agreement with CastlePoint Insurance Company (CPIC). The reinsurance agreement covers all new and renewal business of the Company from February 19, 2009, the effective date of the agreement. Under the terms of the reinsurance agreement, the Company cedes 90% of their net premiums and losses to CPIC. The Company earns a ceding commission on all ceded business under the agreement.

Additionally, the Company entered into reinsurance agreements with various quota share, excess of loss and catastrophe reinsurers. The Company limits exposure to a maximum loss on any one risk. For the period of January 1, 2010, through December 31, 2010, this limit was \$127,500.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Fort Lauderdale, Florida.

Examination work was performed in New York, NY and Fort Lauderdale, FL.

An independent CPA audited the Company's statutory basis financial statements annually for the year 2010, 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 an externally developed SunGard system.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company entered into a custodial agreement with State Street bank on January 20, 2010, and a safe keeping agreement with JP Morgan Chase on November 11, 2009. The agreements were in compliance with Rule 69O-143.042, Florida Administrative Code.

Managing General Agent Agreement

The Company utilized a non-affiliated managing general agent (MGA) to produce insurance business. The MGA is responsible for quoting policies to customers, and billing and collecting premiums on behalf of the insurer. The Company retains the right for binding authority and ensures all policies meet company underwriting guidelines.

Claims Administration Agreement

The Company entered into a claims administration agreement with AequiCap Claims Services Inc., effective February 19, 2009, to provide claims adjusting, and administrative services including, but not limited to, setting case reserves, claims settlement, investigation and disposition for the commercial auto business.

Subsequent event: This agreement was no longer in effect as of the November 2, 2010, as a result of the Tower Group, Inc.'s acquisition of the renewal rights for AequiCap Program Administrator's commercial automobile liability and physical damage business.

Claims Third Party Administration Agreement

The Company and AequiCap CP Services Group Inc, entered into a claims third party administration agreement with AequiCap Insurance Company and AequiCap Property and Casualty Insurance Company, effective October 14, 2009, to provide claims adjusting, and administrative services including, but not limited to, setting case reserves, claims settlement, investigation and disposition for the workers compensation business in run-off.

Subsequent event: This agreement was no longer in affect as the AequiCap insurance companies were in liquidation effective March 7, 2011.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

ParenteBeard 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	Cash	<u>\$ 314,069</u>	<u>\$ 314,069</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 314,069</u>	<u>\$ 314,069</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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."

CASTLEPOINT FLORIDA INSURANCE COMPANY
Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$10,271,166		\$10,271,166
Stocks:			
Common stocks	314,466		314,466
Cash and short-term investments	715,997		715,997
Invested income due and accrued	6,436		6,436
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	10,581,826		10,581,826
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,938,552		8,938,552
Amount recoverable from reinsurers	1,371,962		1,371,962
Current federal and foreign income tax recoverable and interest thereon	92,651		92,651
Aggregate write-in for other than invested assets	1,056,540		1,056,540
Totals	<u>\$33,349,596</u>	<u>\$0</u>	<u>\$33,349,596</u>

CASTLEPOINT FLORIDA INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,420,304		\$1,420,304
Loss adjustment expenses	178,181		178,181
Other expenses	100,467		100,467
Taxes, licenses and fees	245,237		245,237
Unearned premium	1,871,589		1,871,589
Ceded reinsurance premiums payable	16,702,796		16,702,796
Funds held by company under reinsurance treaties	148,606		148,606
Amounts withheld or retained by company for account of others	96,123		96,123
Provisions for reinsurance	42,000		42,000
Payable to parent, subsidiaries and affiliates	3,129,302		3,129,302
Aggregate write-ins for liabilities	768,584		768,584
Total Liabilities	\$24,703,189	\$0	\$24,703,189
Common capital stock	\$100,000		\$100,000
Gross paid in and contributed surplus	9,900,000		9,900,000
Unassigned funds (surplus)	(1,353,593)		(1,353,593)
Surplus as regards policyholders	\$8,646,407	\$0	\$8,646,407
Total liabilities, surplus and other funds	\$33,349,596	\$0	\$33,349,596

CASTLEPOINT FLORIDA INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned		\$2,958,143
	Deductions:	
Losses incurred		\$1,674,703
Loss adjustment expenses incurred		317,322
Other underwriting expenses incurred		1,354,923
Total underwriting deductions		\$3,346,948
Net underwriting gain or (loss)		(\$388,805)

Investment Income

Net investment income earned		\$17,177
Net realized capital gains or (losses)		707
Net investment gain or (loss)		\$17,884

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		\$0
Net income before dividends to policyholders and before federal & foreign income taxes		(\$370,921)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$370,921)
Federal & foreign income taxes		(138,596)
Net Income		(\$232,325)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$9,158,160
Net Income		(\$232,325)
Change in deferred income tax		(65,010)
Change in non-admitted assets		(172,418)
Change in provision for reinsurance		(42,000)
Change in surplus as regards policyholders for the year		(\$511,753)
Surplus as regards policyholders, December 31 current year		\$8,646,407

A comparative analysis of changes in surplus is shown below.

CASTLEPOINT FLORIDA INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

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, 2010, per Annual Statement \$8,646,407

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$8,646,407</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds \$10,271,166

Bonds increased 100% during the exam period. The Company reduced its cash balance by 94% or \$10,367,204.

Liabilities

Losses and Loss adjustment expenses \$1,598.485

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, 2010, 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, Ronald T. Kuehn, FCAS, MAAA, CPCU, ARM, FCA of Huggins Actuarial Services, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$8,646,407, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **CastlePoint Florida Insurance Company** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$8,646,407, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Michael C Brennan, CPA, Examiner-In-Charge, and Richard J. Sowalsky, Participating Examiner, of ParenteBeard participated in the examination. In addition, Ronald T. Kuehn, FCAS, MAAA, CPCU, ARM, FCA, consulting actuary of Huggins Actuarial Services, Inc; Andrew B. Wittig, CISA, CIA, IT Senior Manager of ParenteBeard; and Gary Farmer, Financial Examiner Supervisor from the Office also participated in the examination.

Respectfully submitted,

Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation