**REPORT ON EXAMINATION**

**OF**

# LIBERTY AMERICAN SELECT INSURANCE COMPANY

**ALTAMONTE SPRINGS, FLORIDA**

**AS OF**

**DECEMBER 31, 2013**

**BY THE**

**FLORIDA OFFICE OF INSURANCE REGULATION**

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April 23, 2015

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2013, of the financial condition and corporate affairs of:

**LIBERTY AMERICAN SELECT INSURANCE COMPANY**
**220 EAST CENTRAL PARKWAY, SUITE 3010**
**ALTAMONTE SPRINGS, FLORIDA 32701-3439**

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, 2009 through December 31, 2013. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on February 16, 2015 to February 20, 2015. The fieldwork commenced on March 4, 2015 and concluded as of April 23, 2015.

This financial examination was a multi-state 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, 2013.

### Prior Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2008.

## SUBSEQUENT EVENTS

On January 31, 2014, the Company's Board of Directors (Board) declared and paid a $19,000,000 extraordinary dividend to the Company's parent, Liberty American Insurance Group, which was approved by the Board and the Office.

In February 2014, the Office approved the Company's plan to transfer all policies pursuant to the National Flood Insurance Program to its affiliate, Philadelphia Indemnity Insurance Company. As a result, in 2014 the Company did not have any in-force policies. The Company has not had in-force policies, other than those policies issued pursuant to the National Flood Insurance Program, since July 23, 2009.

## HISTORY

The Company was incorporated in Florida on February 22, 1989 and commenced business on March 1, 1989 as Mobile USA Insurance Company, Inc. The name was subsequently changed to Liberty American Select Insurance Company on December 19, 2005.

The Company was authorized to transact the following insurance coverage in Florida on various dates in 1989, 1994, 1996, 1998 and 1999 and continued to be authorized as of December 31, 2013:

Allied Lines
Fire
Homeowners Multi Peril
Inland Marine
Mobile Home Multi Peril
Mobile Home Physical Damage
Other Liability

On February 29, 2008, the Company received approval from the Office to non-renew all of its policies, other than policies issued pursuant to the National Flood Insurance Program.

### Dividends to Stockholders

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

### Capital Stock and Capital Contributions

As of December 31, 2013, the Company's capitalization was as follows:

| | |
|---|---|
| Number of authorized common capital shares | 3,000,000 |
| Number of shares issued and outstanding | 1,500,000 |
| Total common capital stock | $1,500,000 |
| Par value per share | $1.00 |

Control of the Company was maintained by its parent, Liberty American Insurance Group, Inc., a Delaware Insurance holding company, who owned 100% of the stock issued by the Company, who in turn was 100% owned by Philadelphia Consolidated Holding Corp, a Delaware corporation. Philadelphia Consolidated Holding Corp. is a wholly owned subsidiary of Tokio Marine North America, an insurance holding company domiciled in the State of Delaware. Tokio Marine North America is a wholly owned direct subsidiary of Tokio Marine Nichido Fire Insurance Co., Ltd., an insurance company domiciled in Japan. Tokio Marine Nichido Fire Insurance Co., Ltd., is a wholly owned subsidiary of Tokio Marine Holdings, Inc., an insurance holding company organized under the Companies Act of Japan.

### 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 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, 2013, were:

**Directors**

| Name and Location | Principal Occupation |
|---|---|
| Robert Daniel O'Leary<br>North Easton, Massachusetts | President and CEO<br>Philadelphia Consolidated Holding Corp. |
| James Joseph Maguire, Jr.<br>Ft. Washington, Pennsylvania | Chairman of the Board<br>Philadelphia Consolidated Holding Corp. |
| John Glomb<br>Wyndmoor, Pennsylvania | EVP and Chief Underwriting Officer<br>Philadelphia Consolidated Holding Corp. |
| Karen Ann Gilmer-Pauciello<br>Wyndmoor, Pennsylvania | EVP and Chief Financial Officer<br>Philadelphia Consolidated Holding Corp. |
| Hiroyuki Haruyama<br>Bryn Mawr, Pennsylvania | Manager<br>Tokio Marine & Nichido Fire Insurance Co. |

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

**Senior Officers**

| | |
|---|---|
| Robert Daniel O'Leary | President and CEO |
| Karen Ann Gilmer-Pauciello | Executive Vice President, CFO, Treasurer |
| Edward Fabian Sayago | Secretary |

The Company's Board appointed the members of the audit committee in accordance with Section 624.424(8)(c), Florida Statutes. The following were the members as of December 31, 2013:

**Audit Committee**
James Joseph Maguire, Jr.[1]
Craig Phillip Keller
Robert Daniel O'Leary

[1] Chairman

The independence of the audit committee lies with the Tokio Marine North America audit committee, who oversees all audit activities for Tokio Marine North America subsidiaries.

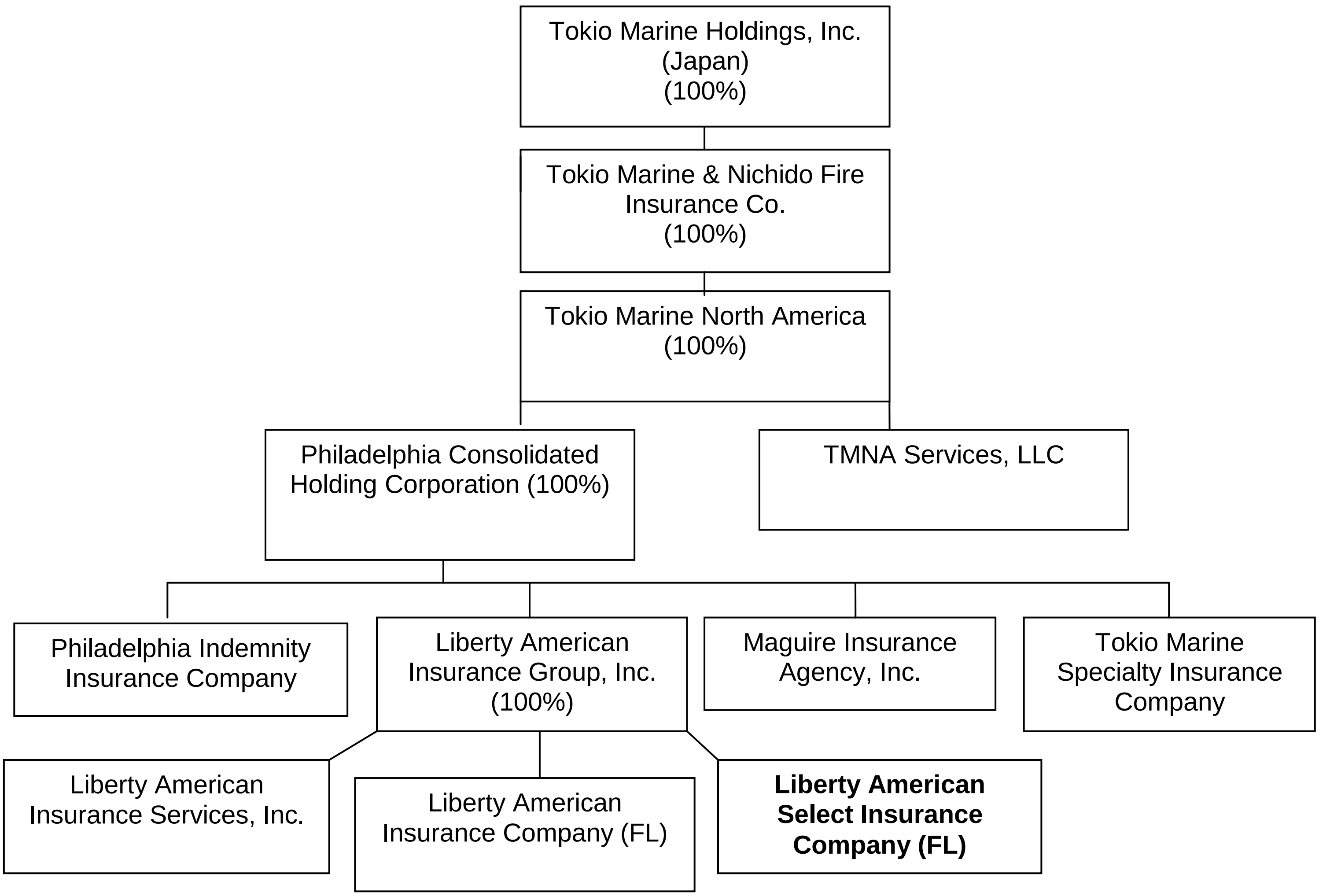
## Affiliated Companies

The most recent holding company registration statement was filed with the State of Florida on May 1, 2014, as required by Section 628.801, Florida Statutes.

A simplified organizational chart as of December 31, 2013, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2013 annual statement provided a list of all related companies of the holding company group.

**LIBERTY AMERICAN SELECT INSURANCE COMPANY**
**SIMPLIFIED ORGANIZATIONAL CHART**

**DECEMBER 31, 2013**



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

## Pooling Agreement

The Company entered into an agreement with its affiliate, Liberty American Insurance Company (Liberty American) effective October 4, 2004, whereby Liberty American assumed 100% of the Company's net outstanding losses and loss expenses and in return the Company will assume 50% of Liberty American's net outstanding losses and loss expenses. Either party can terminate with or without cause under mutual agreement, or must give the other party written notice of termination at least three months prior to effective date of termination.

## Tax Allocation Agreement

The Company entered into an agreement with Philadelphia Consolidated Holdings Corporation (Philadelphia Consolidated) and all other members of the affiliated group effective July 16, 1999, whereby all members of the affiliated group will be responsible to reimburse Philadelphia Consolidated of their respective tax liability. This agreement was terminated effective December 31, 2011. Effective January 1, 2012, the Company entered into a tax sharing agreement with Tokio Marine North America and its affiliates. Taxes are allocated to the Company as if it were filing its own separate company return, except that benefits for tax losses and attributes are recorded when utilized on the Tokio Marine North America consolidated tax return.

## Managing General Agent Agreement

The Company entered into an agreement with the Liberty American Insurance Services, Inc. (MGA) effective October 20, 2003 with a last addendum date of December 27, 2006 that extended the expiration date to December 10, 2010. The agreement allows the MGA to solicit, underwrite and bind coverage, to issue and countersign all policies, to cancel policies, to bill and collect insurance premiums, to record, reserve, adjust, settle and pay all claims arising under insurance coverage under this agreement. The MGA audit report was obtained and no significant findings were noted. The MGA will receive a fee of $25 per policy plus a commission calculated as 17.5% of the written premium other than Mobile Homeowners which has a commission of 18.5%, and 20% for wind catastrophe other than Mobile Homeowners which has a commission of 21%. The agreement has a term of three years, which shall automatically renew for consecutive three-year terms. Either party can terminate with or without cause, but must give the other party written notice of termination at least one year prior to effective date of termination.

## FIDELITY BOND

The Company maintained fidelity bond coverage up to $20,000,000 with a deductible of $300,000, which reached the suggested minimum as recommended by the NAIC.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

There were not any pension, stock ownership or insurance plans in place at the Company during the period of this examination.

## TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the following states:

| | | |
|---|---|---|
| Alaska | Arizona | Florida |
| Idaho | Kentucky | Mississippi |
| Nevada | New Mexico | South Carolina |
| Tennessee | Texas | |

### 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 is currently in run-off and therefore there has been no growth during the examination period. The Company has had no in-force policies since July 23, 2009, other than those issued pursuant to the National Flood Insurance Write Your Own Program.

### 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.

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Premiums Earned | 0 | 6,957 | (44,135) | 0 | 959,414 |
| Net Underwriting Gain/(Loss) | 129,787 | 640,029 | (2,684,654) | 560,980 | (75,063) |
| Net Income | 255,113 | 1,315,534 | (1,173,623) | 1,280,827 | 713,319 |
| Total Assets | 26,707,297 | 27,190,952 | 33,064,433 | 27,875,596 | 27,913,521 |
| Total Liabilities | 310,637 | 1,046,341 | 8,670,889 | 1,741,045 | 3,068,230 |
| Surplus As Regards Policyholders | 26,396,660 | 26,144,611 | 24,393,545 | 26,134,551 | 24,845,290 |

## LOSS EXPERIENCE

During the current examination period, the Company showed favorable loss development overall. This was a result of the Company being in run-off and having no in-force policies since July 23, 2009.

## REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### Assumed

The Company entered into a pooling agreement with its affiliate, Liberty American. Refer to the intercompany agreement section above.

### Ceded

The Company entered into a pooling agreement with its affiliate, Liberty American. Refer to the intercompany agreement section above.

The Company also had a Florida Only Excess Catastrophe treaty in place from June 1, 2008 through May 31, 2009, which had two excess layers and provided the following coverage for each loss occurrence:

First Excess - Each loss occurrence in excess of $3.5 million and not to exceed $6.5 million.

Second Excess - Each loss occurrence in excess of $10 million and not to exceed $20 million.

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 Altamonte Springs, Florida.

The Company's accounting records were maintained on SAP accounting software. Journal entries pertaining to business written pursuant to the National Flood Insurance Write Your Own Program were manually entered into SAP based on reports from the National Flood Services.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2009, 2010, 2011, 2012 and 2013 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.001, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

### Custodial Agreement

The Company maintained a custodial agreement with the Bank of New York Mellon executed on December 26, 2006. The agreement was amended on May 21, 2010, to include provision (o) of Rule 69O-143.042(2), Florida Administrative Code, which states that written notification shall be provided to the Office within three business days if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### Investment Management Agreement

The Company entered into an Investment Management agreement with General Re-New England Asset Management, Inc. (General Re) on July 1, 1999. The agreement was amended on March 15, 2004. Under the terms of the agreement, General Re is to supervise and direct the composition of the investment portfolio. Annual fees are based on .20% of the market value of the equity of assets under management and .12% of the market value of the non-equity of assets under management. General Re maintains complete and accurate files and records.

### Full Service Vendor Agreement

The Company entered into a full service vendor agreement with the StoneRiver National Flood Services, Inc. (NFS). Under this agreement, the Company participates in the National Flood Insurance Program Write Your Own Program of the Federal Insurance Administration of FEMA. The NFS is in the business of providing flood insurance administrative and related services with respect to the business of flood insurance. Under the terms of the agreement, NFS has the authority to act for and on behalf of Company in matters required for the NFS to properly supervise and conduct the handling of aforesaid flood insurance business.

## INFORMATION TECHNOLOGY REPORT

Phil Schmoyer, CFE, CISA, and Taylor Tommasino, CPA, from Baker Tilly Virchow Krause, LLP 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 | FL ST TURNPIKE AUTH, 5.0%, 07/01/2027 | $ 500,000 | $ 543,590 |
| FL | NEW YORK NY, 5.0%, 04/01/2026 | 100,000 | 109,834 |
| FL | MD ST TRANS AUTH, 5.0%, 07/01/2021 | 125,000 | 142,966 |
| FL | CHICAGO IL MET WTR, 5.0%, 12/01/2023 | 550,000 | 590,299 |
| TOTAL FLORIDA DEPOSITS | | $ 1,275,000 | $ 1,386,689 |
| NV | CASH, SUNTRUST BANK | $ 200,000 | $ 200,000 |
| NM | ID ST FIN AUTH REV, 5.0%, 02/01/2023 | 225,000 | 251,969 |
| SC | CASH, WELLS FARGO BANK, NA | 125,000 | 125,000 |
| TOTAL OTHER DEPOSITS | | $ 550,000 | $ 576,969 |
| TOTAL SPECIAL DEPOSITS | | $ 1,825,000 | $1,963, 658 |

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2013, 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."

**LIBERTY AMERICAN SELECT INSURANCE COMPANY**

**Assets**

**DECEMBER 31, 2013**

| | Per Company | Examination Adjustments | Per Examination |
|---|---|---|---|
| Bonds | $17,586,760 | | $17,586,760 |
| Invertment Income Due | 251,004 | | 251,004 |
| Cash and Short-Term Investments | 6,505,316 | | 6,505,316 |
| Receivables for Securities | 2,068,280 | | 2,068,280 |
| Agents' Balances: | | | |
| Uncollected premium | 22,775 | | 22,775 |
| Deferred premium | 0 | | 0 |
| Reinsurance recoverable | 6,833 | | 6,833 |
| Curetn Federal Income Tax | 118,557 | | 118,557 |
| Receivable from parents, subsidiaries and affiliates | 2,976 | | 2,976 |
| Net Deferred Tax Asset | 6,243 | | 6,243 |
| Aggregate write-in for other than invested assets | 138,553 | | 138,553 |
| Totals | $26,707,297 | $0 | $26,707,297 |

**LIBERTY AMERICAN SELECT INSURANCE COMPANY**

## Liabilities, Surplus and Other Funds

**DECEMBER 31, 2013**

| | Per Company | Examination Adjustments | Per Examination |
|---|---|---|---|
| Losses | $144,010 | | $144,010 |
| Loss adjustment expenses | 43,073 | | 43,073 |
| Other expenses | 4,394 | | 4,394 |
| Taxes, licenses and fees | 12,392 | | 12,392 |
| Reinsurance Payable on Paid Losses | 6,345 | | 6,345 |
| Funds held under reinsurance treaties | 6,468 | | 6,468 |
| Reinsurance Premiums Payable | 47,051 | | 47,051 |
| Payable to parent, subsidiaries and affiliates | 46,904 | | 46,904 |
| Aggregate write-ins for liabilities | 0 | | 0 |
| Total Liabilities | $310,637 | $0 | $310,637 |
| Common capital stock | $1,500,000 | | $1,500,000 |
| Gross paid in and contributed surplus | 7,050,000 | | 7,050,000 |
| Unassigned funds (surplus) | 17,846,660 | | 17,846,660 |
| Surplus as regards policyholders | $26,396,660 | $0 | $26,396,660 |
| Total liabilities, surplus and other funds | $26,707,297 | $0 | $26,707,297 |

## LIBERTY AMERICAN SELECT INSURANCE COMPANY

### Statement of Income

### DECEMBER 31, 2013

| | |
|---|---|
| **Underwriting Income** | |
| Premiums earned | $0 |
| **Deductions:** | |
| Losses incurred | ($46,691) |
| Loss expenses incurred | (1,067) |
| Other underwriting expenses incurred | (82,029) |
| Aggregate write-ins for underwriting deductions | 0 |
| Total underwriting deductions | ($129,787) |
| Net underwriting gain or (loss) | $129,787 |
| **Investment Income** | |
| Net investment income earned | $703,132 |
| Net realized capital gains or (losses) | (214,762) |
| Net investment gain or (loss) | $488,370 |
| **Other Income** | |
| Net gain or (loss) from agents' or premium balances charged off | $0 |
| Finance and service charges not included in premiums | 0 |
| Aggregate write-ins for miscellaneous income | 0 |
| Total other income | $0 |
| Net income before dividends to policyholders and before federal & foreign income taxes | $618,157 |
| Dividends to policyholders | 0 |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | $618,157 |
| Federal & foreign income taxes | 363,044 |
| Net Income | $255,113 |
| **Capital and Surplus Account** | |
| Surplus as regards policyholders, December 31 prior year | $26,144,611 |
| Net Income | $255,113 |
| Net unrealized capital gains or losses | 0 |
| Change in non-admitted assets | (43,327) |
| Change in Net deferred income tax | 40,262 |
| Change in excess statutory over statement reserves | 0 |
| Surplus adjustments: Paid in | 0 |
| Aggregate write-ins for gains and losses in surplus | 0 |
| Examination Adjustment | 0 |
| Change in surplus as regards policyholders for the year | $252,048 |
| Surplus as regards policyholders, December 31 current year | $26,396,660 |

**LIBERTY AMERICAN SELECT INSURANCE COMPANY**

## Comparative Analysis of Changes in Surplus

**DECEMBER 31, 2013**

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<br>December 31, 2013, per Annual Statement | | | | $26,396,660 |
| | PER<br>COMPANY | PER<br>EXAM | INCREASE<br>(DECREASE)<br>IN SURPLUS | |
| ASSETS: | | | | |
| No Adjustment | | | $0 | |
| LIABILITIES: | | | | |
| No Adjustment | | | $0 | |
| Net Change in Surplus: | | | | 0 |
| Surplus as Regards Policyholders<br>December 31, 2013, Per Examination | | | | $26,396,660 |

# COMMENTS ON FINANCIAL STATEMENTS

## Assets

There were no issues concerning non-compliance or material changes to the financial statements for assets as of December 31, 2013.

## Liabilities

**Losses and Loss Adjustment Expenses** $187,083

TMNA Services, LLC, a shared service affiliate of the Company, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2013, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

## Capital and Surplus

The amount of capital and surplus reported by the Company of $26,396,660, 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 Liberty American Select Insurance Company as of December 31, 2013, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $26,396,660 which exceeded the minimum of $5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, CFE, Examiner-In-Charge, Phil Schmoyer, CFE, CISA, IT Manager, Taylor Tommasino, CPA, Participating IT Examiner, Bonnie Casella, CFE (Fraud), Participating Examiner, and James Bodalski, Participating Examiner, all of Baker Tilly participated in the examination. Additionally, Jeff Rockwell, Examination Manager, and Mikhael Goldgisser, Participating Examiner, of the Office participated in the examination.

Respectfully submitted,

______________________________
Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation