



**EXAMINATION REPORT  
OF  
CONTINENTAL HERITAGE INSURANCE COMPANY**

**NAIC Company Code: 39551**

**Boca Raton, Florida  
as of  
December 31, 2019**

**BY THE  
FLORIDA  
OFFICE OF INSURANCE REGULATION**

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January 27, 2021

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 (“the NAIC”), we have conducted an examination as of December 31, 2019, of the financial condition and corporate affairs of

**Continental Heritage Insurance Company**  
21218 Saint Andrews Boulevard, #400  
Boca Raton, FL 33433

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, 2015 through December 31, 2019 and the fieldwork commenced with planning by the Florida Office of Insurance Regulation (“the Office”) on July 24, 2020. The fieldwork concluded as of January 27, 2021. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2010 through December 31, 2014.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (“the Handbook”). The Handbook requires that the examination be 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 included assessing significant estimates made by management and evaluating management’s compliance with the NAIC Statements of Statutory Accounting Principles (“SSAP”).

This examination report includes information obtained from the examination of the records, accounts, files, and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), were not included within the examination report but separately communicated to other regulators and/or the Company.

## SUMMARY OF SIGNIFICANT FINDINGS

### Current Examination Findings

There were no significant findings as a result of this examination.

### Previous Examination Findings

The following is an update on other significant regulatory information disclosed in the previous examination.

### Change in Directors and Officers

The Company failed to timely file written notification of its change in Directors and Officers with the Office pursuant to Section 628.261, Florida Statutes.

**Resolution:** The Company provided the examiners with sufficient evidence to demonstrate that it has implemented appropriate procedures to ensure the Office is notified of changes to its Directors and Officers as required under Section 628.261, Florida Statutes.

### Agents Balances

The Company was not in compliance with Rule 69O-138.024(2), Florida Administrative Code which requires that all agents' balances must be aged on a separate policy by policy basis.

**Resolution:** The Company provided the examiners with sufficient evidence to demonstrate that the agent balances are now being aged on a policy by policy basis.

### Bail Bond Premiums

The Company was not in compliance with Section 624.4094(1), Florida Statutes, as the direct written premiums for bail bonds reported in the Company's financial statements were less than 6.5% of the total consideration received by the agent for all bail bonds written by agent.

**Resolution:** The Company provided the examiners with sufficient evidence to demonstrate that this finding had been remediated.

## COMPANY HISTORY

### General

The Company was incorporated in Florida on March 11, 1980 and commenced business on May 12, 1980. Prior to July 1, 2011, the Company was 100% owned by Evergreen National Indemnity Company (“Evergreen”). On July 1, 2011, Evergreen sold the Company to various parties including the current majority owner, Continental Heritage Holding Company (“CHHC”).

### Dividends

The Company declared and paid dividends to CHHC in 2016 and 2015 in the amounts of \$75,000 and \$150,000, respectively.

### Capital Stock and Capital Contributions

The Company received capital contributions from its parent, CHHC, in 2017 and 2016 in the amounts of \$9,500,000 and \$9,370,436, respectively. Simultaneous with the capital contribution received in 2016, the Company utilized a portion of the proceeds to extinguish the previously outstanding surplus notes with a balance of \$500,000. Likewise, simultaneous with the capital contribution received in 2017, the Company declared a dividend in the amount of \$500,000, which was paid in the form of a stock dividend to its then existing shareholders through the issuance of 5,000 shares of its \$100 par value common stock.

As of December 31, 2019, the Company’s capitalization was as follows:

Number of authorized preferred capital shares	10,000
Number of preferred shares issued and outstanding	6,000
Total preferred capital stock	\$500,040
Par value per preferred share	\$83.34
Number of authorized common capital shares	100,000
Number of common shares issued and outstanding	25,000
Total common capital stock	\$2,500,000
Par value per common share	\$100.00

## Surplus Notes

The Company had previously issued a surplus note with an annual interest rate of 7.5% to Continental Heritage Holding Company in the amount of \$500,000 in exchange for cash on September 27, 2012. The surplus note was approved by the Office on October 16, 2012.

This surplus note was paid in full by the Company on September 29, 2016.

## Acquisitions, Mergers, Disposals, Dissolutions

The Company had no acquisitions, mergers, disposals, or dissolutions during the period under examination.

## MANAGEMENT AND CONTROL

### Corporate Governance

Directors serving as of December 31, 2019, are shown below with the first one being the Chairman of the Board:

Directors		
Name	City, State	Principal Occupation, Company Name
Charles Dell Hamm, Jr	Novelty, Ohio	President and Chief Executive Officer, Continental Heritage Insurance Company
Ann Marie LoConti	Gates Mills, Ohio	Attorney, LoConti Law Group, LLC
Edward Farrell Feighan	Lakewood, Ohio	Attorney, Vitality Biopharma, LLC
Richard Samuel Clark	Chagrin Falls, Ohio	Legal Counsel, Ohio Indemnity Company
Anthony NMN Tricarichi, Jr.	Solon, Ohio	Chief Financial Officer, Park Place Technologies

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

<b>Senior Officers</b>		
<b>Name</b>	<b>City, State</b>	<b>Title</b>
Charles Dell Hamm, Jr.	Novelty, Ohio	President and Chief Executive Officer
Sean Thomas O'Brien	Gates Mills, Ohio	Secretary and Chief Operating Officer
Wesley Blake Gilbreath <sup>(1)</sup>	Shaker Heights, Ohio	Treasurer
Cyril Elmo Parish	Webster, Florida	Vice President
Gary Michael Williams	Deltona, Florida	Vice President

(1) Mr. Gilbreath resigned as Treasurer effective July 1, 2020

The Company's Board appointed several internal committees, including an audit committee, as required by Section 624.424(8)(c), Florida Statutes. The following were the principal internal board committees and their members, with the chairman listed first for each committee, as of December 31, 2019.

<b>Investment Committee</b>		
<b>Name</b>	<b>City, State</b>	<b>Title, Company Name</b>
Charles Dell Hamm, Jr.	Novelty, Ohio	President and Chief Executive Officer
Sean Thomas O'Brien	Gates Mills, Ohio	Secretary and Chief Operating Officer
Wesley Blake Gilbreath	Shaker Heights, Ohio	Treasurer

<b>Audit Committee</b>		
<b>Name</b>	<b>City, State</b>	<b>Title, Company Name</b>
Anthony NMN Tricarichi, Jr	Solon, Ohio	Chief Financial Officer, Park Place Technologies
Ann Marie LoConti	Gates Mills, Ohio	Attorney, LoConti Law Group, LLC
Edward Farrell Feighan	Lakewood, Ohio	Attorney, Vitality Biopharma, LLC

### **HOLDING COMPANY SYSTEM**

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



## **Operating Agreements**

The Company entered into separate operating agreements with Williams National Surety Corporation (“Williams”) and C.E. Parish General Agency (“Parish”) on January 1, 2000. Under the respective agreements, the Company supplied surety powers of attorney and appointed qualified producers to write bail bonds in states where the Company was licensed. During 2019, the Company paid \$221,596 and \$627,481 to Williams and Parrish respectively. Certain officers of Williams and Parish are also officers of the Company.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Orange Village, Ohio.

The Company and non-affiliates had the following material agreements:

### **Administrative Services Agreement**

Effective July 1, 2011, the Company entered into an administrative service agreement with its former parent, Evergreen. Under this agreement, Evergreen provided the Company with various administrative support functions.

Beginning in early 2017, the Company gradually assumed responsibility for providing these services internally. And, effective June 30, 2018, the Company terminated this agreement and became a stand-alone insurance company.

### **Custodial Agreement**

The Company maintained a custodial agreement with The Huntington National Bank executed on July 17, 2009.

### **Investment Management Agreement**

Effective June 1, 2013, the Company entered into an investment management agreement (“IMA”) with New England Asset Management (“NEAM”). Under this agreement, NEAM has been granted

authority to manage the Company's investment portfolio and make all investment decisions in accordance with the guidelines and restrictions set forth by the Company. NEAM is also responsible for performing all related accounting services including the preparation of the investment schedules that are published in the Company's statutory financial statements.

