



**EXAMINATION REPORT
OF**

**FHM Insurance Company
Orlando, Florida**

NAIC Company Code: 10699

**as of
December 31, 2021**

**By
The Florida Office of Insurance Regulation**

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January 26, 2023

Michael Yaworsky
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 690-138.005, 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, 2021, of the financial condition and corporate affairs of

FHM Insurance Company
7550 Futures Drive Suite 307
Orlando, Florida 32819

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, 2020 through December 31, 2021, and fieldwork commenced with planning with the Florida Office of Insurance Regulation (“the Office”) on June 29, 2022. The fieldwork concluded as of January 23, 2023. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2015 through December 31, 2019.

The examination was 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.

The examination was a multi-state/coordinated process. The lead state for this examination was Louisiana with Florida participating. The Company has business or licenses in multiple states.

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 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 (“F.S.”). There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of significant findings of fact including material adverse findings, significant non-compliance findings, such as non-compliance with state law(s), SSAPs, annual financial statement instructions, etc. or material changes in the financial statements.

The Company is part of an insurance holding company system and has not completed the appropriate holding company filings or disclosures.

Previous Examination Findings

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

1. The Company had an Agreement for Services with USIS, Inc. ("USIS") whereby USIS provided claims and special investigation unit (SIU) services for the Company. FHMMC had payment authority for claims over \$20,000 and provided oversight over litigation for claims over \$100,000. The Company paid USIS directly for claims and SIU services. The Company did not file this agreement with the Office in a Form D filing pursuant to Rule 69O-143.047 Florida Administrative Code ("FAC"). Additionally, this agreement includes a minimum fee provision in violation of Consent Order 16750-96-CO, paragraph 21. Fees incurred under this agreement during 2019 totaled \$1,151,891.

Resolution: Pursuant to the amendment to Consent Order No. 16750-96-CO, this agreement was terminated and replaced with the Professional Services Agreement (PSA) between FHM Insurance Services, Inc. ("FHMIS") and USIS effective January 1, 2021. Pursuant to the PSA, USIS is to provide claim services to FHMIS to and for the benefit of the Company. FHMIS shall pay USIS, Inc. a service fee of \$65,000 per month with a recovery fee not to exceed 20% of the service fee for that year.

2. The Company entered into a Services Agreement with FHMIS effective January 1, 2019. Under this agreement, FHMIS provided marketing, underwriting, policyholder services, and loss prevention service to the Company. The agreement also provided for other

services as needed through B&B. The Agreement was not filed with the Office in a Form D filing pursuant to Rule 69O-143.047 FAC. Additionally, this agreement was not filed with the Office in accordance with Consent Order 16750-96-CO, paragraph 21. Fees incurred under this agreement which included \$500,000 in Director fees totaled \$4,040,289 in 2019.

Resolution: Pursuant to the amendment to Consent Order No. 16750-96-CO, this agreement was terminated and replaced with the Administrative Services Agreement (ASA) between FHMIS and FHM effective January 1, 2021. Pursuant to the ASA, FHMIS is to provide day-to-day management, administration, servicing, underwriting, claims administration, accounting, investment, loss control, safety and similar services necessary for FHM's day-to-day operations. FHM shall pay a service fee of a stated percentage of earned direct and assumed premium. For the current year, the basis of earned premium is the prior calendar year.

3. The Company entered a Managing General Agent (MGA) Agreement with FHMIS effective January 1, 2017. MGA fees were paid through the Services Agreement between FHM and FHMIS above. The Agreement was not filed with the Office in a Form D filing pursuant to Rule 69O- 143.047 FAC. Additionally, this agreement was not filed with the Office in accordance with Consent Order 16750-96-CO, paragraph 21.

Resolution: Pursuant to the amendment to Consent Order No. 16750-96-CO, this agreement was terminated and replaced with the ASA between FHMIS and FHM effective January 1, 2021, described above.

4. The Company had an Agreement for Services, effective January 1, 2017, whereby USIS provided administration and technology, back-up IT services, claim services, and data management services to the Company. The agreement was amended effective January 1, 2018, September 1, 2018, and January 1, 2019. The Agreement was not filed with the Office in a Form D filing pursuant to Rule 69O- 143.047 FAC. This agreement included a minimum fee provision in violation of Consent Order 16750-96-CO paragraph 21.

Resolution: Pursuant to the amendment to Consent Order No. 16750-96-CO, this agreement was terminated and replaced with the ASA between FHMIS and FHM effective January 1, 2021, described above.

5. The Company had an Amended and Restated Workers Compensation Agreement under which USIS provides case management and utilization review services to the Company. Fees under this agreement totaled \$336,929 in 2019. The agreement and addenda, and the replacement agreement effective January 1, 2020, were not documented as filed with the Office in a Form D filing pursuant to Rule 69O-143.047 FAC. Additionally, this agreement was not filed with the Office in accordance with Consent Order 16750-96-CO, paragraph 21.

