

**REPORT ON EXAMINATION  
OF  
GRANADA INSURANCE COMPANY  
MIAMI, FLORIDA**

**AS OF  
DECEMBER 31, 2009**

**BY THE  
OFFICE OF INSURANCE REGULATION**

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**TALLAHASSEE, FLORIDA**

March 10, 2011

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 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 an examination as of December 31, 2009, of the financial condition and corporate affairs of:

**GRANADA INSURANCE COMPANY  
4075 SW 83<sup>rd</sup> AVENUE  
MIAMI, FLORIDA 33155**

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, 2005, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This examination commenced with planning at the Office on December 14, 2010, to December 17, 2010. The fieldwork commenced on January 10, 2011, and concluded as of March 10, 2011.

This financial examination was a full scope 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**

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

### **Custodial Agreement**

The Company's custodial agreement with Oppenheimer Trust Company (Oppenheimer) was not in compliance with Rule 69O-143.042, Florida Administrative Code.

Subsequent Event: On April 6, 2011, the Company's custodial agreement with Oppenheimer was amended to comply with Rule 69O-143.042, Florida Administrative Code.

### **Audit Committee**

The Company's Audit Committee was comprised of only 2 members. The Company was not in compliance with Section 624.424 (8) (c), Florida Statutes.

Subsequent Event: At the Board of Directors (Board) meeting on April 7, 2011, the Audit Committee was expanded to four members to comply with Section 624.424 (8)(c), Florida Statutes.

### **Taxes, Licenses and Fees**

The Company reported negative liabilities under Taxes, licenses and fees (excluding federal and foreign income taxes) related to State premium tax recoverable due to an over accrual. The Company is not in compliance with Statement of Statutory Accounting Principle (SSAP) No. 10. The negative liability was reclassified as an asset under Aggregate Write Ins for Other than Invested Assts.

### **Federal and Foreign Income Taxes**

The Company reported negative liabilities for its Current federal and foreign income taxes related to federal tax recoverable. The Company is not in compliance with Statement of Statutory Accounting Principle (SSAP) No. 10 and (SSAP) No. 4. The negative liabilities were reclassified as an asset under Current federal and foreign income tax and interest thereon.

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

In connection with the Consulting Actuary's review, the result of the opinion was recorded loss and loss adjustment expense were under reserved in the amount of \$1,122,000 for the year ending December 31, 2009. The Company's recorded reserves at year end were within the range of reasonable estimates established by both the Company's Independent Actuary and the Consulting Actuary; however, the recorded reserves were not to the mid-point. The Company was not in compliance with Section 625.101, Florida Statutes. Additionally, in the Company's 2010 Annual Statement, the reported one year and two year developments were under reserved by \$647,000 and \$653,000, respectively. Subsequent Event: On June 22, 2011, the Company agreed to book reserves to the mid-point in future financial statement filings.

## **Prior Exam Findings**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with resulting action taken by the Company in connection therewith.

### **Loss Reserve Adequacy**

The Office's actuary opined that the Company's loss and loss adjustment expense reserves were deficient by \$851,000. The Office recommended that the Company increase their loss and LAE reserves. **Resolution:** Documentation was provided to the Office actuary to verify that the reserve deficiency of \$851,000 was corrected as recommended and in accordance with Section 625.101, Florida Statutes. The loss and loss adjustment expense reserves were within an acceptable range of the best estimate of the Company's consulting actuary as of December 31, 2005.

## **HISTORY**

### **General**

The Company was incorporated in Florida on August 27, 1986, and commenced business on May 20, 1987, as Granada Insurance Company. The Company was acquired by Hattbert Holdings, Inc as of November 19, 2003. Hattbert Holdings is a Florida based financial services holding company and is owned the following current stockholders: Juan Diaz-Padron, Emilia Diaz-Padron, Carmen Diaz-Padron, Juan Diaz-Padron Irrevocable Trust #1, Emilia Diaz-Padron Irrevocable Trust #1, and Carmen Diaz-Padron Irrevocable Trust #1.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

Fire	Commercial Auto Liability
Allied Lines	PPA Damage
Homeowners Multiple Peril	Commercial Auto Damage
Commercial Multiple Peril	Glass
Inland Marine	
Other Liability	
PPA Liability	

There were no changes in the Articles of Incorporation or the Bylaws during the period covered by this examination.

