

**REPORT ON EXAMINATION**

**OF**

**ROCHE SURETY AND CASUALTY  
COMPANY, INC.**

**TAMPA, FLORIDA**

**AS OF**

**DECEMBER 31, 2010**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL</b> .....	<b>-</b>
<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>2</b>
CURRENT EXAM FINDINGS .....	2
PRIOR EXAM FINDINGS .....	2
<b>HISTORY</b> .....	<b>2</b>
GENERAL .....	2
DIVIDENDS TO STOCKHOLDERS .....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS DEBENTURES .....	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE .....	4
<b>CORPORATE RECORDS</b> .....	<b>5</b>
CONFLICT OF INTEREST .....	5
<b>MANAGEMENT AND CONTROL</b> .....	<b>6</b>
MANAGEMENT .....	6
AFFILIATED COMPANIES .....	7
ORGANIZATION CHART.....	8
MANAGING GENERAL AGENT AGREEMENT.....	9
<b>FIDELITY BOND</b> .....	<b>9</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	<b>9</b>
<b>TERRITORY AND PLAN OF OPERATIONS</b> .....	<b>10</b>
TREATMENT OF POLICYHOLDERS.....	10
<b>COMPANY GROWTH</b> .....	<b>10</b>
PROFITABILITY OF COMPANY.....	11
<b>LOSS EXPERIENCE</b> .....	<b>12</b>
<b>REINSURANCE</b> .....	<b>12</b>
ASSUMED .....	12
CEDED .....	12
<b>ACCOUNTS AND RECORDS</b> .....	<b>12</b>
INDEPENDENT AUDITOR AGREEMENT .....	13
<b>INFORMATION TECHNOLOGY REPORT</b> .....	<b>13</b>
<b>STATUTORY DEPOSITS</b> .....	<b>14</b>
<b>FINANCIAL STATEMENTS PER EXAMINATION</b> .....	<b>15</b>
ASSETS .....	16

LIABILITIES, SURPLUS AND OTHER FUNDS .....	17
STATEMENT OF INCOME .....	18
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS .....	19
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>20</b>
LOSSES AND LOSS ADJUSTMENT EXPENSES.....	20
CAPITAL AND SURPLUS .....	20
<b>CONCLUSION.....</b>	<b>21</b>

December 8, 2011

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Sharon P. Clark  
Secretary, Southeastern Zone, NAIC  
Commissioner  
Kentucky Department of Insurance  
215 West Main Street  
Frankfort, Kentucky 40601

Joseph Torti III  
Chairman, NAIC Financial Condition  
(E) Committee  
Superintendent  
State of Rhode Island  
Department of Business Regulation  
Division of Insurance  
1511 Pontiac Avenue, Building 69-2  
Cranston, Rhode Island 02920

Dear Sir and Madams:

Pursuant to your instructions, in compliance with Section 624.316, Chapter 627, 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, 2010, of the financial condition and corporate affairs of:

**ROCHE SURETY AND CASUALTY COMPANY, INC.  
1910 ORIENT ROAD  
TAMPA, FLORIDA 33619**

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, 2006, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office on September 19, 2011, to September 22, 2011. The fieldwork commenced on September 26, 2011, and concluded as of December 8, 2011.

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 findings or exceptions noted during the examination as of December 31, 2010.

### **Prior Exam Findings**

There were no findings, exceptions or corrective action to be taken by the company for the examination as of December 31, 2005.

## **HISTORY**

### **General**

The Company is a wholly owned subsidiary of Roche Family Holdings, Inc., an insurance holding company, which in turn is ultimately owned by Armando O. Roche. The Company was incorporated in Florida on March 27, 1981, and commenced business on March 2, 1982, under the name American Pioneer Casualty Insurance Company. The Company has been conducting business as Roche Surety And Casualty Company, Inc. since 1996.

The Company was authorized to transact the following insurance coverage in Florida as of December 31, 2010.

- Surety
- Bail Bonds (A separate line of business in Florida)

The Company made no amendments to their Articles of Incorporation and Bylaws during the examination period.

### **Dividends to Stockholders**

The Company did not declare or pay any dividends during the period covered by this examination.

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

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	500,000
Total common capital stock	\$2,000,000
Par value per share	\$4.00

Control of the Company was maintained by its parent, Roche Family Holdings, Inc, who owned 100% of the stock issued by the Company. There have been no changes to capital stock during the period covered by this examination. On December 31, 2008, the Company obtained approval from the Office to amend their surplus note from \$1,400,000 to \$800,000, reclassifying \$600,000 to additional paid in capital.

## **Surplus Debentures**

On February 3, 1999, Roche Surety, Inc., an affiliate, loaned the Company \$1,000,000 pursuant to the terms of a Subordinated Surplus Debenture approved by the Office. On September 29, 2004, Roche Surety, Inc. loaned the Company an additional \$400,000 through an Amended Subordinated Debenture, thereby increasing the total loan to \$1,400,000.

Roche Surety, Inc. and the Company executed an Addendum to Subordinated Surplus Debenture to effect a reduction of the principal amount due under the Subordinated Debenture from \$1,400,000 to \$800,000. This was approved by the Office and became effective October 1, 2008.

As a result of this amendment, the Company re-classified the \$600,000 reduction as contributed surplus to increase its contributed surplus to \$1,000,000, also effective October 1, 2008. This was done to facilitate the admission of the Company into states requiring a minimum of \$1,000,000 in contributed surplus.

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

On October 2, 2009, the Company purchased Roche Bail Bonds of Arkansas, LLC. This purchase was necessary to facilitate the Company's strategy to write bonds in Arkansas.



## **CORPORATE RECORDS**

The recorded minutes of the shareholder Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a policy statement requiring 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 Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

#### Directors

Name	Title
Armando O. Roche Thonotosassa, Florida	Roche Surety And Casualty Co., Inc Chief Executive Office, Chairman of the Board of Directors
Linda J. Roche Thonotosassa, Florida	Roche Surety And Casualty Co., Inc., Treasurer
George A. Pollock, Sr. Valrico, Florida	Retired
John Barbon Wesley Chapel, Florida	Retired
Melisa Martin Tampa, Florida	Roche Surety And Casualty Co., Inc., Compliance Officer/Secretary
Shannon M. Roche Thonotosassa, Florida	Roche Surety And Casualty Co., Inc., President
George A. Pollock, Jr. Lithia, Florida	Retired
Luciano L. Prida, Jr. Tampa, Florida	Prida Guida & Co., PA., Partner
Andres S. Prida Tampa, Florida	Prida Guida & Co., PA., Partner

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

<b>Senior Officers</b>	
<b>Name</b>	<b>Title</b>
Shannon M. Roche	President
Melissa Martin	Secretary
Linda J. Roche	Treasurer
Armando O. Roche	Chairman/CEO

The Company's Board appointed several internal committees. Listed below are the principal internal board committees and their members as of December 31, 2010.

<b>Audit Committee</b>	<b>Investment Committee</b>
George Pollock, Jr. *	Armando Roche *
Andres Prida	Linda Roche
John Barbon	Shannon Roche
	Edward Diliberto

\* Chair

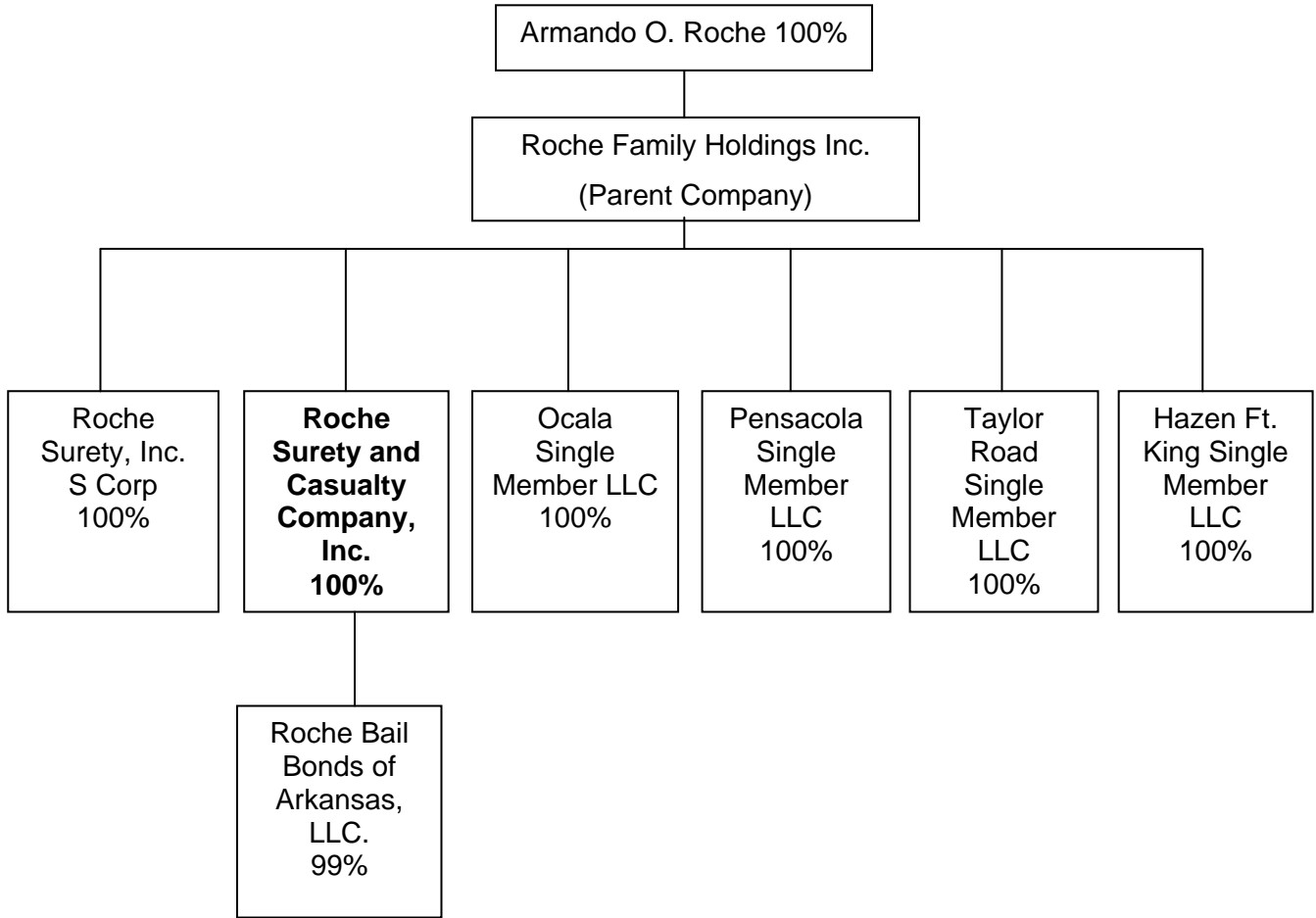
### **Affiliated Companies**

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 April 14, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

**ROCHE SURETY AND CASUALTY COMPANY, INC.**

**Organization Chart  
DECEMBER 31, 2010**



The following agreement was in effect between the Company and its affiliates:

### **Managing General Agent Agreement**

The Company entered into a Managing General Agent Agreement with Roche Surety, Inc. (MGA) which was renewed annually. The Agreement included underwriting, actuarial, claims, data processing, accounting, legal, investment and other miscellaneous services with the Company having ultimate and final authority over decisions and policies. The MGA collected and received insurance premium payments due and payable to the Company as well as any funds received from the purchase of securities with all funds received being held in fiduciary accounts. The MGA remitted to the Company 7% of gross direct written premium and retained the balance of the gross direct premiums in consideration for performing the above named services.

### **FIDELITY BOND**

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which reached the suggested minimum as recommended by the NAIC.

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

The Company did not have any pension, stock ownership or insurance plans in place during the period of this examination.

## TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following thirty six states.

Alaska	Arizona	Arkansas
Connecticut	Delaware	Florida
Georgia	Idaho	Indiana
Iowa	Kansas	Louisiana
Maryland	Michigan	Minnesota
Mississippi	Missouri	Montana
Nebraska	Nevada	New Hampshire
New Jersey	New Mexico	North Carolina
North Dakota	Ohio	Oklahoma
Pennsylvania	South Carolina	South Dakota
Tennessee	Texas	Utah
Vermont	Virginia	Washington

### 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 maintained a steady growth during the 5 year examination period. This growth was a result of the Company's geographic growth to thirty six states. The Company is working to add the state of New York by the 1<sup>st</sup> Quarter of 2012. This growth was attributed to organic methods and strong Company/Agent relations. Investment income for the examination period

maintained a steady growth due to a conservative portfolio with concentrations in U.S. Treasuries, Certificates of Deposit and Money Market Funds. The Company had a very stable liquidity position and anticipated positive cash flows from operations in 2011 as the growth in the surety bail line is realized.

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Premiums Earned	2,464,337	2,259,725	2,313,942	2,327,686	2,020,766
Net Underwriting Gain/(Loss)	741,224	476,250	721,592	551,665	527,261
Net Income	529,585	1,046,767	534,189	458,901	367,396
Total Assets	19,651,500	18,095,080	16,740,195	16,004,102	6,130,708
Total Liabilities	11,864,494	10,816,642	10,188,868	9,986,302	583,558
Surplus As Regards Policyholders	7,787,006	7,278,438	6,551,327	6,017,800	5,547,150

## **LOSS EXPERIENCE**

The Company reported no losses or loss adjusting expenses during the period covered by the examination. The Agent Build Up Funds account provided the first layer of coverage for bail forfeitures in accordance with Section 648.29, Florida Statutes. The Company had no forfeitures that exceeded their agent's Build Up Funds.

## **REINSURANCE**

### **Assumed**

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

### **Ceded**

The Company did not cede any reinsurance during the period of this examination.

## **ACCOUNTS AND RECORDS**

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006, 2007, 2008, 2009, and 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 a computerized system hosted and managed by a non-affiliate.



The Company and non-affiliates had the following agreements:

### **Network Support Agreement**

The Company contracted with a local technology consulting firm for the management of the local area network (LAN) and computers located at the Company offices. The consultants provided technical support, hardware maintenance and monitoring.

### **Bail Bond Software Agreement**

The Company had a license agreement with a software provider for the hosting and support of their bail bond software. The software was provided as a web-based, hosted solution on the provider's servers.

### **Independent Auditor Agreement**

The Company contracted with a 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**

Highland Clark, 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 various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTNTS 1.000% 7/15/13	300,000	302,111
FL	Cash	700,000	700,000
	<b>TOTAL FLORIDA DEPOSITIS</b>	<b>\$ 1,000,000</b>	<b>\$ 1,002,111</b>
DE	Cash	10,000	10,000
GA	Wells Fargo MM	32,007	32,007
IN	Cash	100,398	100,398
LA	Cash	100,000	100,000
NV	M&I Bank CD	200,000	200,000
NH	RBS CT .60% 6/13/11	150,000	150,000
NH	MM Checking	100,000	100,000
NM	USTNTS 1.125% 12/15/12	103,000	104,074
NC	USTNTS 1.25% 4/15/14	1,000,000	1,021,440
NC	Wachovia CD	200,000	200,000
TX	Cash	200,000	200,000
SC	Cash	252,698	252,698
PA	Cash	35,479	35,479
OK	Bank of America CD	150,000	150,000
OK	Stillwater Bank CD	200,000	200,000
OK	F & M Bank CD	100,000	100,000
OK	Americrest Bank CD	75,000	75,000
OK	ONB Bank CD	125,000	125,000
OK	Oklahoma CD	100,000	100,000
OK	Coppermark Bank CD	100,000	100,000
TN	Cash	50,000	50,000
VA	Cash	200,000	200,000
	<b>TOTAL OTHER DEPOSITS</b>	<b>\$ 3,583,582</b>	<b>\$ 3,606,096</b>
	<b>TOTAL SPECIAL DEPOSITS</b>	<b>\$ 4,583,582</b>	<b>\$ 4,608,207</b>

## **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."

**ROCHE SURETY AND CASUALTY COMPANY, INC.**

**Assets  
DECEMBER 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 1,426,551	\$ -	\$ 1,426,551
Stocks:			
Common	259,627	-	259,627
Mortgage loan on real estate			
First liens	1,361,937	-	1,361,937
Real Estate			
Properties occupied by company	255,833	-	255,833
Cash and Short-Term Investments	5,120,197	-	5,120,197
Investment income due and accrued	18,381	-	18,381
Premiums and considerations			
Uncollected premiums	114,791	-	114,791
Receivable from PSA	20,000		20,000
Aggregate write-ins	11,074,183	-	11,074,183
Total	<u>\$ 19,651,500</u>	<u>\$ -</u>	<u>\$ 19,651,500</u>

**ROCHE SURETY AND CASUALTY COMPANY, INC.**

**Liabilities, Surplus and Other Funds  
DECEMBER 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Other expenses (excluding taxes, licenses and fees)	\$ 31,063	\$ -	\$ 31,063
Taxes, licenses and fees	145,849	-	145,849
Current Federal and Foreign Income	122,700	-	122,700
Net deferred tax liability	63,536	-	63,536
Unearned premiums	427,163	-	427,163
Amounts withheld or retained by com	11,074,183	-	11,074,183
<b>Total liabilities</b>	<b>\$ 11,864,494</b>	<b>-</b>	<b>\$ 11,864,494</b>
Common Stock	\$ 2,000,000	-	\$ 2,000,000
Surplus Notes	800,000	-	800,000
Gross paid in and contributed surplus	1,010,046	-	1,010,046
Unassigned funds (surplus)	3,976,960	-	3,976,960
<b>Surplus as regards policyholders</b>	<b>\$ 7,787,006</b>		<b>\$ 7,787,006</b>
<b>Totals</b>	<b>\$ 19,651,500</b>	<b>\$ -</b>	<b>\$ 19,651,500</b>

**ROCHE SURETY AND CASUALTY COMPANY, INC.**

**Statement of Income  
DECEMBER 31, 2010**

Premiums earned	\$ 2,464,337
<b>Deductions:</b>	
Losses incurred	\$ -
Loss adjustment expenses incurred	0
Other underwriting expenses incurred	1,723,113
Total underwriting deductions	<u>\$ 1,723,113</u>
Net underwriting gain (loss)	\$ 741,224
<b>Investment Income</b>	
Net investment income earned	\$ 87,795
Net realized capital gains	0
Total investment income (loss)	<u>\$ 87,795</u>
<b>Other Income</b>	
Aggregate write-ins for miscellaneous income	\$ -
Total other income (loss)	<u>-</u>
Net income before dividends to policyholders	\$ 829,019
Dividends to policyholders	0
Net income after dividends to policyholders	\$ 829,019
Federal and foreign income taxes incurred	299,434
Net income	<u><u>\$ 529,585</u></u>
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders December 31 prior year	\$ 7,278,438
Net income	<u>\$ 529,585</u>
Change in unrealized capital gains or (losses)	\$ 11,313
Change in deferred income tax	31,405
Change in non-admitted assets	<u>(63,735)</u>
Change in Surplus as regards policyholders	<u>\$ 508,568</u>
Surplus as regards policyholders December 31 current year	<u><u>\$ 7,787,006</u></u>

A comparative analysis of changes in surplus is shown below.

**ROCHE SURETY AND CASUALTY COMPANY, INC.**

**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2010**

Surplus as regards policyholders December 31, 2010 per Annual Statement				\$	7,787,006
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS		
ASSETS:					
No Adjustment					
LIABILITIES:					
No Adjustment					
Net Change in Surplus:				\$	-
Surplus as regards policyholders December 31, 2010 per Examination				\$	<u>7,787,006</u>

## COMMENTS ON FINANCIAL STATEMENTS

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

\$0

An outside actuarial firm appointed by the Board of Directors, rendered an opinion of the amounts carried in the balance sheet as of December 31, 2010. The Company had no bail losses (forfeitures) that exceeded their agent's build up funds. The outside actuarial firm opined that the Company 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, Dennis Henry, FCAS, MAAA of The Actuarial Advantage, reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion. The examination performed detail procedures to further corroborate the Company's reporting no losses or loss adjustment expenses liability.

### **Capital and Surplus**

\$7,787,006

The amount reported by the Company of \$7,787,006, exceeded the minimum of \$1,500,000 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 **ROCHE SURETY AND CASUALTY COMPANY, INC.** 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 \$7,787,006, which exceeded the minimum of \$1,500,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Sheri L. Kenney, CFE, Examiner-in-Charge; Tracy Gates, CISA, IT Specialist and Bradley Hazelwood, Participating Examiners, all of Highland Clark, LLC; Dennis R. Henry, FCAS, MAAA, consulting actuary of The Actuarial Advantage, Inc., and Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor of the Office participated in the examination.

Respectfully submitted,

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