Resolution: Pursuant to the amendment to Consent Order No. 16750-96-CO, this agreement was terminated and replaced with a Workers' Compensation Service Agreement between USIS, Inc., dba Amerisys, and FHM. Fees under the agreement include a monthly fee of \$15,000 plus per hour charges for certain ancillary services.

COMPANY HISTORY

General

The Company was incorporated and commenced business in Florida on February 1, 1954, as a trust under the Florida Workers' Compensation Act with the name of Florida Hotel-Motel Self Insurer's Fund. Pursuant to a plan of reorganization, the Company incorporated on October 1, 1996, under the laws of the State of Florida, as an authorized domestic mutual insurer with the name of Florida Hotel-Motel Insurance Company. Subsequently, the Company changed its name to Florida Hospitality Mutual Insurance Company on October 21, 1996. The Company was party to Consent Order 16750-96-CO, filed September 26, 1996, regarding the application for conversion of the Company to a non-assessable mutual insurance company from a self-insurer's fund. By amendment to Article I of the Articles of Incorporation dated July 22, 2010, and filed October 20, 2010, the name of the Company changed to FHM Insurance Company.

Dividends

The Company declared and paid dividends to its Policyholders in 2020 and 2021 in the amounts of \$2,185,000 and \$2,235,000, respectively.

Capital Stock and Capital Contributions

The Company is a mutual insurance company; therefore, no capital stock was issued, and no capital contributions were made by the stockholders.

Surplus Notes

The Company issued a \$3.8 million subordinated surplus debenture on December 26, 2002, to its affiliate, FHM Management Corp. The Office approved two amendments to the surplus debenture, which originally bore interest at 4.86% with a maturity date of December 31, 2022. Effective January 1, 2017, the surplus debenture was amended to reduce the interest rate to 2.75%; and on July 13, 2018, the maturity date was extended to December 31, 2030. During 2021, the surplus debenture was acquired by LUBA Casualty Insurance Company due to the common control activity noted in the Acquisitions, Mergers, Disposals, Dissolutions section below.

Interest payments in the amount of \$104,500 were paid during 2020 and 2021. The interest payments were approved by the Office.

Acquisitions, Mergers, Disposals, Dissolutions

The Company became affiliated with LUBA Casualty Insurance Company (“LUBA”) through common management that exercises control over the Company or is directly or indirectly controlled by the Company through the following events:

1. The Directors of the Company resigned and were replaced with members of the LUBA Board of Directors.
2. Former board committee and senior officer positions were reconstituted with LUBA officers and directors.

MANAGEMENT AND CONTROL

Corporate Governance

The annual policyholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2021, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
David John Bondy, Jr.	Baton Rouge, Louisiana	Chief Executive Officer FHM Insurance Company
Steve Michael Boudreaux	Oscar, Louisiana	Retired
Ford Charles Marionneaux	Baton Rouge, Louisiana	President FHM Insurance Company
Stephen Christian Moore	Baton Rouge, Louisiana	Contractor Moore Industries
Steven Michael Werner	Baton Rouge, Louisiana	Chief Financial Officer FHM Insurance Company

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

Senior Officers		
Ford Charles Marionneaux	David John Bondy, Jr.	Steven Michael Werner

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2021. The first person listed for each committee is the chairman.

Nominating Committee		
Steve Michael Boudreaux	Ford Charles Marionneaux	Stephen Christian Moore

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

Audit Committee		
Steve Michael Boudreaux	Ford Charles Marionneaux	Stephen Christian Moore

Investment Committee		
Stephen Christian Moore	Steve Michael Boudreaux	David John Bondy, Jr.
Steven Michael Werner		

Holding Company System

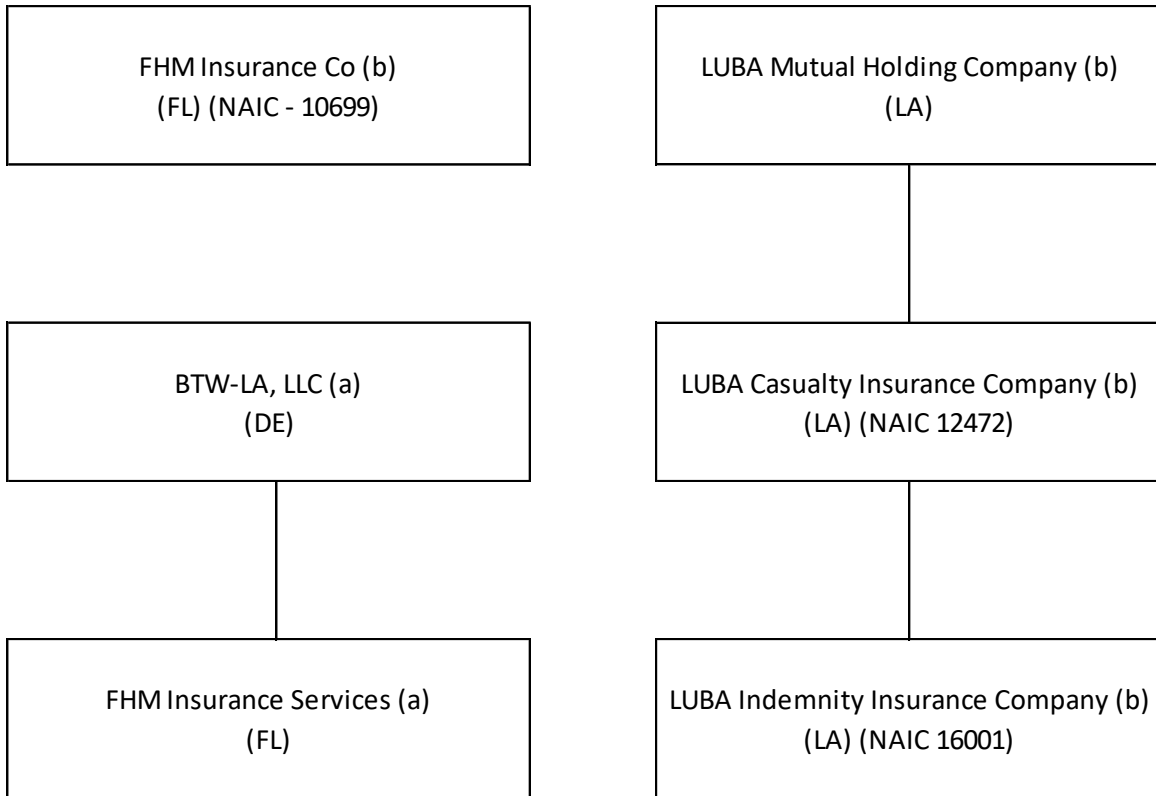
The Company is part of an insurance holding company system as defined in the Statement of Statutory Accounting Principles No. 25, paragraphs 4 through 6 of the Accounting Practices and Procedures Manual published by the NAIC. Specifically, the various members of the holding company system are related through common control and have overlapping directors, officers, and significant influence concerning management and operating policies.

The Company has not completed the appropriate holding company filings or disclosures as required by the following Florida code cites, Florida rules requirement, and annual statement instructions published by the NAIC:

1. Section 628.801, F.S.
2. Rule 69O-143.046, Florida Administrative Code ("F.A.C")
3. Rule 69O-143.047, F.A.C.
4. NAIC Annual Statement Instructions for Note 10.
5. NAIC Annual Statement Instructions concerning the various schedules that are part of Schedule Y.

An organizational chart as of December 31, 2021, reflecting an abbreviated flowchart of the holding company system, is shown on the next page.

**LUBA Holding Company
Organizational Chart
December 31, 2021**



(a) These entities are owned by David J. Bondy who is involved in all of the LUBA entities and is a Director and Officer of the Company.

(b) These entities have common officers and directors.

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

Managing General Agent Agreement

The Company entered into an Administrative Services Agreement with its affiliate, FHM Insurance Services, Inc. (FHMIS) on January 1, 2021. Pursuant to the ASA, FHMIS is to provide day-to-day management, administration services, underwriting, claims administration, accounting, investment, loss control, safety and similar services necessary for FHM's day-to-day operations.

The Company shall pay a service fee of a stated percentage of earned and direct and assumed premium. For the current year, the basis of earned premium is the prior calendar year.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Orlando, Florida.

TERRITORY AND PLAN OF OPERATIONS

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

- Alabama
- Florida
- Georgia
- Kentucky
- North Carolina
- South Carolina
- Virginia

The Company was originally authorized to transact insurance in Florida on February 1, 1954. The Company is currently authorized for the Workers' Compensation line of business as of December 31, 2021 and wrote only in the state of Florida.

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 participates in the mandatory National Workers' Compensation Reinsurance Association pool administered by the National Council on Compensation Insurance.

Reinsurance Ceded

The Company was party to an agreement with LUBA Casualty whereby LUBA Casualty ceded to the Company on a 100% quota share basis, all of the risks, obligations, duties, expenses, premiums, and benefits under policies that LUBA Casualty wrote in the state of Florida only.

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; statutory Statement of Income; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2021. 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, 2021. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

FHM Insurance Company
Assets
December 31, 2021

	Per Company
Bonds	38,908,795
Cash and short-term investments	4,058,734
Subtotals, cash and invested assets	42,967,529
Investment income due and accrued	260,150
Premiums and considerations	
Uncollected premiums and agents' balances	703,127
Deferred premiums, agents' balances and installments	1,999,816
Accrued retrospective premiums	461,398
Reinsurance	
Amounts recoverable from reinsurers	245,871
Other amounts receivable under reinsurance contracts	73,920
Net deferred tax asset	
Guaranty funds receivable or on deposit	43,327
Electronic data processing equipment and software	
Aggregate write-in for other than invested assets	502,465
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	47,257,603
Total	47,257,603

FHM Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2021

	Per Company
Losses	17,685,365
Reinsurance payable on paid losses and loss adjustment expenses	6,732
Loss adjustment expenses	3,697,726
Commissions payable, contingent commissions and other similar charges	340,188
Other expenses	54,674
Taxes, licenses and fees	183,399
Unearned premiums	3,166,558
Advance premiums	150,985
Dividends declared and unpaid	
Policyholders	410,108
Ceded reinsurance premiums payable	391,688
Amounts withheld or retained by company for account of others	53,643
Remittances and items not allocated	
Provision for reinsurance	156,000
Payable to parent, subsidiaries and affiliates	260,642
Aggregate write-in for liabilities	462,529
Total liabilities excluding protected cell liabilities	27,020,237
Total liabilities	27,020,237
Surplus notes	3,800,000
Gross paid-in and contributed surplus	10,391,310
Unassigned funds (surplus)	6,046,056
Surplus as regards policyholders	20,237,366
Totals	47,257,603

FHM Insurance Company
Statement of Income
December 31, 2021

	Per Company
Underwriting Income	
Premiums earned	15,290,100
Deductions	
Losses Incurred	6,492,236
Loss adjustment expenses incurred	1,131,675
Other underwriting expenses incurred	6,524,693
Total Underwriting deductions	14,148,604
Net underwriting gain (loss)	1,141,496
Investment Income	
Net investment income earned	888,204
Net realized capital gains or (losses)	15,284
Net investment gain or (loss)	903,488
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(20,138)
Finance and service charges not included in premiums	6,258
Aggregate write-ins for miscellaneous income	620
Total other income	(13,260)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,031,724
Dividends to policyholders	2,235,000
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(203,276)
Federal & foreign income taxes incurred	(3,821)
Net Income	(199,455)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	20,458,436
Net Income	(199,455)
Change in net deferred income taxes	39,831
Change in non-admitted assets	94,555
Change in provision for reinsurance	(156,000)
Change in surplus as regards policyholders for the year	(221,069)
Surplus as regards policyholders, December 31, current year	20,237,366

FHM Insurance Company
Reconciliation of Capital and Surplus
December 31, 2021

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

Capital/Surplus Change during Examination Period			
Surplus at December 31, 2020, per Company			20,458,436
	Increase	Decrease	
Loss in surplus		199,455	
Change in net deferred income tax	39,831		
Change in non-admitted assets	94,555		
Change in provision for reinsurance		156,000	
Net increase (or decrease)			(221,069)
Surplus at December 31, 2021, per Company			20,237,366

COMMENTS ON FINANCIAL STATEMENT ITEMS

Capital and Surplus

The amount of capital and surplus reported by the Company of \$20,237,366 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

As discussed under the **Holding Company** subsection of the **MANAGEMENT AND CONTROL** section of this report, the Company is part of an insurance holding company system. The holding company system is not in compliance with Florida and NAIC requirements. It needs to comply.


CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of FHM Insurance Company as of December 31, 2021, consistent with the insurance laws of the State of Florida.

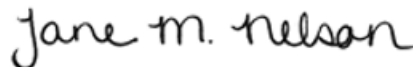
In addition to the undersigned, the following individuals from the Office, Examination Resources, LLC and Taylor-Walker Consulting, LLC also participated in the examination:

Natalie Howe, CFE, CFE (Fraud), ACI	Exam Supervisor	Examination Resources
Solomon Frazier, FCAS, FSA, MAAA	Actuarial Supervisor	Taylor-Walker Consulting
Brent Sallay, FCAS, MAAA	Actuary	Taylor-Walker Consulting
Lance Sakurada	Actuarial Analyst	Taylor-Walker Consulting
Chad Mason, PIR	Exam Manager	Office
Dan Applegarth, CFE, CPA, PIR	Chief Financial Examiner	Office

Respectfully submitted,



Rachelle Gowins, CFE, MCM
Managing Director
Examination Resources, LLC
Representing the Florida Office of Insurance Regulation



Jane Nelson, PIR
Director
Property & Casualty Financial Oversight
Florida Office of Insurance Regulation