### **Dividends to Stockholders**

The Company did not pay any dividends to stockholders during the period covered by this examination.

### **Capital Stock and Capital Contributions**

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	1,955,800
Number of shares issued and outstanding	1,955,800
Total common capital stock	\$1,955,800
Par value per share	\$1.00

Control of the Company was maintained by its parent, Hattbert Holdings, Inc., a Florida domestic holding company, who owned 100% of the stock issued by the Company. In 2007, Hattbert Holdings Inc. contributed \$600,000 to the Company. The main purpose of the contribution was to strengthen the Company's capital position.

## **Surplus Debentures**

The Company did not have any surplus debentures.

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

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

## **CORPORATE RECORDS**

The recorded minutes of the shareholder, Board and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings in accordance with Section 607.1601, 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 Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

## **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Juan Diaz-Padron Coral Gables, Florida	President/CEO Granada Insurance Company
Carmen Diaz-Padron Coral Gables, Florida	VP/Secretary/CFO Granada Insurance Company
Richard Friedberg Spartanburg, South Carolina	Retired
Ramon Arias Palmetto Bay, Florida	Independent Management Consultant
Alberto Parjus Miami, Florida	Strategic Area Leader Miami-Dade County
Anthony Sierra Coral Gables, Florida	Executive Best Meridian Insurance Company

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

## **Senior Officers**

<b>Name</b>	<b>Title</b>
Juan Diaz-Padron	President
Carmen Diaz-Padron	VP/Secretary/Treasurer/CFO
Delfin Campana	VP of Claims
Celia Acosta-Galvin	VP of Underwriting

The Company's Board appointed an audit committee in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2009:

## **Audit Committee**

Ramon Arias<sup>1</sup>  
Richard Friedberg

<sup>1</sup> Chairman

The Company's Audit Committee is comprised of only 2 members: Ramon Arias and Richard Friedberg. The Company is not in compliance with Section 624.424 (8) (c), Florida Statutes, which states... *and the board shall establish an audit committee of three or more directors of the insurer or an affiliated company.*

Subsequent Event: On April 7, 2011, the Board appointed Alberto Parjus and Anthony Sierra to the Audit Committee to comply with Section 624.424 (8)(c), Florida Statutes.

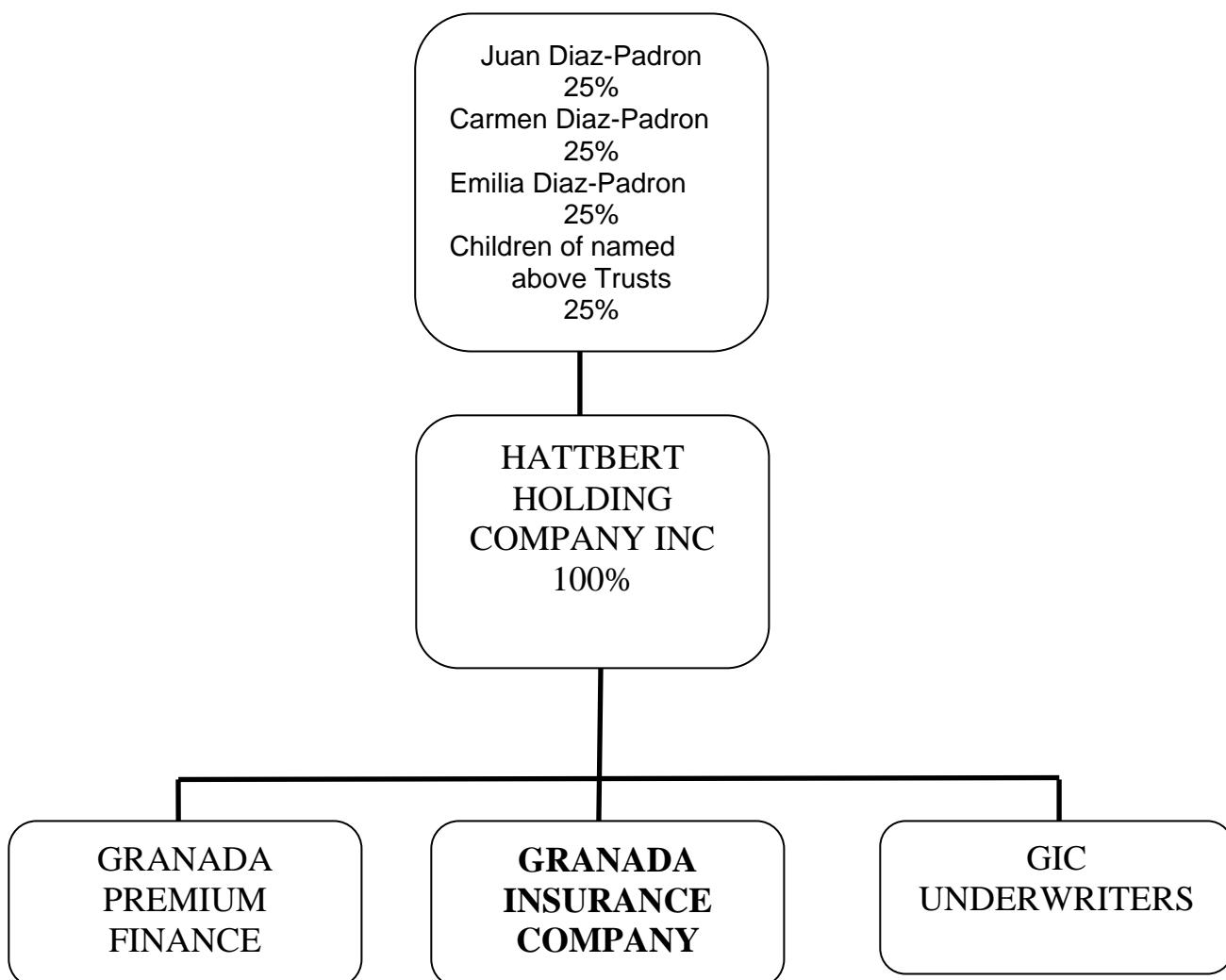
### **Affiliated Companies**

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 1, 2011 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**GRANADA INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2009**



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

### **Managing General Agent Agreement**

The Company entered into a Managing General Agency Agreement (MGA) with its affiliate, GIC Underwriters, Inc (GIC) on September 10, 2003. The agreement continues in force unless otherwise terminated within the guidelines of the agreement. The agreement stated that GIC was responsible for underwriting, the collection of premiums due, and adjusting and setting claims. Under the agreement, the Company agreed to pay GIC a commission of 22.5% based on direct premiums written, a reasonable hourly rate for adjusting services, 35% of amounts recovered from settlement of claims and 43% for claims that are disputed in court, and 10% of all net salvage recovered.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$300,000 with a deductible of \$10,000, which met the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance which included a \$2,000,000 per year aggregate limit with a \$20,000 deductible, and a professional services claims limit of \$1,000,000 with a \$20,000 deductible.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company provided a 401K plan to eligible employees. The Company matched 20% of employee contributions, to a maximum of 15% of the employee's annual earnings. The 401K plan was implemented through a third party service provider, ADP. In addition, the Company provided health insurance and long term disability insurance to eligible employees.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in Florida and Georgia.

### **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 experienced underwriting losses four out of the five years during the scope of this examination and had combined ratios over 100% during the same period with the exception of 2006. The losses were offset by investment income and realized gains, and in contrast, the Company posted an operating profit in four of the five years during the period of examination. The primary reason for the underwriting losses was due to the Company's reinsurance program costs.

## **Profitability of Company**

The following table shows the profitability trend of the Company for the period of examination, as reported in the filed annual statements:

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Premiums Earned	12,163,052	15,054,133	17,974,260	15,966,560	14,432,413
Net Underwriting Gain/(Loss)	(267,766)	(2,149,643)	(630,359)	157,079	(1,100,102)
Net Income	554,793	(667,852)	83,438	363,435	159,607
Total Assets	26,472,021	28,389,917	31,870,630	31,917,538	29,235,500
Total Liabilities	17,023,160	19,388,044	22,056,481	22,725,465	20,580,185
Surplus As Regards Policyholders	9,448,861	9,002,344	9,813,868	9,192,073	8,655,315

## **LOSS EXPERIENCE**

As of December 31, 2009, the Company's 5-year history shows unfavorable 1-Year developments between \$400k and \$2MM and 2-Year developments between \$1.2MM and \$3.2MM. Therefore, the Company had been booking their reserves to the low end of range during the examination period as indicated by the development. Refer to the Comments on Financial Statements Section – Liabilities.

## **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 reinsurance during the period of examination.

### **Ceded**

The Company has utilized GenRe Intermediaries since inception and maintained excess of loss treaties as the primary method of reinsurance protection. The agreements effective during 2009 and 2010 were reviewed. Reinsurance agreements effective in the 2010-2011 coverage period did not significantly change from 2009-2010 coverage period.

The Company maintains the following reinsurance agreements effective September 2010:

- excess of loss on property risks of \$1,250,000 excess of \$300,000
- excess of loss on general liability risks of \$2,000,000 excess of \$300,000

In addition, the Company maintained a property catastrophe treaty, effective May 2010, providing 100% of \$23,000,000 excess of \$750,000 on a first and second event. Reinstatement premium protection was maintained through GenRe Intermediaries and the Company paid a flat premium of \$200,000 for the coverage. Catastrophe coverage was primarily provided by General Reinsurance Corporation, Swiss Reinsurance Corporation, Amlin Bermuda LTD, and Lloyds of London. In addition, the Company had reinsurance coverage with the Florida

Hurricane Catastrophe Fund for 90% of losses incurred (unlimited) excess of 1.5% of property gross written premium.

The Company also had a Boiler and Machinery Quota Share Treaty with Factory Mutual Insurance Company. The Company cedes 100% of its Boiler and Machinery policy premiums and liability and receives a 40% ceding commission. The Company does not write Boiler and Machinery policies but utilizes the treaty to cover Boiler and Machinery endorsements to Commercial Multi-Peril insurance policies and Boiler and Machinery or Mechanical Breakdown Coverage.

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 Miami, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006, 2007, 2008 and 2009 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 a retail accounting system. The Company utilized third-party providers for their core information technology (IT) functions relating to underwriting, premium and claims processing. The applications were outsourced, web-based

applications where the third-party provider maintained the application and performed systems development and maintenance.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Oppenheimer entered into on June 28, 2005. The Company was not in compliance with Rule 69O-143.042, Florida Administrative Code, which stipulates the requirements of a custodial agreement. Specifically, the Company's custodial agreement was not in compliance with the following requirements:

- (2) *Any such agreement shall be in writing and shall be authorized by a resolution of the Board of Directors of the insurance company or of an authorized committee thereof.*
- (o) *The custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.*

Subsequent Event: On April 6, 2011, Oppenheimer amended the Company's custodial agreement to include this provision to comply with Rule 69O-143.042 Florida Administrative Code.

### **Independent Auditor Agreement**

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

### **IT Processing Service Agreement**

The Company entered into a processing service agreement with GIC on December 31, 2005. The Company used the GIC system INSideOUT for underwriting, policy administration, workflow and claims handling functions. The agreement provided for the implementation, configuration, and maintenance of the system by GIC.

### **401K Plan Adoption Agreement**

The Company entered into a plan with Automatic Data Processing, Inc. (ADP) on January 1, 1995, to provide for an employee-elected matched 401K retirement benefit for all employees. The agreement placed responsibility for the management of the plan with ADP. Specifics of the plan were discussed above in the Pension, Stock Ownership, and Insurance Plans section.

### **Information Technology Report**

ParenteBeard LLC 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 Georgia as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Cash	\$ 200,000	\$200,000
FL	Certificate of Deposit	<u>100,000</u>	<u>100,000</u>
TOTAL FLORIDA DEPOSITS		\$ 300,000	\$300,000
GA	Cash	\$ 25,000	\$25,000
GA	Money Market	<u>2,723</u>	<u>2,723</u>
TOTAL OTHER DEPOSITS		<u>\$ 27,723</u>	<u>\$27,723</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$327,723</u></u>	<u><u>\$327,723</u></u>

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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."

**GRANADA INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2009**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$23,214,714		\$23,214,714
Preferred stocks	177,906		177,906
First liens - mortgage loans on real estate	610,759		610,759
Cash, cash equivalents and short-term investments	557,099		557,099
Investment income due and accrued	63,868		63,868
Uncollected premiums and agents' balances in the course of collection (premiums and considerations)	907,103		907,103
Amounts recoverable from reinsurers (reinsurance)	44,152		44,152
Current federal and foreign income tax recoverable and interest thereon	0	306,095	306,095
Net deferred tax asset	382,642		382,642
Guaranty funds receivable or on deposit	346,327		346,327
Electronic data processing equipment and software	167,451		167,451
Aggregate Write Ins for other than invested	0	94,194	94,194
<b>Totals</b>	<b>\$26,472,021</b>	<b>\$400,289</b>	<b>\$26,872,310</b>

**GRANADA INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2009**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses and Loss Adjustment Expenses	\$9,555,556	\$1,122,000	\$10,677,556
Other expenses	121,561		121,561
Taxes, licenses and fees	(84,522)	94,194	9,672
Current federal and foreign income taxes	(306,095)	306,095	0
Unearned premiums	6,743,660		6,743,660
Ceded reinsurance premiums payable (net of ceding commissions)	993,000		993,000
Total Liabilities	\$17,023,160	\$1,522,289	\$18,545,449
Common capital stock	\$1,955,800		\$1,955,800
Gross paid in and contributed surplus	3,545,816		3,545,816
Unassigned funds (surplus)	3,947,245	(1,122,000)	2,825,245
Surplus as regards policyholders	\$9,448,861	(\$1,122,000)	\$8,326,861
Total liabilities, surplus and other funds	<u>\$26,472,021</u>	<u>\$400,289</u>	<u>\$26,872,310</u>

**GRANADA INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2009**

**Underwriting Income**

Premiums earned	\$12,163,052
<b>Deductions:</b>	
Losses incurred	\$4,208,080
Loss expenses incurred	2,110,567
Other underwriting expenses incurred	6,106,016
Aggregate write-ins for underwriting deductions	6,155
Total underwriting deductions	<u>\$12,430,818</u>
Net underwriting gain or (loss)	(\$267,766)

**Investment Income**

Net investment income earned	\$1,259,594
Net realized capital gains or (losses)	(219,738)
Net investment gain or (loss)	<u>\$1,039,856</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	(\$79,451)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	(7,361)
Total other income	<u>(\$86,812)</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$685,278
Dividends to policyholders	<u> </u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$685,278
Federal & foreign income taxes	<u>130,485</u>

Net Income	<u> </u>
	<u>\$554,793</u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$9,002,344
Net Income	\$554,793
Net unrealized capital gains or losses	20,985
Change in non-admitted assets	35,525
Change in provision for reinsurance	0
Change in net deferred income tax	(164,786)
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(1,122,000)
Change in surplus as regards policyholders for the year	<u>(\$675,483)</u>
Surplus as regards policyholders, December 31 current year	<u> </u>
	<u>\$8,326,861</u>

A comparative analysis of changes in surplus is shown below.

**GRANADA INSURANCE COMPANY**  
**Comparative Analysis of Changes In Surplus**

**DECEMBER 31, 2009**

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, 2009, per Annual Statement	\$9,448,861			
		<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>				
Current federal and foreign income tax recoverable and interest thereon	\$	-	\$ 306,095	\$ 306,095
Aggregate Write Ins for other than invested assets	\$	-	\$ 94,194	\$ 94,194
<b>LIABILITIES:</b>				
Losses and LAE	\$ 9,555,556	\$ 10,677,556	\$ (1,122,000)	
Taxes; licenses and fees (excluding federal and foreign income taxes)	\$ (84,522)	\$ 9,672	\$ (94,194)	
Current federal and foreign income taxes (including \$0 on realized capital gains (losses))	\$ (306,095)	\$ -	\$ (306,095)	
Net Change in Surplus:				<u><u>\$ (1,122,000)</u></u>
Surplus as Regards Policyholders December 31, 2009, Per Examination				<u><u>\$ 8,326,861</u></u>

## **COMMENTS ON FINANCIAL STATEMENTS**

### **Assets**

**Current Federal and Foreign Income Tax Recoverable** \$306,095

Current Federal and Foreign Income Tax recoverable reported as \$0, were increased by \$306,095 due to the reclassification of a negative liability. The Company was not in compliance with SSAP No. 10 which states State tax recoverables that are reasonably expected to be recovered in a subsequent accounting period are admitted assets...Current income tax recoverables meet the definition of assets as specified in SSAP No. 4-Assets and Nonadmitted Assets and are admitted assets to the extent they conform to the requirements of this statement

**Aggregate Write Ins for Other than Invested Assets** \$ 94,194

Aggregate Write Ins for Other than Invested Assets reported as \$0, were increased by \$94,194 due to the reclassification of a negative liability relating to State premium tax recoverables due to an over accrual. The Company was not in compliance with SSAP No. 10 due to factors stated above for Current Federal and Foreign Income Tax Recoverable.

### **Liabilities**

**Losses and Loss Adjustment Expenses** \$10,677,556

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, 2009, 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 engaged an independent actuarial firm, AMI Risk Consultants, to review the Loss and Loss Adjustment Expense Reserves carried in the Company's balance sheet as of December 31, 2009 and was not in concurrence with this opinion. AMI Risk Consultants concluded that the Company's recorded reserves fell below the mid-point by \$1,122,000, but were within the range of reasonable estimates. Therefore, the Company was not in compliance with Section 625.101, Florida Statutes.

**Taxes, Licenses and Fees** \$9,672

The amount reported by the Company of (\$84,522), was increased by \$94,194 due to the reclass of the negative liability to properly report State taxes due as a receivable. The Company was not in compliance with SSAP No. 10 due to factors stated above for Current Federal and Foreign Income Tax Recoverable.

**Current Federal and Foreign Income Taxes** \$0

The amount reported by the Company of (\$306,095), was increased by \$306,095 due to the reclass of the negative liability to properly report Federal taxes due as a receivable. The Company was not in compliance with SSAP No. 10 due to factors stated above for Current Federal and Foreign Income Tax Recoverable.

## **Capital and Surplus**

Per examination findings the Company's surplus of \$8,326,861, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

## **SUMMARY OF RECOMMENDATIONS**

### **Financial Statements**

We recommend that the Company correctly report account balances on all future annual and quarterly statement filings as required in Section 69O-137.001(2) Florida Administrative Code in compliance with Statement of Statutory Accounting Principle (SSAP) No. 4 and (SSAP) No. 10.

### **Loss and Loss Adjustment Expense**

We recommend that in the future the Company record loss and loss adjustment expense reserves to the mid-point of the actuarial range as directed by Section 625.101, Florida Statutes.

## **CONCLUSION**

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Granada Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$8,326,861 which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA Examiner-In-Charge, Phil Schmoyer, Participating Examiner, and Jen Walker, CISA, CPA IT Manager of ParenteBeard LLC; Gail Flannery, FCAS MAAA, and Aguedo M. Ingco, FCAS, MAAA consulting actuaries of AMI Risk Consultants; and Sara Baylock, Reinsurance Financial Specialist of the Office participated in the examination.

Respectfully submitted,

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Kethessa Carpenter, CPA  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation