



**EXAMINATION REPORT
OF
OMEGA INSURANCE COMPANY**

NAIC Company Code: 38644

**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 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, 2018, of the financial condition and corporate affairs of

Omega Insurance Company
7201 N.W. 11th 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 (“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 was incorporated in Florida on May 8, 1979 as a stock property and casualty insurer and commenced business on July 1, 1979 under the name Omni Life Insurance Company. The Company changed its name to Omega Insurance Company on August 13, 1980. Tower Hill Insurance Group first assumed the management of the Company in 1987. On April 28, 2005, the Office approved a purchase agreement for William J. Shively, owner of the Company's managing general agent, to acquire sixty percent voting ownership of the Company's stock from LPMC, Inc., the Company's former parent. On September 13, 2010, the Office approved a change in control of Omega Insurance Company to Omega Insurance Holdings, Inc. ("Omega Holdings"). As shown in a stock transfer agreement with LPMC, Inc. signed on August 15, 2011, Omega Holdings was owned by James H. Winston Revocable Trust, and majority owned by William and Patricia Shively. In 2012, the Company voluntarily surrendered its Certificates of Authority ("COA") in Georgia, Mississippi, Louisiana, and South Carolina.

As of June 30, 2018, the Company was a wholly owned subsidiary of Omega Holdings. On July 1, 2018, Omega 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.

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	2,232,500
Number of shares issued and outstanding	2,232,500
Total common capital stock	\$4,509,650
Par value per share	\$2.02

The Company has received capital contributions during the period under examination from its parent in the amount of \$11,000,000. During 2016, 2017 and 2018, the Company received \$3,000,000, \$2,000,000 and \$6,000,000, respectively in capital contributions to assist the Company in meeting its capital and liquidity needs. No contributions were made for 2014 and 2015.

Surplus Notes

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

Acquisitions, Mergers, Disposals, Dissolutions

On July 1, 2018, Omega Holdings merged with Signature Holdings. The stock of the Company was then contributed to Tower Hills Signature Insurance Company ("Signature"), and Signature became the Company's immediate parent with approval of the Office.

Subsequent Event: The Company merged, with the approval of the Office, into 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:

Directors		
Name	City, State	Principal Occupation, Company Name
William John Shively (a)	Lexington, Kentucky	Co-Chief Executive Officer Tower Hill Insurance Group
David William Reeder (b)	Lexington, Kentucky	Co-Chief Executive Officer Tower Hill Insurance Group
Donald Carl Matz, Jr.	Gainesville, Florida	President, Tower Hill Insurance Group
Timothy John Meenan (c)	Tallahassee, Florida	Managing Shareholder Meenan Regulatory and Legislative Attorneys
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.
- b) As planned, David Wayne Reeder resigned, and was replaced by George Gregory King as a Board Member on July 15, 2019.
- c) As planned, Timothy Jon Meenan resigned, and was replaced by James N. Smith as a Board Member on July 15, 2019.

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

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

The Company's Board appointed an audit committee. The following were the principal internal board committees and their members as of December 31, 2018.

Audit Committee		
Name	City, State	Title, Company Name
Scott Kevin Billings ⁽¹⁾	Fort Worth, Texas	Managing Member Blackeyed Distilling Company
Timothy John Meenan	Tallahassee, Florida	Managing Shareholder Meenan Regulatory and Legislative Attorneys
David William Reeder	Lexington, Kentucky	Co-Chief Executive Officer Tower Hill Insurance Group

¹ Chairman

Holding Company System

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

Tax Allocation Agreement

Signature and Signature Holdings entered into an Amended and Restated Tax Sharing Agreement January 1, 2013. In July of 2018 the Company was made a subsidiary of Signature when Omega Holdings was merged with Signature Holdings. Effective that date, the parties added the Company as a party to the agreement. The Company, along with Signature, 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 Signature Holdings.

Management Agreement

Signature and Signature Holdings entered into a Management Agreement on February 24, 2011 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. In July 2018 the Company was made

a subsidiary of Signature when Omega Holdings was merged with Signature Holdings. The parties added the Company as a party to the Agreement at the same terms and conditions as the Company's prior Management Agreement with Omega Holdings. 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 \$1,341,119.

Managing General Agent Agreement

The Company entered into a Managing General Agency Agreement with its affiliate, Tower Hill Insurance Group, LLC ("MGA") on July 1, 2000. 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 fee of \$25. Claims administration services were also 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 \$945,150.

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 June 1, 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

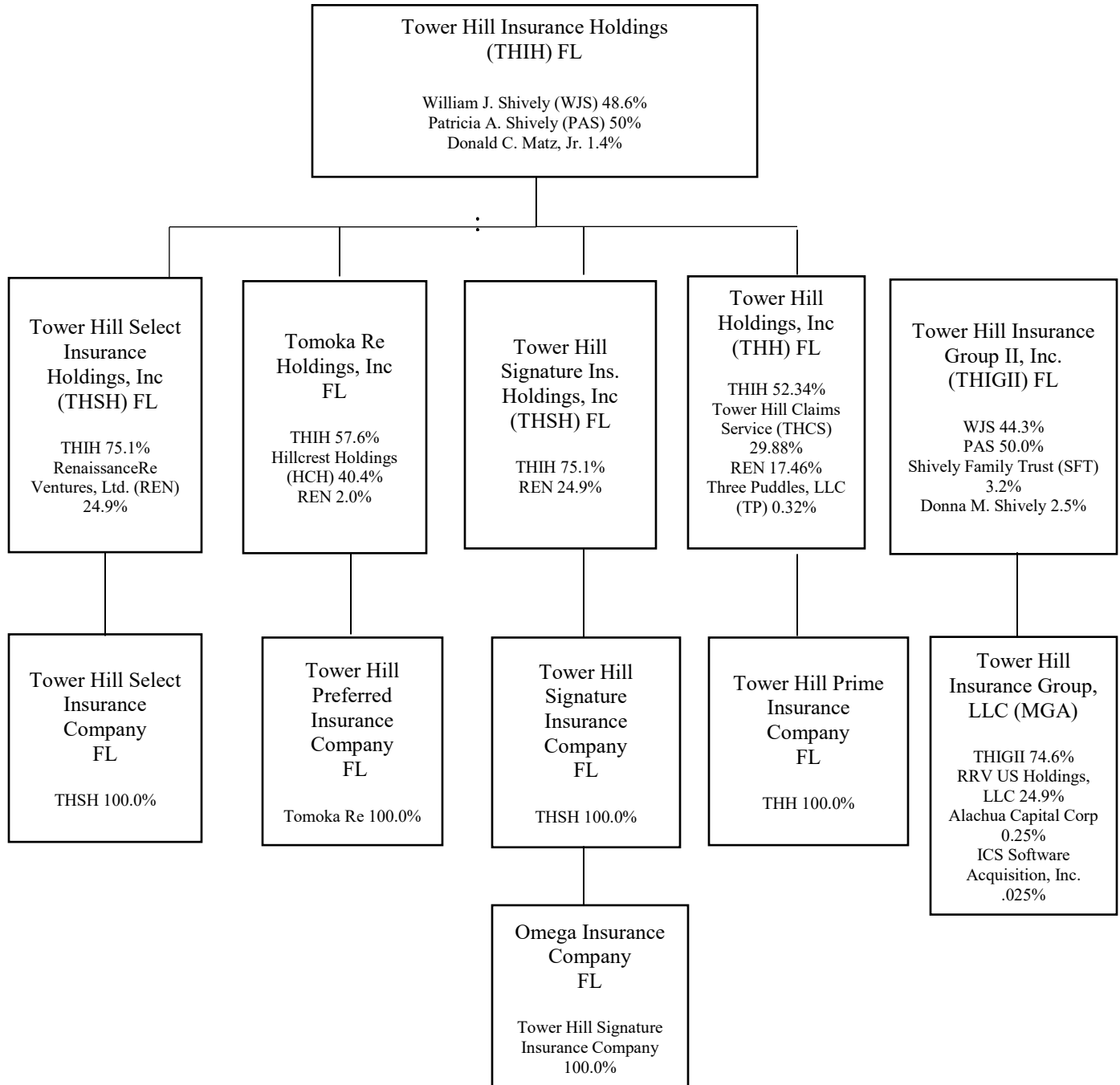
An independent CPA firm, PricewaterhouseCoopers LLP, audited the Company's statutory basis financial statements annually for the years 2017 and 2018. Supporting work papers were prepared by the CPA firm. KPMG audited the Company's statutory basis financial statements annually for the years 2016, 2015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

Corporate Records Review

The recorded minutes of the Shareholder, 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.

**Omega 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 the State Florida on July 1, 1979 and is currently authorized for Homeowners Multiple Peril, Inland Marine, and Mobile Home Multiple Peril as of December 31, 2018. The Company primarily writes homeowners policies.

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 82% of new, renewal and in-force business while retaining 18%. Previously the Company ceded 70% while retaining 30%. The new quota-share change resulted in a decrease in the net reserve for unearned premiums of approximately \$4.2 million and an increase in amounts due to reinsurers of approximately \$1.9 million (written premiums less related expenses) which is settled with the Company within 90 days. The effect of this transaction on the Statement of Operations was an increase in underwriting income of approximately \$1.6 million pre-tax. This was primarily the result of the immediate recognition of commissions ceded associated with the change in unearned premiums (as required by Statutory accounting). The after-tax effect on surplus was an increase of approximately \$1.3 million. 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 Income, 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 \$315,387 was deposited with the State of Florida as required or permitted by law:

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.)

Omega Insurance Company
Assets
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 15,517,006	\$ -	\$ 15,517,006
Stocks:			
Common	790,794		790,794
Mortgage loans	1,021,443		1,021,443
Cash and short-term investments	16,975,594		16,975,594
Investment income due and accrued	122,989		122,989
Uncollected premium and agents' balances	3,971,940		3,971,940
Amounts recoverable from reinsurers	(1,077,320)		(1,077,320)
Federal income tax recoverable	1,052,934		1,052,934
Receivable from parent, subsidiaries and affiliates	1,857,881		1,857,881
Aggregate write-ins for other than invested assets	<u>179,079</u>	<u>-</u>	<u>179,079</u>
Totals	<u>\$ 40,412,340</u>	<u>\$ -</u>	<u>\$ 40,412,340</u>

Omega Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 8,192,000	\$ -	\$ 8,192,000
Loss adjustment expenses	1,115,838		1,115,838
Commissions payable	97,596		97,596
Other expenses	165,158		165,158
Taxes, licenses and fees	271,992		271,992
Unearned premium	2,162,204		2,162,204
Ceded reinsurance premiums payable	11,644,721		11,644,721
Amounts withheld	205,087		205,087
Aggregate write-ins for liabilities	<u>1,623,347</u>	<u> </u>	<u>1,623,347</u>
Total Liabilities	<u>\$ 25,477,943</u>	<u>\$ -</u>	<u>\$ 25,477,943</u>
Common capital stock	\$ 4,509,650		\$ 4,509,650
Gross paid in and contributed surplus	16,736,757		16,736,757
Unassigned funds (surplus)	<u>(6,312,010)</u>	<u> </u>	<u>(6,312,010)</u>
Surplus as regards policyholders	<u>\$ 14,934,397</u>	<u>\$ -</u>	<u>\$ 14,934,397</u>
Total liabilities, surplus and other funds	<u>\$ 40,412,340</u>	<u>\$ -</u>	<u>\$ 40,412,340</u>

**Omega Insurance Company
Statement of Income
December 31, 2018**

Underwriting Income

Premiums earned	\$ 4,517,313
Deductions	
Losses incurred	\$ 7,178,359
Loss expenses incurred	1,280,046
Other underwriting expenses incurred	407,791
Total underwriting deductions	<u>\$ 8,866,196</u>
Net underwriting gain or (loss)	<u>\$ (4,348,883)</u>

Investment Income

Net investment income earned	\$ 634,763
Net realized capital gains or (losses)	64,577
Net investment gain or (loss)	<u>\$ 699,340</u>
Net income before federal & foreign income taxes	\$ (3,649,543)
Federal & foreign income taxes	(5,679)
Net Income	<u><u>\$ (3,643,864)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$13,131,603
Net Income	\$ (3,643,864)
Net unrealized capital gains or losses	(101,769)
Change in net deferred income tax	770,250
Change in non-admitted assets	(1,223,823)
Change in provision for reinsurance	2,000
Surplus paid in	<u>6,000,000</u>
Change in surplus as regards policyholders for the year	<u>\$ 1,802,794</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$14,934,397</u></u>

**Omega Insurance Company
Reconciliation of Capital and Surplus
December 31, 2018**

Capital/Surplus Change during Examination Period

Surplus at December 31, 2013, per Examination			\$13,553,146
	<u>Increase</u>	<u>Decrease</u>	
Net Income (loss)	\$ -	\$8,487,290	
Change in net unrealized capital gain (loss)	14,067		
Change in net deferred income tax	654,690		
Change in non-admitted assets		1,800,216	
Change in paid in surplus	11,000,000	-	
Net increase (or decrease)			<u>\$ 1,381,251</u>
Surplus at December 31, 2018 per Examination			<u><u>\$14,934,397</u></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 \$14,934,397, exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

The following event was not disclosed elsewhere in the report:

Effective May 31, 2020, Signature Holdings along with Signature entered into a merger agreement with the Company and Tower Hill Select Insurance Company (“Select”). As part of the agreement, the Company and Select 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 Select 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 Omega 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
P&C Financial Oversight
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