

EXAMINATION REPORT

OF

SERVICE INSURANCE COMPANY

BRADENTON, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAMINATION FINDINGS.....	2
PRIOR EXAMINATION FINDINGS.....	2
COMPANY HISTORY	2
GENERAL	2
DIVIDENDS	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	3
THE COMPANY DID NOT HAVE ANY SURPLUS NOTES DURING THE PERIOD OF THIS EXAMINATION.	3
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH REINSURANCE	4
CORPORATE RECORDS	4
CONFLICT OF INTEREST.....	4
MANAGEMENT AND CONTROL	4
MANAGEMENT	4
DIRECTORS	5
SENIOR OFFICERS	5
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
CONSOLIDATED TAX ALLOCATION AGREEMENT.....	9
CONSOLIDATED MASTER COST SHARING AGREEMENT	9
GROUP MASTER HARDWARE AND SOFTWARE COST SHARING AGREEMENT	10
TERRITORY AND PLAN OF OPERATIONS	10
TREATMENT OF POLICYHOLDERS	11
REINSURANCE	11
ASSUMED	11
CEDED	11
ACCOUNTS AND RECORDS	12
CUSTODIAL AGREEMENT	12
FULL SERVICE VENDOR AGREEMENT	13
MANAGING GENERAL AGENT AGREEMENT.....	13
INDEPENDENT AUDITOR AGREEMENT	13
INFORMATION TECHNOLOGY REPORT	14

STATUTORY DEPOSITS	15
FINANCIAL STATEMENTS.....	16
ASSETS	17
LIABILITIES, SURPLUS AND OTHER FUNDS	18
STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT	19
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	20
COMMENTS ON FINANCIAL STATEMENTS.....	21
ASSETS.....	21
LIABILITIES	21
CAPITAL AND SURPLUS	21
CONCLUSION.....	22

February 26, 2016

David Altmaier
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, 2014, of the financial condition and corporate affairs of

Service Insurance Company
4730 SR 64 East
Bradenton, Florida 34208

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, 2012 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) that covered the period of January 1, 2007 through December 31, 2011. This examination commenced with planning at the Office on July 27, 2015 to July 31, 2015. The fieldwork commenced on August 3, 2015 and concluded as of February 26, 2016.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is 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 surveillance examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles, as defined by Section 625.0115, Florida Statutes.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), 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 finding noted during this examination period was resolved by the Company subsequent to the examination date. However, it is discussed in detail in the body of the examination report.

Prior Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2011, along with resulting action taken by the Company in connection therewith.

Corporate records

The Company removed its corporate records from its Florida office. The Company had not requested an exemption from keeping its records in Florida, pursuant to Section 628.271, Florida Statutes. **Resolution:** The finding was adequately resolved. The Company received approval from the Office on December 5, 2014 to maintain its corporate records in Raleigh, North Carolina.

COMPANY HISTORY

General

The Company was incorporated in Florida on December 16, 1977, and commenced business on February, 22, 1978.

The Company was authorized to transact insurance coverage in Florida on February 22, 1978 and continued to be authorized for the following coverage(s) as of December 31, 2014.

Allied Lines	Fire
Homeowners Multiple-Peril	Glass
Commercial Multiple-Peril	Burglary and Theft
Mobile Home Physical Damage	Other Liability
Mobile Home Multi-peril	Surety
Inland Marine	

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	500,000
Number of shares issued and outstanding	500,000
Total common capital stock	\$3,000,000
Par value per share	\$6.00

Control of the Company was maintained by its parent, Bay Area Insurance Services, Inc. who owned 100 percent of the stock issued by the Company, who in turn was 93.9 percent owned by Equity American Financial Services, Inc. and 6.1 percent owned by others.

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

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

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), 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, in compliance with the NAIC Financial Condition Examiners Handbook, adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic 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, 2014 are shown on the following page.

Directors

Name and Location	Principal Occupation
David Cornell Cruikshank ² Bradenton, Florida	Senior Vice President, Service Insurance Company
Horace Mann Johnson Jr. ² Burlington, North Carolina	Retired
Edward Anthony Kerbs ³ Rumson, New Jersey	Vice President, IAT Reinsurance Company, Ltd.
David Gerald Pirrung Wake Forest, North Carolina	Chief Financial Officer, IAT Reinsurance Company, Ltd.
Stephen Louis Stephano ¹ Raleigh, North Carolina	President, Service Insurance Company

¹ Chairman of the Board of Directors; during 2015, Mr. Stephano retired and was subsequently replaced by Mr. William E. Cunningham as Chairman at the Annual Stockholders Meeting held on May 18, 2015.

² At the Annual Stockholders Meeting held on May 18, 2015, Messrs. Cruikshank and Johnson were replaced by Messrs. Michael D. Blinson, Kenneth C. Coon, and James R. Miller.

³ Mr. Kerbs retired effective December 31, 2015 and was replaced on the Board by Mr. Todd Bateson effective January 1, 2016.

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

Senior Officers

Name	Title
Stephen Louis Stephano ¹	President
David Cornell Cruikshank ²	Senior Vice President
David Gerald Pirrung ¹	Treasurer
Michael David Blinson	Secretary

Timothy Flynn
Michael Allen Gurley³
Carol Alison Johnson

Vice President
Vice President
Assistant Vice President

¹ During 2015, Mr. Stephano retired as President and was replaced by Mr. Pirrung. Subsequently, Mr. John M. Mruk was named Treasurer to replace Mr. Pirrung.

² During 2015, Mr. Cruikshank retired.

³ During 2015, Mr. Gurley retired and was replaced by Ms. Diane Catherine Weaver.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2014:

Executive Committee	Audit Committee	Risk Management Committee
Stephen Louis Stephano ¹	Edward Anthony Kerbs ^{1,4}	David Gerald Pirrung ¹
Edward Anthony Kerbs ⁴	Horace Mann Johnson, Jr. ³	V. Boyce Oglesby
Horace Mann Johnson III	David Gerald Pirrung	Horace Mann Johnson, Jr. ³
David Gerald Pirrung		Stephen Louis Stephano ¹

¹ Chairman

² At the June 1, 2015 Executive Committee Meeting, Mr. Stephano was replaced by Mr. William E. Cunningham as Chair of the Executive Committee.

³ At the June 1, 2015 Executive Committee Meeting, Mr. Johnson, Jr. was replaced by Mr. William E. Cunningham on the Audit Committee and by Mr. Todd E. Bateson on the Risk Management Committee.

⁴ Mr. Kerbs retired effective December 31, 2015 and was replaced by Mr. Bateson in both the Executive Committee and the Audit Committee.

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

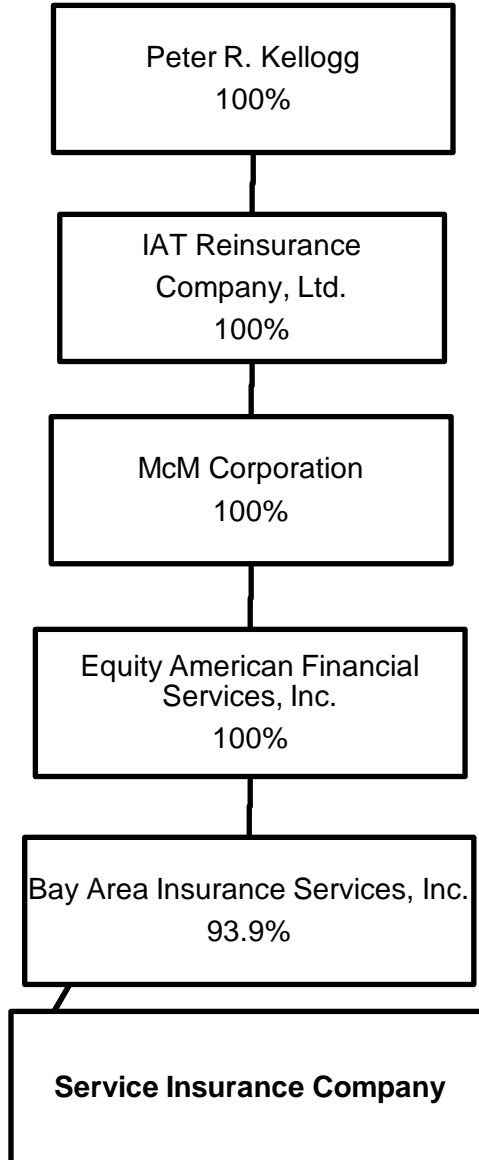
Affiliated Companies

The most recent holding company registration statement was filed with the Office on March 1, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

Service Insurance Company

Organizational Chart

December 31, 2014



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

Consolidated Tax Allocation Agreement

Effective January 1, 2010, the Company became party to the Consolidated Tax Allocation Agreement with the IAT Reinsurance Company Ltd. and its affiliates. The Company, along with its parent, Bay Area Insurance Services, Inc. and affiliates, filed a consolidated federal income tax return. On December 31, 2014, the method of allocation between the Company and Bay Area Insurance Services, Inc. and affiliates was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with IAT Reinsurance Company Ltd. All inter-company tax receivables/payables were settled within ninety days of the remittance by the Holding Company of any income tax payment to the taxing authorities.

Consolidated Master Cost Sharing Agreement

Effective January 1, 2015, the Company was added and became party to the Consolidated Master Cost Sharing Agreement with the seven other insurance affiliates within the Group. The agreement provides for the pooling of general and administrative expenses and subsequent allocation of these expenses to each of the companies. As of December 31, 2014, no amounts were due to or from the Company.

Group Master Hardware and Software Cost Sharing Agreement

Effective January 1, 2015, the Company was added and became party to the Group Master Hardware and Software Cost Sharing Agreement with the eight other insurance affiliates within the Group. The agreement provides for the pooling of shared system expenses, and subsequent allocation of these expenses based on net premiums written of each Company. Other actual costs incurred will be charged directly to the Company. Terms for settlement are within 30 days of the billing date. As of December 31, 2014, no amounts were due to or from the Company.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states and the District of Columbia.

Alabama	Alaska	Arizona	Arkansas	California
Colorado	Delaware	Florida	Georgia	Hawaii
Idaho	Illinois	Indiana	Iowa	Kansas
Kentucky	Louisiana	Maine	Michigan	Mississippi
Missouri	Montana	Nebraska	Nevada	New Mexico
North Carolina	North Dakota	Oklahoma	Oregon	Pennsylvania
Rhode Island	South Carolina	South Dakota	Tennessee	Texas
Utah	Virginia	Washington	West Virginia	Wisconsin
Wyoming				

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.954(1)(i), Florida Statutes. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.954(1)(i)3.a, Florida Statutes.

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.

Assumed

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

Ceded

The Company ceded risk on a quota share, excess of loss basis, and property catastrophe excess of loss basis to authorized and unauthorized reinsurers. The IAT Reinsurance holding company purchased property catastrophic excess of loss reinsurance on a group basis.

Effective June 1, 2013, the Company entered into a property catastrophe excess of loss reinsurance agreement with IAT Reinsurance Company, (IAT). This agreement provides per occurrence catastrophe reinsurance coverage for property lines of business in one layer; a \$15 million excess of \$5 million layer placed 100% with IAT. During 2014, the Company ceded

premiums of \$298,269 and incurred losses of \$0 under this agreement. At December 31, 2014 the Company had a net reinsurance payable of \$0 related to this agreement.

Effective June 1, 2014, the Company entered into a property catastrophe excess of loss reinsurance agreement with IAT. This agreement provides per occurrence catastrophe reinsurance coverage for property lines of business in two layers; (1) a \$15 million excess of \$5 million layer placed 100% with IAT and (2) a \$30 million excess of \$20 million layer placed 50% with IAT. During 2014, the Company ceded premiums of \$661,833 and incurred losses of \$0 under this agreement. At December 31, 2014 the Company had a net reinsurance payable of \$46,206 related to this agreement.

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 Bradenton, Florida; however, the Company maintained its principal operational offices in Raleigh, North Carolina.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank National Association ("U.S. Bank") on April 9, 2013. The U.S. Bank agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Full Service Vendor Agreement

Effective October 10, 1998, the Company entered into a full service vendor agreement with National Flood Service, Inc. to supervise and administer the Write Your Own (“WYO”) Flood Insurance Program for certain states. Under the terms of this agreement, the vendor provided policy administration, claims processing, financial reporting, premiums collections, and banking arrangement in accordance with the National Flood Services Policies and Procedures and guidelines established by the WYO Financial Control Plan. The Company compensated the vendor by an annual servicing fee equal to the specified percentages of net premiums written for performing the duties.

Managing General Agent Agreement

The Company utilized a non-affiliated Managing General Agent (“MGA”) to produce personal lines of business. The MGA was responsible for quoting policies to customers, claims administration and billing, and collecting premiums on behalf of the insurer. The MGA also had binding authority of policies in accordance with underwriting and pricing standards dictated by the agreement.

Independent Auditor Agreement

An independent CPA audited the Company’s statutory basis financial statements annually for the years 2012, 2013 and 2014, 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.

INFORMATION TECHNOLOGY REPORT

Jenny Jeffers, AES, CISA, CFE, IT Specialist, Jennan Enterprises, LLC performed an evaluation of the information technology and computer systems of the Group, which included the systems, applications and controls utilized by 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.

State	Description	Par Value	Market Value
FL	US Treasury Bond 7.50%, 11/15/16	\$ 100,000	\$ 112,719
FL	US Treasury Note 0.25%, 08/15/15	1,000,000	1,003,900
FL	Lorillard Tobacco 6.88%, 05/01/20	400,000	471,151
FL	Aegon Nv 4.63%, 12/01/15	100,000	103,467
FL	Jeffries Group Llc 8.50%, 07/15/19	400,000	479,320
FL	Bank of America 5.75%, 08/15/16	300,000	319,377
FL	American Fin Grp 9.88%, 06/15/19	<u>300,000</u>	<u>385,369</u>
TOTAL FLORIDA DEPOSITS		\$2,600,000	\$2,875,303
TOTAL SPECIAL DEPOSITS		<u>\$2,600,000</u>	<u>\$2,875,303</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

Service Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$29,063,611		\$29,063,611
Stocks:			
Preferred	1,172,750		1,172,750
Common	9,155,975		9,155,975
Cash and Short-Term Investments	7,584,929		7,584,929
Agents' Balances:			
Uncollected premium	1,751,563	(866,734)	884,829
Deferred premium	388,262	866,734	1,254,996
Reinsurance recoverable	26,150		26,150
Interest and dividend income due & accrued	371,136		371,136
Receivable from parents, subsidiaries and affiliates	470,597		470,597
Net deferred tax asset	33,822		33,822
Aggregate write-in for other than invested assets	30,485		30,485
Totals	<u>\$50,049,280</u>	<u>\$0</u>	<u>\$50,049,280</u>

Service Insurance Company
Liabilities, Surplus and Other Funds

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,210,481		\$2,210,481
Loss adjustment expenses	301,271		301,271
Commissions payable and other similar	175,663		175,663
Other expenses	266,946		266,946
Taxes, licenses and fees	156,326		156,326
Current federal and foreign income taxes	1,649,607		1,649,607
Unearned premium	9,153,919		9,153,919
Ceded reinsurance premiums payable	(425,831)		(425,831)
Funds held under reinsurance treaties	948,351		948,351
Payable to parent, subsidiaries and affiliates	889,711		889,711
Aggregate write-ins for liabilities	50,040		50,040
Total Liabilities	\$15,376,484	\$0	\$15,376,484
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	22,438,360		22,438,360
Unassigned funds (surplus)	9,234,436		9,234,436
Surplus as regards policyholders	\$34,672,796	\$0	\$34,672,796
Total liabilities, surplus and other funds	\$50,049,280	\$0	\$50,049,280

Service Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2014

Underwriting Income

Premiums earned		\$14,487,420
	Deductions:	
Losses incurred		\$3,043,241
Loss expenses incurred		634,236
Other underwriting expenses incurred		3,771,236
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$7,448,713</u>
Net underwriting gain or (loss)		\$7,038,707

Investment Income

Net investment income earned		\$1,456,436
Net realized capital gains or (losses)		(84,750)
Net investment gain or (loss)		<u>\$1,371,686</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		111,622
Aggregate write-ins for miscellaneous income		40,929
Total other income		<u>\$152,551</u>

Net income before dividends to policyholders and before federal & foreign income taxes		\$8,562,944
Dividends to policyholders		
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$8,562,944</u>
Federal & foreign income taxes		<u>1,695,242</u>
Net Income		<u><u>\$6,867,702</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$27,331,481
Net Income		\$6,867,702
Net unrealized capital gains or losses		377,872
Change in non-admitted assets		37,048
Change in provision for reinsurance		9,970
Change in net deferred income tax		48,723
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		
Change in surplus as regards policyholders for the year		<u>\$7,341,315</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$34,672,796</u></u>

Service Insurance Company
Comparative Analysis of Changes in Surplus
December 31, 2014

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, 2014, per Annual Statement \$34,672,796

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Uncollected Premium	1,751,563	884,829	(866,734)
Deferred Premium	388,262	1,254,996	866,734
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$34,672,796

COMMENTS ON FINANCIAL STATEMENTS

Assets

Premium Reclassification

The Company inadvertently recorded \$866,734 of premium to uncollected premiums instead of deferred premiums. The relevant business was all homeowners' policies which were annual and should have a deferred but not yet billed balance. In 2014, the Company did not reclassify the deferred but not yet billed to the proper line in the Annual Statement. **Subsequent Event:** The Company was in agreement with the reclassification and recorded it in 2015.

Liabilities

Losses and Loss Adjustment Expenses

An outside actuarial firm appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, 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, Alan Kaliski, FCAS, MAAA, of AGI Services, reviewed the loss and loss adjustment expense workpapers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$34,672,796, exceeded the minimum of \$5,000,000 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 **Service Insurance Company** as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$34,672,796, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Brian Menard, CFE, CISA, Examiner-in-Charge and Scott Eady, CFE, CPA, Participating Examiner of AGI Services, also participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, Financial Examiner/Analyst Supervisor, Examination Manager, Michael Goldgisser, Reinsurance Financial Specialist and Marie Stuhlmuller, Financial Specialist, Participating Examiners. Additionally, Alan Kaliski, FCAS, MAAA of AGI Services and Jenny Jeffers, AES, CISA, CFE, IT Specialist of Jennan Enterprises, are recognized for participation in the examination.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation