



**EXAMINATION REPORT
OF
SEVEN SEAS INSURANCE COMPANY, INC.**

NAIC Company Code: 37672

**Riviera Beach, Florida
as of
December 31, 2018**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	1
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAMINATION FINDINGS	2
PREVIOUS EXAMINATION FINDINGS.....	2
COMPANY HISTORY	2
GENERAL	2
DIVIDENDS.....	2
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	3
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS	3
MANAGEMENT AND CONTROL	3
CORPORATE GOVERNANCE.....	3
HOLDING COMPANY SYSTEM.....	4
TAX AND COST SHARING SERVICES AGREEMENT	5
SERVICES AGREEMENT	5
ACCOUNTS AND RECORDS	5
CUSTODIAL AGREEMENT	6
REINSURANCE INTERMEDIARY BROKER AGREEMENT	6
INDEPENDENT AUDITOR AGREEMENT	6
CORPORATE RECORDS REVIEW	6
SIMPLIFIED ORGANIZATIONAL CHART	7
TERRITORY AND PLAN OF OPERATIONS	8
REINSURANCE	8
REINSURANCE ASSUMED	8
REINSURANCE CEDED.....	8
INFORMATION TECHNOLOGY REPORT	8
STATUTORY DEPOSITS	9
FINANCIAL STATEMENTS	10
ASSETS	11
LIABILITIES, SURPLUS AND OTHER FUNDS	12
STATEMENT OF INCOME	13
RECONCILIATION OF CAPITAL AND SURPLUS	14
COMMENTS ON FINANCIAL STATEMENT ITEMS	15
LIABILITIES.....	15
CAPITAL AND SURPLUS	15
CONCLUSION	16

June 2, 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

Seven Seas Insurance Company, Inc.
501 Avenue P.
Riviera Beach, Florida 33404

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 January 6, 2020, and concluded as of June 2, 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 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 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

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2013. All findings noted during the previous examination were resolved by the Company subsequent to the examination date.

COMPANY HISTORY

General

The Company was incorporated in Florida on April 21, 1989, under the laws of the State of Florida, as a stock property and casualty insurer and commenced business on May 18, 1989, under the name of Seven Seas Insurance Company, Inc. The Company and its parent, Birdsall, Inc., a Florida corporation, were purchased by Aqua Acquisition Corp. on September 2, 2014, effective August 31, 2014. Aqua Acquisition Corp. is owned by Saltchuk Resources, Inc. ("Saltchuk"), a Washington domiciled corporation and ultimate parent. Prior to August 31, 2014, Birdsall, Inc. was owned by AGL Resources, Inc., a Georgia corporation and publicly traded company.

Dividends

During the examination period, the Company declared and paid the following dividends to its stockholder(s):

Date	Amount
2018	\$9,000,000
2017	\$8,000,000
2016	\$5,500,000
2015	\$8,000,000
2014	\$7,500,000

Capital Stock and Capital Contributions

As of December 31, 2018, the Company's capitalization was as follows:

Number of authorized common capital shares	20,000
Number of shares issued and outstanding	13,334
Total common capital stock	\$1,050,000
Par value per share	\$75.00

Surplus Notes

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

Acquisitions, Mergers, Disposals, Dissolutions

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

MANAGEMENT AND CONTROL

Corporate Governance

Board of Directors ("Board") serving as of December 31, 2018, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
James Michael Culpepper	Jupiter, Florida	President Seven Seas Insurance Company, Inc.
Timothy Brian Engle ⁽¹⁾	Seattle, Washington	President Saltchuk Resources, Inc.
Steven Eric Giese ⁽²⁾	Sammamish, Washington	Senior Vice President & CFO Saltchuk Resources, Inc.
Renee Marie La Grenade	Palm Beach Gardens, Florida	Assistant Vice President Seven Seas Insurance Company, Inc.
Trevor Sean Parris	Kirkland, Washington	Vice President and Treasurer Saltchuk Resources, Inc.
Mark Norman Tabbutt	Seattle, Washington	Chairman Saltchuk Resources, Inc.

1. Chairman until January 10, 2019
2. Chairman as of January 11, 2019.

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

Senior Officers		
Name	City, State	Title
James Michael Culpepper	Jupiter, Florida	President
Timothy Brian Engle (a)	Seattle, Washington	Treasurer, Vice President
Renee Marie La Grenade	Palm Beach Gardens, Florida	Secretary
Jacqueline Michelle Brown (b)	Renton, Washington	Vice President of Tax

(a) Resigned on January 11, 2019 and was replaced by Steven Eric Giese on March 27, 2019.

(b) Resigned on November 27, 2019

The following committees were designated by the Board as of December 31, 2018:

Audit Committee		
Name	City, State	Title, Company Name
Steven Eric Giese ⁽¹⁾	Sammamish, Washington	Senior Vice President & CFO Saltchuk Resources, Inc.
Trevor Sean Parris	Kirkland, Washington	Vice President and Treasurer Saltchuk Resources, Inc.
Mark Norman Tabbutt	Seattle, Washington	Chairman Saltchuk Resources, Inc.

¹ Chairman

Holding Company System

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

Tax and Cost Sharing Services Agreement

The Company, along with its ultimate parent, Saltchuk, entered into a tax and cost sharing services agreement effective January 1, 2019. According to the terms of the agreement, Saltchuk agrees to pay portions of the Company's federal and state corporate income taxes, insurance, audit fees and other miscellaneous costs. The Company agrees to reimburse Saltchuk for 100% of the cost of any services provided and 100% of any expenses paid on its behalf. The agreement also describes the manner in which income taxes on the consolidated federal income tax return will be allocated between the companies. On December 31, 2018, the method of allocation between the companies was on a separate entity basis. The Company's monthly tax provision was calculated based on the Company's monthly net income before tax for the current month multiplied by 5.5% for state taxes and 19.845% for the federal effective tax rate after taking into account the Florida tax deduction. According to the agreement, the Company and Saltchuk agree to settle any intercompany balances quarterly.

Services Agreement

The Company entered into a services agreement, effective January 1, 2006, with Tropical Shipping USA, LLC ("Tropical"). The agreement was amended August 28, 2009, August 28, 2015, and November 30, 2016. According to the terms of the agreement, Tropical will provide accounting, auditing, administrative and regulatory filing, financial planning and reporting, and information systems services. For these services (except payroll), the Company pays 100% of costs incurred in providing the services. For payroll services, the compensation paid by the Company is based on the percentage of the number of Company employees to total Tropical and Company employees. Fees incurred under this agreement during 2018 amounted to \$511,920.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Riviera Beach, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Bank of America, N.A. for the safekeeping of its securities, effective June 16, 2015. The agreement was approved by the Office on June 17, 2015.

Reinsurance Intermediary Broker Agreement

The Company utilized Aon Risk Services Northeast, Inc. as its reinsurance intermediary.

Independent Auditor Agreement

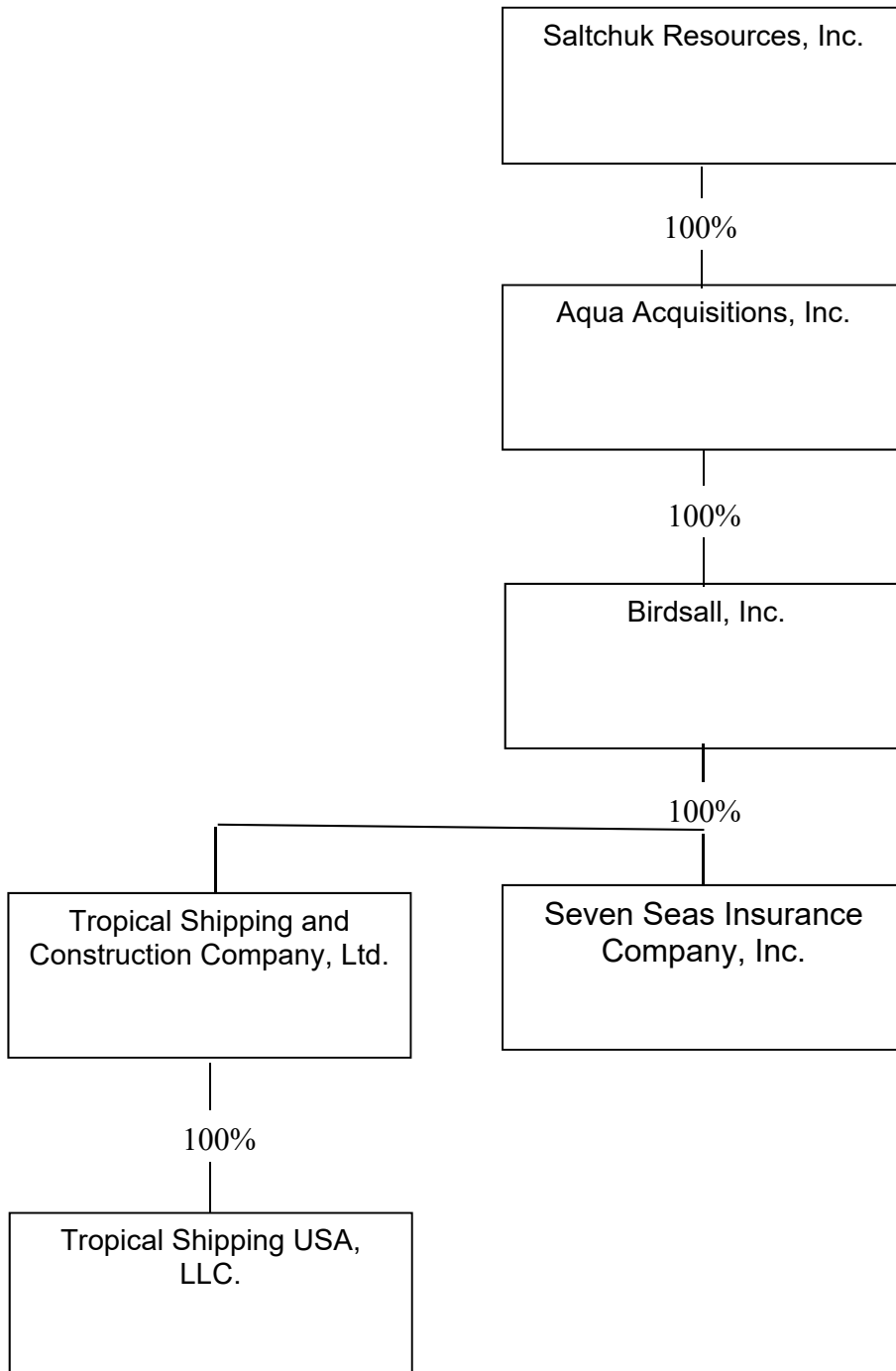
An independent CPA, PricewaterhouseCoopers, LLP audited the Company's statutory basis financial statements for the year 2014, and Ernst & Young, LLP audited the Company's statutory basis financial statements for the years 2015, 2016, 2017 and 2018.

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.

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

**Seven Seas Insurance Company, Inc.
Simplified Organizational Chart
December 31, 2018**



TERRITORY AND PLAN OF OPERATIONS

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

Alaska

Florida

Hawaii

The Company was authorized to transact insurance in Florida on April 21, 1989, and is currently authorized for the following coverages as of December 31, 2018:

Ocean Marine

Inland Marine

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

As of December 31, 2018, the Company ceded risk on an excess of loss basis to Navigators Insurance Company. The agreement will pay up to a limit of \$14,750,000 ultimate net loss above the Company's retention of \$250,000 on each and every loss and/or loss occurrence.

INFORMATION TECHNOLOGY REPORT

Joanna Latham, CPA, CFE, CISA, AES of 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

The following securities were deposited with the State of Florida and with various state officials as required or permitted by law:

State	Description		Par Value	Market Value
FL	CD	0.05%	<u>\$ 150,000</u>	<u>\$ 150,000</u>
TOTAL FLORIDA DEPOSITS			<u>\$ 150,000</u>	<u>\$ 150,000</u>
HI	CD	0.05%	\$ 250,000	\$ 250,000
HI	CD	0.05%	250,000	250,000
HI	CD	0.05%	250,000	250,000
HI	CD	0.05%	<u>250,000</u>	<u>250,000</u>
TOTAL OTHER DEPOSITS			<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
TOTAL STATUTORY DEPOSITS			<u><u>\$ 1,150,000</u></u>	<u><u>\$ 1,150,000</u></u>

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Income; 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.

Seven Seas Insurance Company, Inc.
Assets
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Bonds	\$11,767,622		\$11,767,622
Cash and Short-Term Investments	13,488,965		13,488,965
Agents' Balances:			
Uncollected premium	936,444		936,444
Current federal income tax recoverable	53,971		53,971
Net deferred tax asset	205,532		205,532
Interest and dividend income due and accrued	66,230		66,230
Receivable from parents, subsidiaries and affiliates	129,477		129,477
Totals	\$26,648,241	\$0	\$26,648,241

Seven Seas Insurance Company, Inc.
Liabilities, Surplus and Other Funds
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,034,647		\$1,034,647
Loss adjustment expenses	138,430		138,430
Commissions payable	44,388		44,388
Other expenses	607,795		607,795
Taxes, licenses and fees	231,834		231,834
Unearned premium	81,053		81,053
Ceded reinsurance premiums payable	95,274		95,274
Payable to parent, subsidiaries and affiliates	<u>728,164</u>		<u>728,164</u>
Total liabilities	<u>\$2,961,585</u>	<u>\$0</u>	<u>\$2,961,585</u>
Common capital stock	\$1,000,050		\$1,000,050
Gross paid in and contributed surplus	1,000,000		1,000,000
Unassigned funds (surplus)	<u>21,686,606</u>		<u>21,686,606</u>
Surplus as regards policyholders	<u>\$23,686,656</u>	<u>\$0</u>	<u>\$23,686,656</u>
Total liabilities, surplus and other funds	<u><u>\$26,648,241</u></u>	<u><u>\$0</u></u>	<u><u>\$26,648,241</u></u>

Seven Seas Insurance Company, Inc.
Statement of Income
December 31, 2018

Underwriting Income

Premiums earned		\$24,399,755
	Deductions	
Losses incurred		\$5,417,765
Loss expenses incurred		987,404
Other underwriting expenses incurred		2,588,087
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$8,993,256</u>
Net underwriting gain		\$15,406,499

Investment Income

Net investment income earned		\$262,000
Net realized capital losses		<u>(15,902)</u>
Net investment gain		\$246,098

Other Income

Aggregate write-ins for miscellaneous income		<u>(\$9,166)</u>
Total other income		<u>(\$9,166)</u>

Net income before dividends to policyholders and before federal and foreign income taxes		\$15,643,431
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal and foreign income taxes		\$15,643,431
Federal and foreign income taxes		<u>2,990,265</u>
Net Income		<u><u>\$12,653,166</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$20,163,817
Net Income		\$12,653,166
Change in net deferred income tax		11,916
Change in non-admitted assets		(164,255)
Dividends to stockholders		(9,000,000)
Aggregate write-ins for gains and losses in surplus		22,012
Change in surplus as regards policyholders for the year		<u>\$3,522,839</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$23,686,656</u></u>

**Seven Seas Insurance Company, Inc.
Reconciliation of Capital and Surplus
December 31, 2018**

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

Capital/Surplus Changes During Examination Period

Surplus at December 31, 2013, per Examination			\$ 16,211,579
	<u>Increase</u>	<u>Decrease</u>	
Net income	45,241,882		45,241,882
Change in net unrealized capital gain	114,310		114,310
Change in net deferred income tax	138,099		138,099
Change in non-admitted assets		(16,329)	(16,329)
Capital changes: Paid in	249,300		249,300
Dividends to stockholders		(38,000,000)	(38,000,000)
Aggregate write-in:			-
Change in DTA gross-up		(146,409)	(146,409)
Adjustment to surplus		(105,776)	(105,776)
Net increase			<u>7,475,077</u>
Surplus at December 31, 2018, per Examination			<u><u>\$ 23,686,656</u></u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Richard W. Lo, FCAS, MAAA, of Alliance Actuarial Services, Inc., 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, 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 \$23,686,656, exceeded the minimum of \$4,000,000 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 **Seven Seas Insurance Company, Inc.** as of December 31, 2018, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, the following also participated in the examination:

Marie Stuhlmuller	Examination Manager	Office
Thomas L. Mayberry, CPA, CFE	Participating Examiner	EWM Group, PC
Paul Sliwinski, CPA, ARé	Participating Examiner	EWM Group, PC
Chris Davis, CPA	Participating Examiner	EWM Group, PC
Jenny Jeffers, AES, CISA, CFE (Fraud)	IT Specialist	Jennan Enterprises, LLC
Joanna Latham, AES, CISA, CPA, CFE	IT Specialist	Jennan Enterprises, LLC
Gustave A. Krause, FCAS, MAAA, FCA	Actuary	Actuaries, Inc.
Anthony J. Pipia, FCAS, MAAA	Actuary	Actuaries, Inc.

Respectfully submitted,



Philip D. Engelhart, CPA, AIAF, CFE

Examiner-in-Charge

EWM Group PC



Daniel W. Applegarth, CFE, CPA, PIR

Chief Financial Examiner

Florida Office of Insurance Regulation