



LIMITED SCOPE EXAMINATION REPORT

OF

Frank Winston Crum Insurance Company

NAIC Company Code: 11600

**Clearwater, Florida
as of
December 31, 2018**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
HISTORY	1
GENERAL	1
FOLLOW-UP OF PRIOR EXAMINATION FINDINGS.....	2
CONCLUSION.....	3

May 4, 2020

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

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 a limited scope actuarial review as of December 31, 2018 for:

Frank Winston Crum Insurance Company
100 South Missouri Avenue
Clearwater, Florida 33756

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

SCOPE OF EXAMINATION

This was a limited scope examination of Frank Winston Crum Insurance Company as directed by the Florida Office of Insurance Regulation (“the Office”). The Company was last examined by representatives of the Office as of December 31, 2016. To the extent applicable, the limited scope examination was conducted in accordance with the guidance of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiner’s Handbook, the NAIC Accounting Practices and Procedures Manual and the Florida Administrative Code. This examination was limited to particular risk areas of operational processes and the focus is less comprehensive than a full-scope examination. This report is for a limited-scope examination, and is not intended to communicate all matters of importance for an understanding of the Company’s financial condition.

The fieldwork commenced on January 14, 2020 and concluded as of May 4, 2020. Our limited scope examination only included material events occurring subsequent to December 31, 2018 and noted during the course of the examination as they related solely to the areas within the limited scope of the examination detailed in the following paragraph.

This examination covered the implementation of the Office’s recommendations regarding loss reserves and related findings from the prior examination and was conducted by Christopher J. Burkhalter, FCAS, MAAA associated with the firm of The Burkhalter Group.

HISTORY

General

The Company was incorporated in Florida on January 23, 2003, and commenced business on April 29, 2003.

The Company was authorized to transact the following lines of business in Florida as of December 31, 2018:

Workers Compensation
Other Liability

Inland Marine

FOLLOW-UP OF PRIOR EXAMINATION FINDINGS

Loss Reserve Development

Finding: The Company's loss and loss adjustment expense reserves were deficient by approximately \$4,792,000 on a net basis. The actuarial report produced by the Company's appointed actuary did not contain a written component, necessary for the Office to gain an understanding of the actuarial work, summarizing aspects of the Overall Loss and LAE indications. The Company's reserving methods do not fully reflect the way the losses are expected to develop.

Recommendation: We recommend the Company review the adequacy of the loss reserves after the implementation of the additional loss ratio adjustments taken in 2017. Further, the Company should include additional information to their Actuarial Reports. Starting at year-end 2018, the company should provide a written report detailing the indications, methods, and assumptions used in the report and the limitations on the use of the report consistent with actuarial practices and standards.

In addition, the Company should implement at least one of the following enhancements for its 2019 Actuarial Report and subsequent filings:

- Except near the very end of the tail, the Company link ratios (for most columns in the development triangle) are usually significantly higher than the benchmark. The Company should use the benchmark link ratios (multiplied by the Company/benchmark ratio from the main section) as the link ratios near and at the tail.
- When estimating losses excess of large deductibles, the Company should use a published actuarial method that recognizes that claims that become larger (and larger) tend to have had higher development than the standard development factor affecting all claims.

Upon implementation, the Company should be consistent in the application of the enhancement(s) chosen above going forward.

Resolution: Based on the exam team's review of the 2018 actuarial report along with the supporting work papers and other documentation, the actions taken by the Company fully remediated the 2018 actuarial report findings discussed above.

Finding: The Company does not keep the collateral related to the high deductible workers' compensation policies through each individual Professional Employer Organization ("PEO") in separate accounts.

Recommendation: The Office recommends that the Company establish, monitor and maintain separate PEO accounts, based upon individual high deductible collateral, sufficient for each account required level.

Resolution: Based on the exam team's review, separate accounts were established for high deductible collateral. Additionally, a quarterly analysis of estimated deductible reserves is prepared and reviewed by management. Therefore, this finding was fully remediated.

Finding: Within the PEO - deductible layer, the Company held collateral of \$42,436,000. The Office consulting actuary calculated held collateral required reserves should be at \$64,284,000. The Company's collateral on high deductible policies is \$21,848,000 below the Office consulting actuary's estimated reserves.

Recommendation: The Office recommends that the Company provide a plan acceptable to the Office on or before December 31, 2018 to show how the Company will increase collateral reserves by an additional \$21,848,000 for this significant projected high deductible policy reserve deficiency by year-end 2020.

Resolution: Based on the exam team's review of the plan approved by the Office, and review and testing of the collateral reserves and accounts, the noted reserve deficiency had been fully funded. Therefore, this finding was fully remediated.

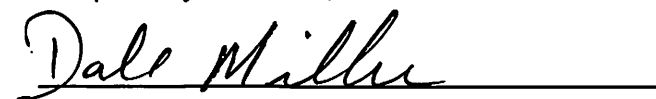
CONCLUSION

The insurance examination included practices and procedures of a limited-scope for **Frank Winston Crum Insurance Company** as of December 31, 2018, consistent with the insurance

laws of the State of Florida. In addition to the undersigned, the following also participated in the examination:

Marie Stuhlmuller	Examination Manager	Office
Robin H. Brown, MBA, CFE	Participating Examiner	Carr, Riggs & Ingram, LLC
Christopher Burkhalter FCAS, MAAA	Actuary	The Burkhalter Group

Respectfully submitted,



Dale Miller, CPA, CFE, CFF
Participating Examiner
Carr, Riggs & Ingram, LLC
Representing the Florida Office of Insurance Regulation



Daniel W. Applegarth, CFE, CPA, PIR
Chief Financial Examiner
P&C Financial Oversight
Florida Office of Insurance Regulation