### **Independent Auditor Agreement**

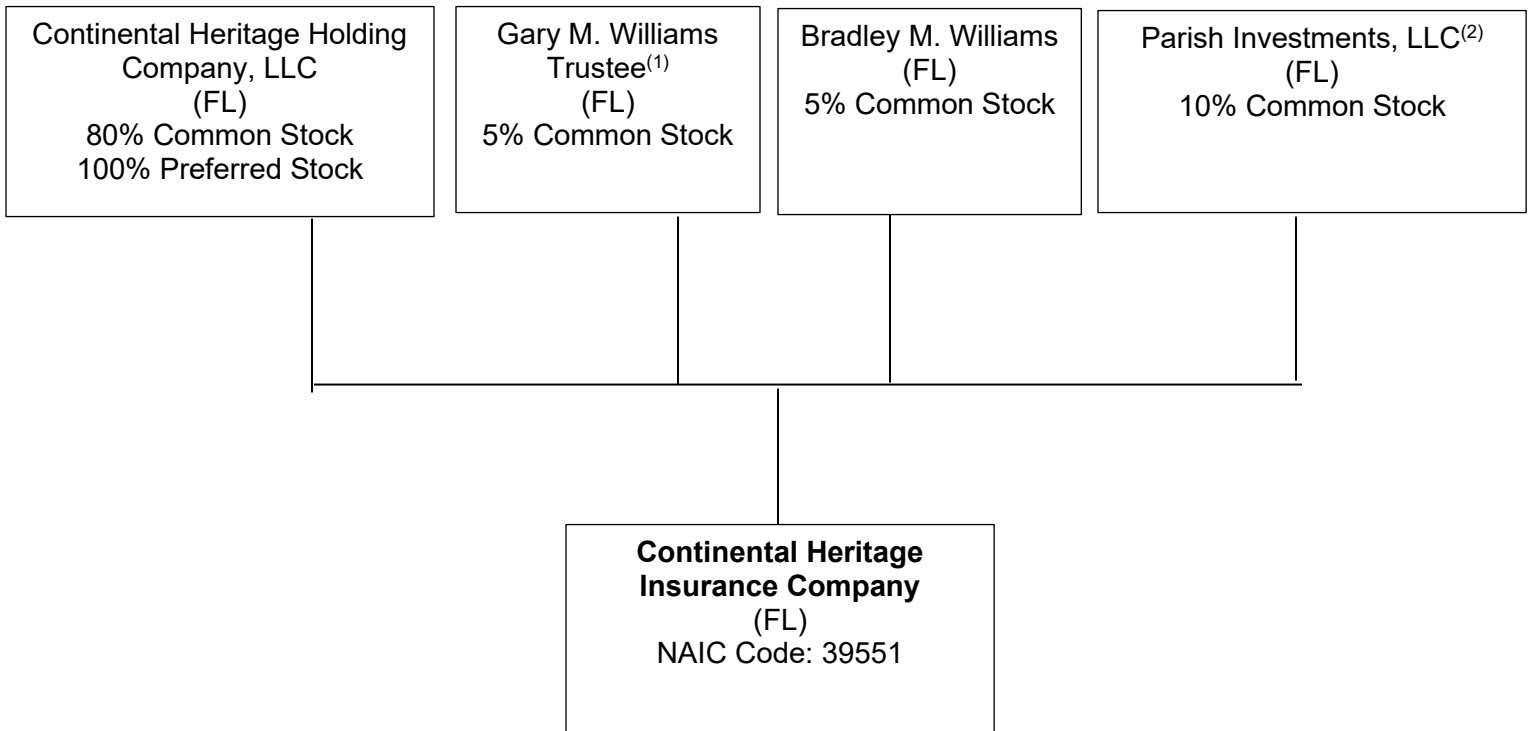
An independent CPA, Marcum, LLP, formerly known as Skoda Minotti & Company, audited the Company's statutory basis financial statements annually for all the years under examination.

### **Corporate Records Review**

The recorded minutes of the Shareholders, Board of Directors ("the Board") and the Audit Committee meetings were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

An organizational chart as of December 31, 2019, reflecting the holding company system, is shown below. Schedule Y of the Company's 2019 annual statement provided a list of all related companies of the holding company group.

**Continental Heritage Insurance Company  
Organizational Chart  
December 31, 2019**



(1) Gary M. Williams Trust sole trustee is Gary M. Williams. Mr. Williams has ownership interest in Williams National Surety Corporation.

(2) Parish Investments, LLC is controlled by its President, Cyril E. Parish Jr. Mr. Parish also controls C.E. Parish General Agency.

## TERRITORY AND PLAN OF OPERATIONS

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

Arizona	Louisiana	Pennsylvania
California	Maine	South Carolina
Colorado	Maryland	South Dakota
District of Columbia	Michigan	Tennessee
Florida	Minnesota	Texas
Georgia	Mississippi	Utah
Idaho	Nebraska	Virginia
Illinois	Nevada	Washington
Indiana	New Jersey	West Virginia
Iowa	North Dakota	Wyoming
Kentucky	Ohio	

The Company was authorized to transact insurance in Florida on March 11, 1980, and is currently authorized for the following lines of business as of December 31, 2019:

Medical Malpractice	Surety
Other Liability	Bail Bonds
Fidelity	

Subsequent to the examination date, the following lines were added with the authority to write as of February 20, 2020: Fire, Allied Lines, Commercial Multi-Peril, Inland Marine, Earthquake, Commercial Auto Liability, Commercial Auto Physical Damage, Glass, Burglary and Theft, Boiler and Machinery, and Industrial Fire.

The Company primarily writes surety and product liability policies in the states where it is licensed. The top five states with the highest premium volume are: Kentucky \$3,009,000, West Virginia \$2,042,000, Florida \$874,000, California \$852,000, and Virginia \$238,000.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

### **Reinsurance Assumed**

The Company assumed a small amount of premium on a facultative basis from Evergreen and Ohio Indemnity Company.

### **Reinsurance Ceded**

The Company cedes a large portion of its surety lines of business to other insurers through either traditional quota share or facultative reinsurance arrangements.

## **FINANCIAL STATEMENTS**

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; statutory Statement of Income; statutory Statement of Cash Flow; and statutory Analysis of Changes in Surplus for the year ended December 31, 2019. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2019. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

**Continental Heritage Insurance Company**

**Assets**

**December 31, 2019**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$27,533,128		\$27,533,128
Stocks			
Common	\$237,379		\$237,379
Cash and short-term investments	\$5,100,871		\$5,100,871
Subtotal cash and invested assets	\$32,871,378		\$32,871,378
Interest income due and accrued	\$148,085		\$148,085
Agents' balances			
Uncollected premium	\$1,597,338		\$1,597,338
Net deferred tax asset	\$149,422		\$149,422
Totals	\$34,766,223	\$0	\$34,766,223

**Continental Heritage Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2019**

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,931,059		\$2,931,059
Loss adjustment expenses	\$38,078		\$38,078
Commissions payable	\$11,579		\$11,579
Other expenses	\$844,463		\$844,463
Taxes, licenses and fees	\$146,325		\$146,325
Current federal and foreign income taxes	\$73,328		\$73,328
Unearned premiums	\$3,744,410		\$3,744,410
Ceded reinsurance	\$160		\$160
Total liabilities	\$7,789,402	\$0	\$7,789,402
Common capital stock	\$2,500,000		\$2,500,000
Preferred capital stock	\$500,040		\$500,040
Gross paid-in and contributed surplus	\$20,870,438		\$20,870,438
Unassigned funds (surplus)	\$3,106,342		\$3,106,342
Surplus as regards policyholders	\$26,976,820	\$0	\$26,976,820
Total liabilities, surplus and other funds	\$34,766,223	\$0	\$34,766,223



**Continental Heritage Insurance Company**

**Statement of Income**

**December 31, 2019**

	Per Company	Examination Adjustments	Per Examination
<b>Underwriting Income</b>			
Premiums earned	\$7,701,282		\$7,701,282
<b>Deductions</b>			
Losses Incurred	\$1,019,115		\$1,019,115
Loss adjustment expenses incurred	\$4,540		\$4,540
Other underwriting expenses incurred	\$4,883,934		\$4,883,934
Total Underwriting deductions	\$5,907,589		\$5,907,589
Net underwriting gain (loss)	\$1,793,693		\$1,793,693
<b>Investment Income</b>			
Net investment income earned	\$583,900		\$583,900
Net realized capital gains or (losses)	(\$8,385)		(\$8,385)
Net investment gain or (loss)	\$575,515		\$575,515
<b>Other Income</b>			
Net gain or (loss) from agents' or premium balances charged off	(\$341,121)		(\$341,121)
Aggregate write-ins for miscellaneous income	\$10,442		\$10,442
Total other income	(\$330,679)		(\$330,679)
Net income before dividends to policyholders and before federal & foreign income taxes	\$2,038,529	\$0	\$2,038,529
Dividends to policyholders	\$0		\$0
Net income, after dividends to policyholders, but before federal & foreign income taxes	\$2,038,529	\$0	\$2,038,529
Federal & foreign income taxes	\$425,239		\$425,239
Net Income	\$1,613,290	\$0	\$1,613,290
Surplus as regards policyholders December 31 prior year	\$25,691,309		\$25,691,309
Net Income	\$1,613,290		\$1,613,290

Change in net unrealized gains or (losses) less capital gains tax	(\$12,621)		(\$12,621)
Change in net deferred income taxes	(\$5,952)		(\$5,952)
Change in non-admitted assets	(\$309,206)		(\$309,206)
Change in surplus as regards policyholders for the year	\$1,285,511	\$0	\$1,285,511
Surplus as regards policyholders December 31, current year	\$26,976,820	\$0	\$26,976,820

**Continental Heritage Insurance Company**  
**Reconciliation of Capital and Surplus**  
**December 31, 2019**

<b>Capital/Surplus Change during Examination Period</b>			
Surplus at December 31, 2014, per Examination			\$6,946,793
	Increase	Decrease	
Net Income (loss)	\$2,040,068		\$2,040,068
Change in net unrealized capital gain (loss)		\$12,621	(\$12,621)
Change in net deferred income tax	\$163,407		\$163,407
Change in non-admitted assets		\$306,304	(\$306,304)
Change in surplus notes		\$500,000	(\$500,000)
Change in paid in surplus	\$18,370,476		\$18,370,476
Transferred from surplus (stock dividend)	\$500,000		\$500,000
Dividends to stockholders		\$225,000	(\$225,000)
Net increase (or decrease)			\$20,030,027
Surplus at December 31, 2019 per examination			\$26,976,820

No adjustments were made to surplus as regards policyholders as a result of this examination.

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### **Liabilities**

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

Trevar K. Withers, ACAS, MAAA, Director, with the actuarial consulting firm of Willis Towers Watson, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2019, 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, Michael Dubin, FCAS, FSA, MAAA, FCA of Baker Tilly US, LLP ("Baker Tilly"), reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

#### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$26,976,820, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

## **SUBSEQUENT EVENTS**

The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the Office's review of the Company noted that there has not been a significant impact to the Company. The Office has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Office continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Continental Heritage Insurance Company as of December 31, 2019, consistent with the insurance laws of the State of Florida.

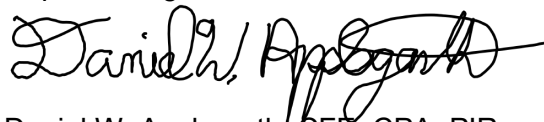
In addition to the undersigned, the following are recognized for participation in the examination.

Marie Stuhlmuller	Examination Manager	Office
Christopher R. Brown	Participating Examiner	Office
Kyra D. Brown	Participating Examiner	Baker Tilly
Michael Dubin, FCAS, FSA, MAAA, FCA	Actuary	Baker Tilly
Dave Wolfe, ACAS, MAAA	Actuary	Baker Tilly
Douglas Dee, ACAS	Actuary	Baker Tilly
Phil Schmoyer, AES, CISA, CFE, CSM	IT Specialist	Baker Tilly
Jake Powell	Actuary	Baker Tilly
Raaed Junaid	IT Specialist	Baker Tilly

Respectfully submitted,



James B. Morris, CPA, CFE, CGMA, CICA, MBA  
Examiner-in-Charge  
Baker Tilly US, LLP  
Representing the Florida Office of Insurance Regulation



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