



**EXAMINATION REPORT  
OF**

**FCCI COMMERCIAL INSURANCE COMPANY**

**NAIC Company Code: 33472**

**SARASOTA, FLORIDA**

**as of  
December 31, 2015**

**BY THE  
FLORIDA OFFICE OF INSURANCE REGULATION**

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March 28, 2017

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 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, 2015, of the financial condition and corporate affairs of

**FCCI Commercial Insurance Company**  
6300 University Parkway  
Sarasota, Florida 34240

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, 2011 through December 31, 2015 and commenced with planning at the Office on October 25, 2016 to October 27, 2016. The fieldwork commenced on October 31, 2016 and concluded as of March 28, 2017. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2006 through December 31, 2010.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (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 Statements of Statutory Accounting Principles (SSAP).

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 (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 adverse findings, significant non-compliance findings or material changes in the financial statements, noted during the examination as of December 31, 2015.

## **Prior Examination Findings**

There were no 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, 2010.

## **COMPANY HISTORY**

### **General**

The Company is a Florida-domiciled property and casualty insurer that was organized on February 25, 1988, as FCCI Commercial Fund. On February 18, 2000, the Company was converted to a stock property and casualty company and the name was changed to FCCI Property and Casualty Insurance Company. The Company's name was changed to FCCI Commercial Insurance Company effective on January 1, 2001. The Company is a wholly owned subsidiary of FCCI Insurance Group, Inc., which is a wholly owned subsidiary of FCCI Insurance Company, a Florida domiciled commercial property and casualty insurer. FCCI Insurance Company is wholly owned by FCCI Group, Inc., an intermediate holding company that is wholly owned by FCCI Mutual Insurance Holding Company. The Company is only licensed in the State of Florida.

The Company was authorized to transact insurance in Florida on February 18, 2000, and is currently authorized for the following coverages as of December 31, 2015:

Allied Lines	Boiler and Machinery
Burglary and Theft	Commercial Auto Physical Damage
Commercial Auto Liability	Commercial Multi-Peril
Farmowners Multi-Peril	Fidelity
Fire	Glass
Inland Marine	Other Liability
Workers' Compensation	

In 2014, the Company's amended and restated Bylaws were approved by the Office. The amended and restated Bylaws addressed the issues of: 1) Special Meetings, 2) Notice of Meetings, 3) Business at Meetings, 4) Qualifications of Voters, 5) Voting, 6) Proxies and Proxy Solicitation, 7) Number and Qualifications of Directors, 8) Term of Office, 9) Removal of Directors,

10) Compensation, 11) First Meeting of Newly Elected Directors, 12) Notice of Special Meetings of Directors, 13) Participation of Directors by means of Communication Equipment, 14) Director Incapacity, 15) Officers Enumerated, 16) Restrictions on Stock Transfers, 17) Notices, 18) Investments and Disbursements of Funds, 19) Condition of Indemnification, 20) Determination of Indemnification, 21) Additional Rights of Those Indemnified, and 22) Corporate Insurance.

## **Dividends**

There were no dividends declared or paid during this examination period.

## **Capital Stock and Capital Contributions**

As of December 31, 2015, 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

## **Control**

Control of the Company was maintained by its parent, FCCI Insurance Group, Inc., which is a wholly owned subsidiary of FCCI Insurance Company, a Florida domiciled commercial property and casualty insurer.

## **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 documented its meetings and approval of Company transactions and events, in compliance with the 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 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, 2015 are shown on the following page.



## Directors

<b>Name</b>	<b>City, State</b>	<b>Principal Occupation, Company Name</b>
Charles Robert Baumann	Sarasota, Florida	Shareholder, Kerkering, Baberio & Co.
John Joseph Cox	Sarasota, Florida	President & Owner, Halfacre Construction Company
Robert Winthrop Flanders	Sarasota, Florida	President & Owner, Quality Walls
Gordon William Jacobs	Sarasota, Florida	Former Insurance Executive
Craig Allan Johnson	Sarasota, Florida	President, FCCI Commercial Ins. Co.
John Thomas Stafford (a)	Sarasota, Florida	Chairperson, Former Banking Executive
Roy Allan Yahraus	Sarasota, Florida	Former Business Executive

(a) John Thomas Stafford retired as Director on October 19, 2016

**Subsequent Event:** Lisa Ann Krouse was elected as a Director of the Company, effective April 27, 2016.

The following were changes in Directors during the examination period:

- Timothy Joseph Clarke resigned as Director on September 19, 2012.
- Marvin Stephen Haber resigned as Director on September 24, 2012.
- Robert Weld Benjamin was removed as Director on September 24, 2014.

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

## Senior Officers

<b>Name</b>	<b>City, State</b>	<b>Title</b>
Craig Allan Johnson	Sarasota, Florida	President, Chief Executive Officer
Lisa Patrizi Weiland	Longboat Key, Florida	Executive Vice President, Chief Operating Officer

Joseph Anthony Keene	Sarasota, Florida	Executive Vice President
Lisa Ann Krouse	Lakewood Ranch, Florida	Executive Vice President, Chief Human Resources Officer
Michelle Marie Jalbert	Bradenton, Florida	Vice President, Controller and Assistant Treasurer
Christopher Samir Shoucair	Lithia, Florida	Executive Vice President, Chief Financial Officer and Treasurer
Thomas Augustine Koval	Sarasota, Florida	Executive Vice President, Chief Legal Officer and Secretary

- Rupert Lee Willis retired as Executive Vice President on July 10, 2015.

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2015:

#### **Executive Committee**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
John Thomas Stafford <sup>1</sup>	Sarasota, Florida	Director
Craig Allan Johnson	Sarasota, Florida	President, Chief Executive Officer

<sup>1</sup> Chairperson

#### **Audit Committee**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
Gordon William Jacobs <sup>1</sup>	Sarasota, Florida	Director
Charles Robert Baumann	Sarasota, Florida	Director
Robert Winthrop Flanders	Sarasota, Florida	Director
Roy Allan Yahraus	Sarasota, Florida	Director

<sup>1</sup> Chairperson

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

### **Investment Committee**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
Gordon William Jacobs <sup>1</sup>	Sarasota, Florida	Director
Charles Robert Baumann	Sarasota, Florida	Director
Robert Winthrop Flanders	Sarasota, Florida	Director
John Joseph Cox	Sarasota, Florida	Director

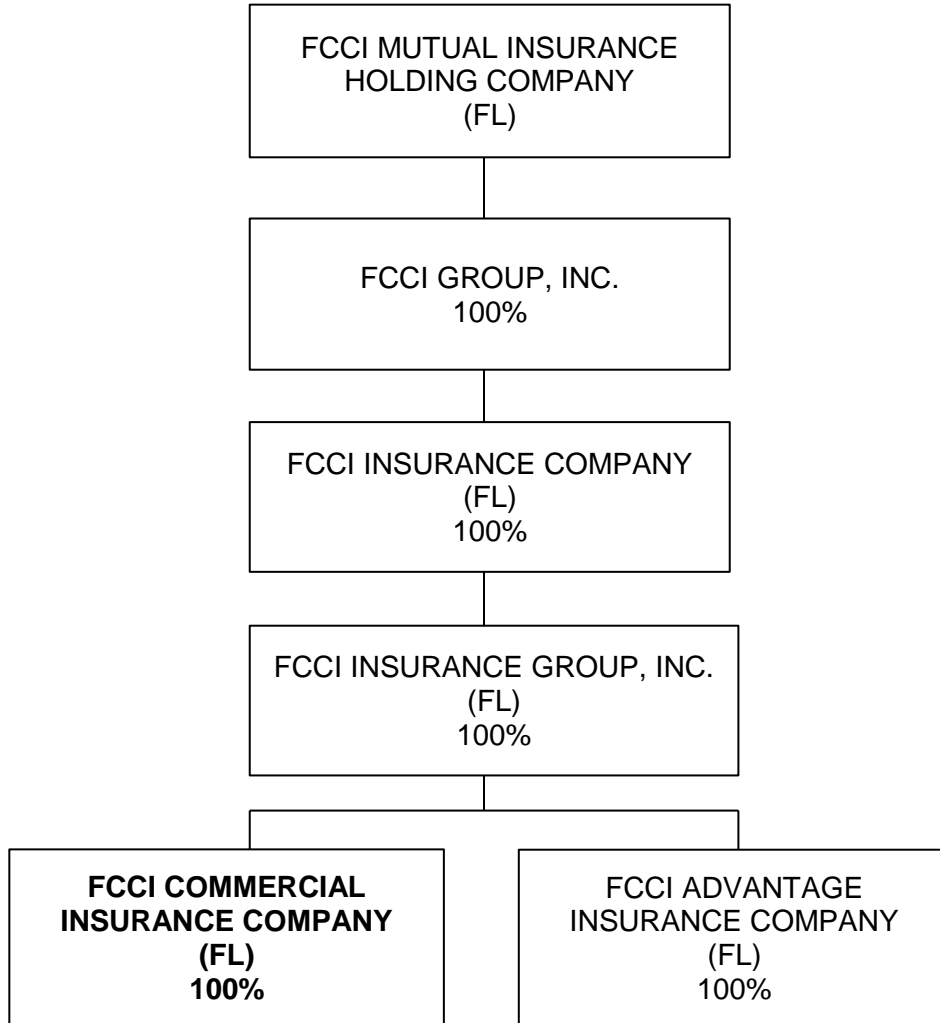
<sup>1</sup> Chairperson

### **Affiliated Companies**

The most recent Holding Company Registration Statement was filed with the Office on March 20, 2017, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2015, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2015 annual statement provided a list of all related companies of the holding company group.

**FCCI Commercial Insurance Company**  
**Simplified Organizational Chart**  
**December 31, 2015**



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

### **Tax Allocation Agreement**

The Company, along with its affiliates, filed a consolidated federal income tax return. On December 31, 2015, the method of allocation was the “separate-entity” basis described in Internal Revenue Code Section 1552(a)(2) and Treasury Regulation 1.1552-1(a)(2) which was the percentage of tax each member would bear compared to the total tax of all members, if computed on separate returns. Each member will pay to FCCI Insurance Company or another member, as the case may be, the amount assessed to the payor member within ninety (90) days of the filing of the consolidated federal and state tax return.

### **Management Agreement**

The Company, along with its parents and affiliates, had a management services agreement with FCCI Services, Inc., an affiliate, which provided insurance and general management services including, but not limited to: underwriting, premium formulation, collection services, loss control, claims management, portfolio investment management, actuarial services, accounting services, internal auditing, treasury and banking services, legal services, regulatory affairs, internal operations, personnel, information systems, marketing, facilities management, tax services, reinsurance services, corporate governance, and other services related to the effective management of the Company’s business. Fees incurred under this agreement during 2015 amounted to \$1,237,876.

### **Reinsurance Agreement**

The Company had a one hundred percent (100%) quota share reinsurance ceding agreement with FCCI Insurance Company.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance only in the State of Florida.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)(3)(a), 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)(j), 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.

### **Reinsurance Assumed**

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

### **Reinsurance Ceded**

The Company has a one hundred percent (100%) quota share reinsurance agreement with FCCI Insurance Company. The agreement covers all premiums written and earned and all loss and loss adjustment expenses incurred. The agreement includes a provision for ceded commission income equal to one hundred percent (100%) of operating expenses incurred. The Company recognized ceded commission income of \$1,164,348 in 2015.

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 Sarasota, Florida.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with Northern Trust Company dated July 1, 2005. It was amended September 7, 2006, and January 1, 2009. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

An independent CPA, BDO USA, LLP, audited the Company's statutory basis financial statements annually for the years 2011, 2012, 2013, 2014, and 2015, in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA firm as required by Rule 690-137.002, Florida Administrative Code.

## **INFORMATION TECHNOLOGY REPORT**

Joanna J. Latham, CPA, CFE, AES, CISA, CRISC, Jenny Jeffers, CISA, AES, CFE (Fraud), and Brandon C. Thomas, HISP, MCM 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.

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	US Treasury Note, 3.125%, 5/15/2021	<u>\$ 350,000</u>	<u>\$ 372,341</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 350,000</u>	<u>\$ 372,341</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 Office, are reflected on the following pages.

**FCCI Commercial Insurance Company**

**Assets**

**December 31, 2015**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$13,964,794		\$13,964,794
Cash and Short-Term Investments	279,442		279,442
Investment income due and accrued	57,207		57,207
Net deferred tax asset	21,951		21,951
Totals	<u>\$14,323,394</u>	<u>\$0</u>	<u>\$14,323,394</u>

**FCCI Commercial Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2015**

	Per Company	Examination Adjustments	Per Examination
Losses	\$0		\$0
Loss adjustment expenses	0		0
Commissions payable	197,988		197,988
Taxes, licenses and fees	65,379		65,379
Current federal income taxes	86,492		86,492
Ceded reinsurance premiums payable	(3,542,469)		(3,542,469)
Amounts withheld	76,212		76,212
Remittances and items not allocated	133		133
Aggregate write-ins for liabilities	370,202		370,202
Total Liabilities	(\$2,746,063)	\$0	(\$2,746,063)
Common capital stock	\$100,000		\$100,000
Gross paid in and contributed surplus	16,150,000		16,150,000
Unassigned funds (surplus)	819,457		819,457
Surplus as regards policyholders	\$17,069,457	\$0	\$17,069,457
Total liabilities, surplus and other funds	\$14,323,394	\$0	\$14,323,394

**FCCI Commercial Insurance Company**  
**Statement of Income and Capital and Surplus Account**  
**December 31, 2015**

**Underwriting Income**

Premiums earned	\$0
<b>Deductions:</b>	
Losses incurred	\$0
Loss expenses incurred	0
Other underwriting expenses incurred	31,111
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	\$31,111
Net underwriting gain or (loss)	(\$31,111)

**Investment Income**

Net investment income earned	\$240,903
Net realized capital gains or (losses)	223
Net investment gain or (loss)	\$241,126

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	(\$42,843)
Finance and service charges not included in premiums	47,353
Aggregate write-ins for miscellaneous income	20,125
Total other income	\$24,635
Net income before dividends to policyholders and before federal & foreign income taxes	\$234,650
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$234,650
Federal & foreign income taxes	86,381
Net Income	\$148,269

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$16,916,871
Net Income	\$148,269
Net unrealized capital gains or losses	0
Change in net deferred income tax	4,317
Change in surplus as regards policyholders for the year	\$152,586
Surplus as regards policyholders, December 31 current year	\$17,069,457

**FCCI Commercial Insurance Company**  
**Reconciliation of Capital and Surplus**  
**December 31, 2015**

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

Surplus as regards policyholders			
December 31, 2010, per Examination			\$16,046,050
	<u>Gain in</u>	<u>Loss in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net Income	1,040,035		
Change in net deferred income tax		16,628	
Total Gains and Losses	<u>1,040,035</u>	<u>16,628</u>	
Net increase in surplus as regards policyholders			<u>1,023,407</u>
Surplus as regards policyholders			
December 31, 2015, per Examination			<u><u>\$17,069,457</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$0

An actuarial firm, Willis Towers Watson, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, 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, Gustave A. Krause, FCAS, MAAA, FCA of Actuaries, Inc., 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 \$17,069,457, 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 **FCCI Commercial Insurance Company** as of December 31, 2015, consistent with the insurance laws of the State of Florida.

The Company's surplus as regards policyholders was \$17,069,457, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Philip D. Engelhart, CPA, AIAF, CFE, Examiner-in-Charge, of EWM Group, PC, also participated in the examination. Members of the Office who participated in the examination include Connie Hare, AFE, (CFE) Fraud, Financial Examiner/Analyst Supervisor, Examination Manager, and Wytonia Weston, APIR, Financial Examiner/Analyst II, Participating Examiner. Additionally, Tracy D. Gates, CISA, CFE of Highland Clark, LLC, served as the Exam Manager. Jenny L. Jeffers, CISA, AES, CFE (Fraud), and Joanna J. Latham, CPA, CFE, AES, CISA, CRISC, IT Specialists with Jennan Enterprises, LLC, and Brandon C. Thomas, HISP, MCM, IT Specialists with The Thomas Consulting Group, Inc., Anthony Pipia, ACAS, MAAA and Gustave Krause, FCAS, MAAA, FCA, Actuarial Specialists with Actuaries, Inc., are recognized for participation in the examination.

Respectfully submitted,

Brian Sewell, CFE, MCM  
Chief Examiner  
Florida Office of Insurance Regulation