



**EXAMINATION REPORT  
OF  
TOWER HILL SELECT INSURANCE COMPANY**

**NAIC Company Code: 12011**

**Gainesville, Florida  
as of  
December 31, 2018**

**BY THE  
FLORIDA  
OFFICE OF INSURANCE REGULATION**

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May 27, 2020

David Altmaier  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, 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, 2018, of the financial condition and corporate affairs of

**Tower Hill Select Insurance Company**

7201 N.W. 11<sup>th</sup> Place  
Gainesville, Florida 32605

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, 2014 through December 31, 2018. Fieldwork, which included planning meetings held at the Florida Office of Insurance Regulation (“the Office”) commenced on April 23, 2019, and concluded as of May 27, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2009 through December 31, 2013.

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.

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. 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

There were no material findings or exceptions noted during the examination as of December 31, 2018.

### Previous Examination Findings

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

#### Related Party Activities

The Company did not timely update its consolidated holding company registration statements for Tower Hill Insurance Group to include the reinsurance data compilation agreement among affiliates executed on July 24, 2014. The Company also did not notify the Office of its intention to enter into this agreement at least 30 days prior to the execution of the agreement.

The Company did not file its reinsurance data compilation service agreement as part of its holding company registration statement, but did provide it during the examination.

#### Subsequent Actions

The Company disclosed this agreement in the consolidated holding company registration statements during the current examination period. However, The Office has no record of prior notice (i.e., a Form D) being filed with the Office concerning this agreement as required by Rule 69O-143.047, Florida Administrative Code.

**Subsequent Event:** The agreement expired on May 31, 2019.

## COMPANY HISTORY

### General

The Company is a property and casualty insurer organized under the laws of the state of Florida was incorporated on April 16, 2004 and received its Certificate of Authority from the Florida Office of Insurance Regulation on June 24, 2004. The Company's immediate parent is Tower Hill Select Insurance Holdings, Inc. ("Select Holdings"). The Company's ultimate parent is Tower

Hill Insurance Holdings, Inc. (“THIH”). During September 2017 the ownership of the stock of the Company was transferred from THIH to Select Holdings. The Company, together with the other four Tower Hill Insurance Companies, share common management.

### **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, 2018, the Company’s capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$100,000
Par value per share	\$1.00

During 2016 the Company received a \$4 million capital contribution from its parent company. No contributions were made in 2014, 2015, 2017 and 2018.

### **Surplus Notes**

The Company received the proceeds of a \$7,500,000 surplus note in February 2014 that was issued to the parent, Tower Hill Select Holdings, Inc. on December 31, 2013. The Company received approval from the Office to accrue the surplus in the 2013 Annual Statement. The principal amount and all accrued and unpaid interest on the note is due on December 31, 2023.

### **Acquisitions, Mergers, Disposals, Dissolutions**

No acquisitions, mergers, disposals or dissolutions occurred during the examination period.

**Subsequent Event:** The Company merged, with the approval of the Office, into Tower Hill Signature Insurance Company (“Signature”) effective May 31, 2020. The surviving entity of the merger was Signature.

## MANAGEMENT AND CONTROL

### Corporate Governance

Directors serving as of December 31, 2018, are shown below:

<b>Directors</b>		
<b>Name</b>	<b>City, State</b>	<b>Principal Occupation, Company Name</b>
William John Shively (a)	Lexington, Kentucky	Co-Chief Executive Officer Tower Hill Insurance Group
James Nicholas Smith	St. Petersburg, Florida	Retired
Donald Carl Matz, Jr.	Gainesville, Florida	President Tower Hill Insurance Group
George Gregory King	Blowing Rock, North Carolina	Retired
Scott Kevin Billings	Fort Worth, Texas	Managing Member Blackeyed Distilling Company

- a) William J. Shively was the Chairman of the Board as of December 31, 2018. As planned, Mr. Shively later resigned and was replaced by Stephen Dawahare as a Board Member on July 8, 2019.

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

<b>Senior Officers</b>		
<b>Name</b>	<b>City, State</b>	<b>Title</b>
William John Shively	Lexington, Kentucky	Chief Executive Officer
Donald Carl Matz, Jr.	Gainesville, Florida	President
Stephen Eric Allnut	Willison, Florida	Chief Underwriting Officer
Benjamin Lane Bussey III	Jacksonville, Florida	Chief Financial Officer/Treasurer
Scott Parker Rowe	Newberry, Florida	Secretary/Chief Compliance Officer

<b>Audit Committee</b>		
<b>Name</b>	<b>City, State</b>	<b>Title, Company Name</b>
Scott Kevin Billings <sup>(1)</sup>	Fort Worth, Texas	Managing Member Blackeyed Distilling Company
James Nicholas Smith	St. Petersburg, Florida	Retired
George Gregory King	Blowing Rock, North Carolina	Retired

<sup>1</sup> Chairman

### **Holding Company System**

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

### **Tax Allocation Agreement**

The Company, along with its parent company, Select Holdings, filed a consolidated federal income tax return as of December 31, 2018. The consolidated return was prepared as if each individual corporation filed a separate return based on the income, losses, deductions and credit of such individual corporation. Tax payments by the Company were made to Select Holdings.

### **Management Agreement**

The Company entered into a Management Agreement with Select Holdings on April 6, 2005 to provide certain management services including, legal counsel, accounting, investments and financial management, reinsurance assistance, risk management, human resources, administrative services, communication and information technology services, marketing services consulting and other such services as may be necessary. The agreement continues in force for a term of five (5) years and will automatically renew for successive five (5) year periods, unless otherwise terminated within the guidelines of the agreement. The management fee paid by the Company each month was equal to two percent (2%) of earned premium on new and renewed business. Fees incurred under this agreement during 2018 amounted to \$1,982,153.



### **Managing General Agent Agreement**

The Company entered into a Managing General Agency Agreement with its affiliate, Tower Hill Insurance Group, LLC (“MGA”) on January 1, 2008. The terms of the contract give the MGA authority for underwriting, premium collection, claims adjustment, and claims payment. All premium collection is facilitated through the MGA. The underwriting authority of the MGA to issue policies under this agreement is continuous until terminated. This agreement may be terminated by either party without cause, by giving the other party not less than 90 days prior written notice of such termination. The MGA retains all policy and billing fees collected by the Company less applicable premium taxes relative to such policy fees.

In addition to the foregoing provisions, the MGA is entitled to charge and retain installment fees, actual inspection fees incurred, and a per policy MGA fee of \$25. Claims administration services were included in the agreement. Claims administration fees were calculated according to a fee schedule based on size of claim. Fees incurred under this agreement during 2018 amounted to \$1,081,085.

### **Reinsurance Data Compilation Agreement**

The Company entered into a Reinsurance Data Compilation Agreement with its affiliate, Tomoka Reinsurance Intermediaries, Inc. (“Tomoka”) and non-affiliate TigerRisk Partners LLC (“TigerRisk”) effective July 31, 2018. Pursuant to this Agreement, Tomoka provides the Company data review and compilation services, and TigerRisk uses this information to provide reinsurance intermediary services to the Company. TigerRisk and Tomoka divide any related reinsurance brokerage revenue fifty percent. The Office has no record of prior notice (i.e., a Form D) being filed with the Office concerning this agreement as required by Rule 69O-143.047, Florida Administrative Code.

**Subsequent Event:** This agreement was terminated effective May 31, 2019.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Gainesville, Florida. The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Regions Bank executed on April 20, 2016.

### **Independent Auditor Agreement**

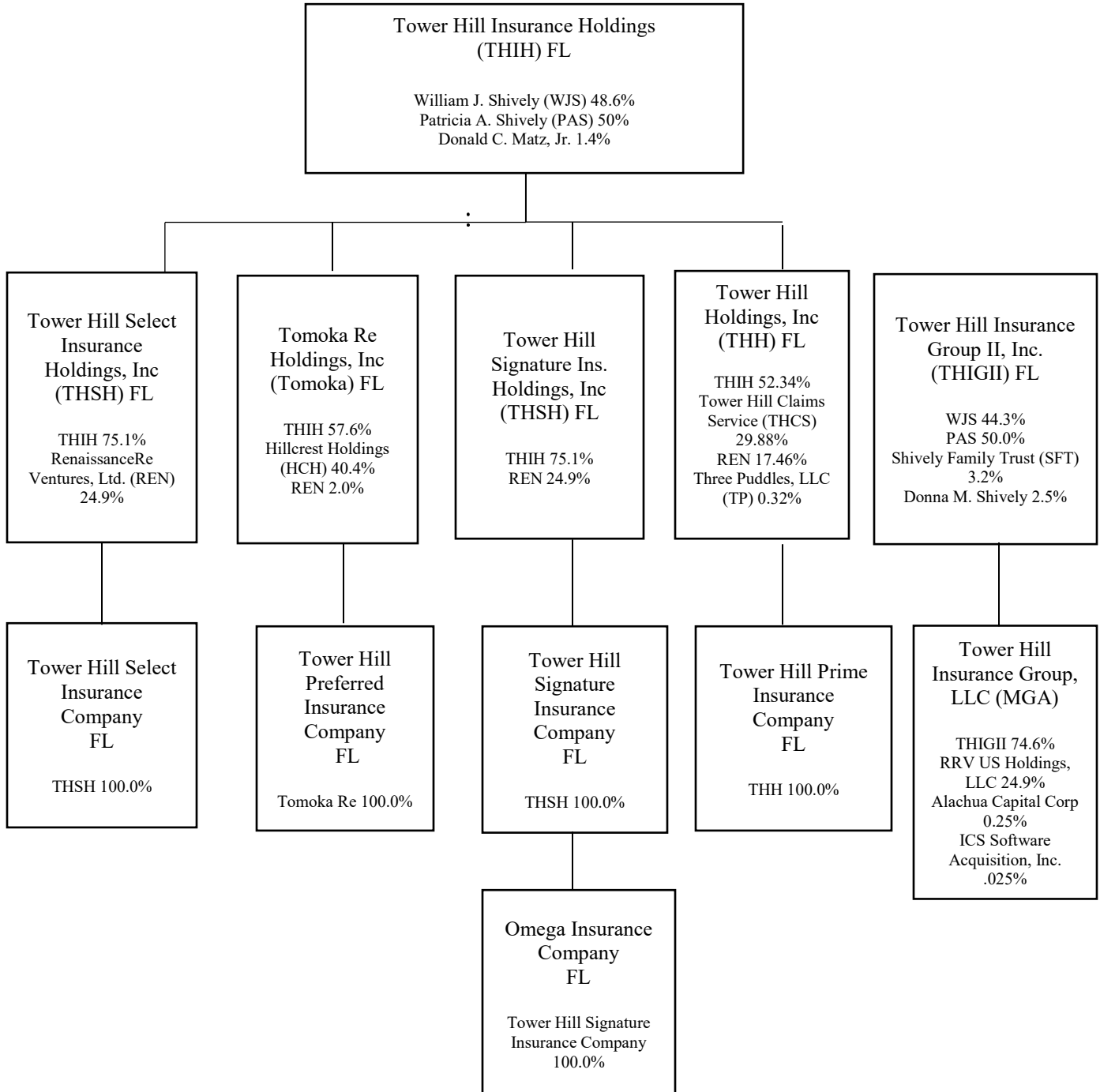
An independent CPA firm PricewaterhouseCoopers LLP audited the Company's statutory basis financial statements annually for the years 2017 and 2018. Supporting work papers were prepared by the CPA firm. KPMG audited the Company's statutory basis financial statements annually for the years 2016, 2015 and 2014.

### **Corporate Records Review**

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 documented its meetings and approval of Company transactions and events, including the authorization of investments.

**Tower Hill Select Insurance Company  
Simplified Organizational Chart  
December 31, 2018**

A simplified organizational chart as of December 31, 2018, reflecting the holding company system, is shown below. Schedule Y of the Company's 2018 annual statement provided a list of all related companies of the holding company group



## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance only in Florida on June 24, 2004 and is currently authorized for Inland Marine and Homeowners Multiple Peril as of December 31, 2018.

## **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 did not assume any reinsurance during the period of this examination.

### **Reinsurance Ceded**

The Company has entered into several reinsurance contracts to protect itself from excessive homeowners' multiple peril losses and from catastrophic events. During the years ended December 31, 2018 and 2017, the Company ceded premiums under quota share, catastrophe excess of loss, and accident year excess of loss reinsurance agreements.

The Company entered a new quota-share reinsurance agreement effective June 1, 2018 on all in force, new and renewal business. Under the new quota share, the Company will cede 72% of new, renewal, and in-force business while retaining 28%. Previously the Company ceded 60% while retaining 40%. This change resulted in a decrease in the net reserve for unearned premiums of approximately \$5,800,000 and an increase in amounts due to reinsurers (written premiums less related expenses) of approximately \$2,600,000 which is settled with the Company within 90 days. The effect of these transactions on the Statement of Operations was an increase in underwriting income of approximately \$2,200,000 pre-tax, representing the immediate recognition of commissions ceded associated with the change in unearned premiums (as required by Statutory Accounting Principles). The after-tax effect on surplus was an increase of approximately \$1,700,000. This was a result of the combination of current and deferred taxes which resulted in a 21% overall effective tax rate on the transaction. In accordance with statutory accounting,

current taxes are reported in the Statement of Operations, while deferred taxes are reported as a change in surplus.

### **INFORMATION TECHNOLOGY REPORT**

Jenny Jeffers, AES, CISA, IT Specialist, Jennan Enterprises, 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**

Cash in the amount of \$310,075 was deposited with the State of Florida as required by Section 624.411, Florida Statutes.

## **FINANCIAL STATEMENTS**

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Operations; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2018. 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, 2018. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

**Tower Hill Select Insurance Company**  
**Assets**  
**December 31, 2018**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$ 31,419,327		\$ 31,419,327
Common stocks	3,580,155		3,580,155
Mortgage loans	1,806,449		1,806,449
Cash and Short-Term Investments	28,757		28,757
Receivable for securities	24,933		24,933
Investment income due and accrued	223,787		223,787
Uncollected premium and agents' balances	6,401,199		6,401,199
Amounts recoverable from reinsurers	16,736,597		16,736,597
Current federal income taxes recoverable	792,602		792,602
Aggregate write-in for other than invested assets	149,198		149,198
Totals	<u>\$ 61,163,004</u>	<u>\$ -</u>	<u>\$ 61,163,004</u>

**Tower Hill Select Insurance Company  
Liabilities, Surplus and Other Funds  
December 31, 2018**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$15,433,701		\$15,433,701
Loss adjustment expenses	2,426,474		2,426,474
Commissions payable	258,049		258,049
Other expenses	179,388		179,388
Taxes, licenses and fees	321,669		321,669
Unearned premium	7,786,107		7,786,107
Ceded reinsurance balances payable	13,370,842		13,370,842
Amounts withheld for account of others	592,035		592,035
Payable to parent, subsidiaries and affiliates	187,160		187,160
Aggregate write-ins for liabilities	612,640		612,640
Total Liabilities	<u>\$41,168,065</u>	<u>\$ -</u>	<u>\$41,168,065</u>
Common capital stock	\$ 100,000		\$ 100,000
Surplus notes	5,280,000		5,280,000
Gross paid in and contributed surplus	35,800,000		35,800,000
Unassigned funds (surplus)	(21,185,061)		(21,185,061)
Surplus as regards policyholders	<u>\$19,994,939</u>	<u>\$ -</u>	<u>\$19,994,939</u>
Total liabilities, surplus and other funds	<u><u>\$61,163,004</u></u>	<u><u>\$ -</u></u>	<u><u>\$61,163,004</u></u>



**Tower Hill Select Insurance Company  
Statement of Income  
December 31, 2018**

**Underwriting Income**

Premiums earned	\$18,182,859
<b>Deductions</b>	
Losses incurred	\$15,954,184
Loss expenses incurred	1,758,418
Other underwriting expenses incurred	2,050,588
Total underwriting deductions	<u>\$19,763,190</u>
Net underwriting gain or (loss)	<u>\$ (1,580,331)</u>

**Investment Income**

Net investment income earned	\$ (464,634)
Net realized capital gains or (losses)	<u>281,937</u>
Net investment gain or (loss)	<u>(\$182,697)</u>
Net Income before federal & foreign income taxes	\$ (1,763,028)
Federal & foreign income taxes	(86,701)
Net Income	<u><u>(\$1,676,327)</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$25,250,363
Net Income	\$ (1,676,327)
Net unrealized capital gains or losses	(460,223)
Change in net deferred income tax	394,772
Change in non-admitted assets	(1,298,646)
Change in provision for reinsurance	5,000
Change in surplus notes	<u>(2,220,000)</u>
Change in surplus as regards policyholders for the year	<u>\$ (5,255,424)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$19,994,939</u></u>

**Tower Hill Select Insurance Company  
Reconciliation of Capital and Surplus  
December 31, 2018**

**Capital & Surplus Change during Examination Period**

Surplus at December 31, 2013, per Examination			\$ 31,397,016
	<u>Increase</u>	<u>Decrease</u>	
Net Income (loss)	\$ -	\$ 12,255,257	
Change in net unrealized capital gain (loss)	66,012		
Change in net deferred income tax	1,169,493		
Change in non-admitted assets		2,162,325	
Change in surplus notes		2,220,000	
Change in paid in surplus	4,000,000		
Net increase (or decrease)			<u>\$(11,402,077)</u>
Surplus at December 31, 2018, per Examination			<u>\$ 19,994,939</u>

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

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

### **Liabilities**

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

Stanislav Eratt, FIA FCAS CERA, Director, Willis Towers Watson, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2018, 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, Brent Sallay, FCAS, MAAA, Senior Consulting Actuary, of Taylor-Walker Consulting, LLP, reviewed the loss and loss adjustment expense work papers 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 \$19,994,939, exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

## **SUBSEQUENT EVENTS**

The following subsequent event was not discussed elsewhere in the report.

The Company was a wholly owned subsidiary of Select Holdings. On September 1, 2019, the Select Holdings merged with Tower Hill Signature Insurance Holdings, Inc, (“Signature Holdings”). The stock of the Company was then contributed to Tower Hill Signature Insurance Company (“Signature”), and Signature became the Company’s immediate parent with approval of the Office.

During December 2019, the Company issued a surplus note in the amount of \$9.1 million to Signature, of which \$5.0 million was funded in the Company’s account at the end of December 2019 and \$4.1 million was funded on February 19, 2020. The entire note was included within the Company’s Policyholders’ Surplus as of December 31, 2019. This transaction was approved by the Office.

Effective May 31, 2020, Signature Holdings along with Signature entered into a merger agreement with the Company and Omega Insurance Company (“Omega”). As part of the agreement, the Company and Omega contributed all of their assets and liabilities into Signature, with Signature being the surviving entity. As of the effective date, each of the issued and outstanding shares of the Company and Omega were cancelled and ceased to exist. Shares of the surviving company, Signature, were unaffected and unimpaired by the merger; and no change to Signature’s ownership structure occurred. As a result of the merger, management intends to streamline internal processes and realize operating efficiencies. On March 25, 2020, pursuant to Section 628.451, Florida Statutes, the Office issued Consent Order 261474-20 approving the proposed merger agreement.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Tower Hill Select Insurance Company as of December 31, 2018, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, Jeffrey Good, CFE, CIE, and Michael Masuen, CFE, CISA, Participating Examiners, of The NOVO Consulting Group, LLC, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, Examination Manager and Christopher Brown, Participating Examiner. Additionally, Brent Sallay FCAS, MAAA, Senior Consulting Actuary, and Sonya Bergquist, Actuarial Analyst, of Taylor-Walker Consulting, LLP and Jenny Jeffers, AES, CISA, IT Specialist, and Joanna J. Latham, IT Specialist of Jennan Enterprises, LLC are recognized for participation in the examination.

Respectfully submitted,

*Lori Ruggiero*

Lori Ruggiero, CFE, CIE, MCM  
The Novo Consulting Group, LLC  
Representing the Florida Office of Insurance Regulation

*Daniel W. Applegarth*

Daniel W. Applegarth, CFE, CPA, PIR  
Chief Financial Examiner  
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