

**REPORT ON EXAMINATION**  
**OF THE**  
**ASI SELECT INSURANCE CORP.**  
**AS OF**  
**DECEMBER 31, 2011**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

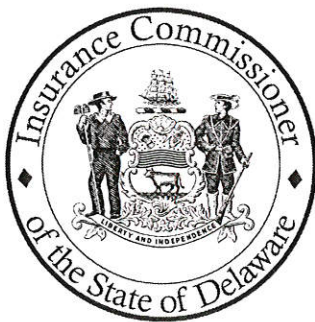
**ASI SELECT INSURANCE CORP.**

is a true and correct copy of the document filed with this Department.

Attest By:

*Brittany Biddle*

Date: May 15, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 15<sup>th</sup> day of May, 2013.



Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
ASI SELECT INSURANCE CORP.  
AS OF  
DECEMBER 31, 2011

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read 'Karen Weldin Stewart'.

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 15<sup>th</sup> day of May, 2013

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## **SALUTATION**

April 23, 2013

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 12.035, dated September 20, 2012, an Association examination has been made of the affairs, financial condition and management of the

### **ASI SELECT INSURANCE CORP.**

hereinafter referred to as “Company” or “ASIS”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1807 North Market Street, Wilmington, Delaware 19802-4810. The examination was conducted at the main administrative office of the Company, located at 805 Executive Center Drive West, Suite 300, St. Petersburg, FL 33702. The report of this examination is submitted herewith.

### **SCOPE OF EXAMINATION**

We have performed our association examination of ASIS. This examination was coordinated with the State of Florida, with Florida as the lead state. The Delaware Insurance Department relied significantly on the work of the Florida Office of Insurance Regulation (FLOIR) in performing this examination. This is the first examination of the Company since commencing business on April 11, 2011. This examination covers the period since April 11, 2011 through December 31, 2011, and included material transactions and/or events noted occurring subsequent to December 31, 2011.

This examination was conducted in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (NAIC Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires the examiners to perform an examination to evaluate the financial condition and identify prospective risks of the Company. In doing so, the examiners reviewed corporate governance, identified inherent risks of the Company, and evaluated the controls and procedures used to mitigate the identified risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and applicable annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Company was exempt from filing an audited financial statement in accordance with 18 Del. Admin. Code 301 (2.2) for the year 2011. However, the Company's affiliates were audited by the external auditor BDO USA LLP (BDO). As the affiliates utilize the same accounting, information technology and primary administrative systems, the audit workpapers were provided for review. In addition to items hereinafter incorporated as a part of this report, the following were reviewed without material exception and made part of the work papers of this examination.

Fidelity Bonds and Other Insurance  
Officers', Employees' and Agents' Welfare  
NAIC Ratios  
Legal Actions  
All Asset & Liability items not mentioned

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings.

## **COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS**

This examination as of December 31, 2011 was the first examination of the Company since it commenced business on April 11, 2011. As such, there were no prior exam report comments.

## **SUBSEQUENT EVENTS**

### **Territory and Plan of Operation**

The Company is currently in the process of becoming licensed in the states of California and New York. As of April 25, 2013, the Company had not yet obtained these licenses.

### **Best's Rating**

The Company was rated A- (Excellent) as of July 31, 2012 based on A.M. Best's current opinion of the consolidated financial condition and operating performance of the Company.

### **Reinsurance**

Effective June 1, 2012, ASI Select entered into a Quota Share contract with its affiliate, American Strategic Insurance Corp (ASIC). Premiums and losses are ceded at 50% with a 27% ceding commission. This contract combined with the 2012/2013 Quota Share contract with XL Re Ltd. discussed in the "Reinsurance" section of this Report, under the caption "Ceded", will reduce the Company's risk on a single building from \$900,000 to \$400,000.

## **HISTORY**

The Company was incorporated under the laws of the State of Delaware on August 30, 2010, as a subsidiary of ARX Holding Corp (ARX), and commenced business on April 11, 2011.



The Company is authorized as a stock insurer to transact the business of Property, as defined in 18 Del. C. §904; Casualty, as defined in 18 Del.C. §906 including: Liability, Burglary & Theft, Personal Property Floater, Glass, Boiler & Machinery, Leakage & Fire Extinguisher Equipment, and Miscellaneous; and Marine & Transportation as defined in 18 Del. C. § 907.

### **CAPITALIZATION**

#### **Common Capital Stock and Paid-in Surplus**

The Certificate of Incorporation provides that the authorized capital stock of the Company shall be 1,900 shares of \$1,000 par value common stock. At December 31, 2011, 1,900 shares were issued and outstanding, resulting in total capital stock of \$1,900,000.

At December 31, 2011, all the outstanding shares of the Company's common stock were owned by ARX Holding Corp, the ultimate parent.

The Company was initially capitalized with \$5,000,000 in capital and surplus consisting of \$1,900,000 of paid in Capital Stock and \$3,100,000 of paid in Surplus. The Company did not receive any capital contributions in 2011.

#### **Dividends**

The Company did not pay any dividends in 2011.

### **CORPORATE RECORDS**

The recorded minutes of the sole shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del.C. §1304 "Authorization; record of investments".

A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by and on behalf of the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del. Admin. Code 1801.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

Article II, “Stockholders”, of the Company’s Bylaws stipulates that annual meetings will be on the first day of March in each calendar year as stated in the notice of the meeting at the principal corporate office unless otherwise designated. Special Meetings may be called at any time by the President or by written request of the stockholders holding one-third of the outstanding stock. Only business stated in the notice of special meetings may be conducted. Additionally, there shall be a written notice of meetings delivered not less than 5 days and not more than 50 days before the date of meeting to each shareholder entitled to vote. Directors shall be elected by plurality of votes cast by stockholders at which quorum is present.

### **Board of Directors**

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and Bylaws, all corporate powers are exercised by or under the direction of the Board of Directors (Board). The Bylaws provide that the number of directors shall be not less than four nor more than eighteen. A quorum at any meeting shall consist of a majority of the entire membership of the Board, but never less than three. Directors shall be elected annually and hold office until the next annual meeting of shareholders or until their successors have been elected and accepted. At December 31, 2011, the members of the Board together with their principal business affiliations were as follows:

<b>Name</b>	<b>Principal Occupation</b>
Marc Fasteau	Chairman and Secretary.
John Auer	President, CEO, Director and Treasurer
Kevin Milkey	Director, Executive VP and Assistant Secretary
Geogry Hendrick	Director, XL Capital
Susan Cross <sup>(1)</sup>	Director, XL Capital

(1). On January 1, 2013, Charles Cooper of XL Re, LTD replaced Susan Cross.

The minutes of the meetings of the shareholders and Board, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers, and approval of investment transactions were also noted.

### **Committees**

Article IV, "Committees" of the Bylaws, states "The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required."

Members of the Board of Directors served on the following committees as of December 31, 2011:

**Audit Committee**

Marc Fasteau  
Gregory Scott Hendrick  
Susan Cross<sup>(1)</sup>

**Investment Committee**

Marc Fasteau  
John Franklin Auer  
Gregory Scott Hendrick

(1). On January 1, 2013, Charles Cooper of XL Re, LTD replaced Susan Cross.

Both the Audit Committee and Investment Committee were established on October 11, 2011.

As of December 31, 2011, the Audit Committee did not have a written charter. The Audit Committee meets annually, and is responsible for dealing with and appointing outside auditors and reviewing financial statements. The Committee did appear to meet the general

requirements of an audit committee; however, none of the members of the Audit Committee were considered independent.

## **Officers**

Article V, “Officers” of the Company’s Bylaws states, “The officers of the Company shall be a Chairman of the Board and Chief Executive Officer, a Vice Chairman of the Board (if the Board so determines), a President, one or more Vice Presidents, a Secretary and a Treasurer.”

At December 31, 2011, the Company’s principal officers and their respective titles were as follows:

### **OFFICERS**

<b>Name</b>	<b>Title</b>
John Franklin Auer	President, CEO and Treasurer
Kevin Robert Milkey	Executive Vice President and Assistant Secretary
Marc Fasteau	Secretary
Mary Frances Fournet	Vice President- Production Management
Antonio Scognamiglio	Vice President-Claims
Angel Bostick	Vice President-General Counsel
Tanya Fjare	Vice President- Business Analysis and Product Management
Phil Brubaker	Vice President- Product Development
Trevor Hillier	Vice President- Finance and Accounting

### **Code of Ethics**

The Company maintains a formal written Code of Business Conduct, which sets out minimum standards of ethical conduct that applies to all employees, officers and directors. Incorporated into the Code of Business Conduct is a conflict of interest policy. Each year, all officers and directors are required to complete an Annual Code Acknowledgement, re-affirming the commitment to comply with the Code and reporting any Code breaches of which they are aware.

In accordance with the Delaware Insurance Department Examination Handbook, Section 12, a review of the Company’s Annual Code Acknowledgement Statements for officers,

directors and key employees was performed for the purpose of identifying anyone with a felony conviction involving dishonesty or a breach of trust. There was no indication of any criminal conviction in any of the responses reviewed.

### **Articles of Incorporation and Bylaws**

The Company did not amend its Articles of Incorporation or Bylaws during the exam period.

### **HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001 (4) “Insurance Holding Company System”. The Company’s Holding Company Registration Statement was properly filed with the Delaware Insurance Department for the year under examination. The immediate parent of the Company at December 31, 2011 was ARX Holding Corp.

### **Organization Chart**

The following presentation of the holding company system reflects the identities and interrelationships between the Company, its Parent, affiliated insurers and other members of the holding company system as of December 31, 2011:

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
XL Re Ltd.	Bermuda	45.7%
ARX Executive Holdings, LLLP <sup>1</sup>	Florida	25.0%
Marc Fasteau, a New York Resident		10.1%
Fasteau Insurance Holdings, LLC	Delaware	9.7%
Other Individuals and entities		9.5%
ARX Holding Corp.	Delaware	100.0%
ASI Preferred Insurance Corp*	Florida	60.0%
American Strategic Insurance Corp*	Florida	100.0%
ASI Preferred Insurance Corp*	Florida	40.0%
ASI Lloyds	Texas	100.0%
ASI Assurance Corp*	Florida	100.0%
<b>ASI Select Insurance Corp</b>	Delaware	100.0%
ACAC Acquisition Inc.	Florida	100.0%
ASI Services, Inc.	Florida	100.0%

ASI Lloyds, Inc. (Attorney-in-Fact for ASI Lloyds)	Texas	100.0%
ASI Underwriters of Texas, Inc.	Texas	100.0%
Sunshine Security Insurance Agency, Inc.	Florida	100.0%
Safe Harbour Holdings, LLC <sup>2</sup>	Delaware	40.0%
American Capital Assurance Corp.	Florida	100.0%
ACA Home Insurance Corp.	Florida	100.0%
Safe Harbour Underwriters, LLC.	Florida	100.0%
e-INS, LLC	Florida	40.0%
ASI Underwriters Corp.	Florida	100.0%
e-INS, LLC	Florida	10.0%

1. ARX Executive Holdings, LLLP is owned 80.0% by John Franklin Auer, General Partner.
2. Flexpoint Fund, LP owns 52.0%, and New Capital Partners Private Equity Fund, LP owns 8.0%.  
\* Companies under the coordinated multi state examination.

### **INTERCOMPANY AGREEMENTS**

The Company is party to four inter-company agreements, which were disclosed in the Form B filing with the Delaware Insurance Department. These four inter-company agreements were entered into during the period covered by this examination, and remain in effect as of December 31, 2011. The agreements are summarized as follows:

#### **Intercompany Settlement Agreement**

Effective December 1, 2010, the Company entered into an Intercompany Settlement Agreement with ARX Holding Corp. (Parent); American Capital Assurance Corp.; ACA Home Insurance Corp.; Safe Harbor Underwriters, LLC; Safe Harbor Holdings, LLC; American Strategic Insurance Corp.; ASI Assurance Corp.; ASI Preferred Insurance Corp.; ASI Lloyds; ASI Lloyds, Inc. (Attorney-in-Fact for ASI Lloyds); ASI Underwriters Corp.; ASI Underwriters of Texas, Inc.; Sunshine Security Insurance Agency, Inc.; ASI Services, Inc.; and e-INS, LLC. The purpose of the agreement is to satisfy the requirements of SSAP No. 25, as one company may pay expenses incurred on behalf of another company from time to time. Any expenses incurred by one company on behalf of another must be settled timely and in no event later than ninety (90) days. The agreement has a term of one year, and renews automatically with the same

terms unless amended. After the first year, any company may terminate the agreement by giving written notice ninety (90) days prior to the effective date of the termination.

#### Policy Administration Services Agreement

Effective December 29, 2010, the Company entered into a Policy Administration Services Agreement with e-INS, LLC. Per the terms of the agreement, e-INS shall design, construct and implement such software systems as needed to support the following services: acquisition and management of the Company's policies; host and maintain a website for the use of the Company; issue policies and policy change endorsements, process renewals, cancellations and reinstatements; process invoices for premiums due or returned for all policy transactions; handle mailings of all necessary policy documents and handle the accounting for and collection of all premium payments including fees and installments. In exchange for these services, the Company agreed to pay e-INS a monthly commission of \$13.925 per new business and renewal policy plus \$1.16 per policy in force. The agreement had a minimum term of twenty-four months unless terminated earlier pursuant to the provisions of the agreement. After the conclusion of the minimum term, the agreement automatically renews for successive annual periods. After expiration of the initial term (24 full months), either company may terminate the agreement by giving written notice ninety (90) days prior to the effective date of the termination.

#### Claims Management Services Agreement

Effective December 29, 2010, the Company entered into a Claims Management Services Agreement with ASI Underwriters Corp. (ASIU) for the purpose of appointing ASIU to act as claims administrator on behalf of the Company with respect to all policies. The agreement gives ASIU the authority to monitor, supervise, adjust, investigate, report and otherwise settle claims on behalf of the Company. In exchange for these services, the Company has agreed to pay ASIU at cost. Amounts owed under this agreement shall be settled monthly or in no event later than 90

days in accordance with the "Intercompany Settlement Agreement". The agreement had a term of one year, automatically renewing each year until otherwise amended by written agreement or terminated for cause with 90 days written notice.

#### Consolidated Federal Income Tax Return Agreement

Effective December 29, 2010 the Company entered into an existing Agreement to File Consolidated Federal Income Tax Returns with ARX Holding Corp (Parent) and the following affiliates companies:

- American Strategic Insurance Corp
- ASI Lloyds
- ASI Lloyds, Inc.
- ASI Assurance Corp.
- ASI Preferred Insurance Corp
- ASI Underwriters Corp.
- ASI Underwriters of Texas, Inc.
- Sunshine Security Insurance Agency, Inc.

The method of allocation between the companies is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. Intercompany tax balances are settled when the return is filed. The agreement is terminable at the option of any party on ninety (90) days notice, provided such termination to file consolidated returns must be approved by the Commissioner of Internal Revenue as required by Treasury Regulations, Sections 1.1502.75(a) (2) and 1.1502-75(c), and approval for change in method has been requested and approved by the Commissioner of the Internal Revenue Service. This agreement was amended effective July 1, 2012 to add American Capital Assurance Corp and ACA Home Insurance Corp to the agreement. No changes to the terms of the agreement were made.

#### **TERRITORY AND PLAN OF OPERATION**

##### Territory



As of December 31, 2011, the Company was licensed only in the state of Delaware. The Company is authorized as a stock insurer to transact the business of Property; Casualty, including: Liability, Burglary & Theft, Personal Property Floater, Glass, Boiler & Machinery, Leakage & Fire Extinguisher Equipment and Miscellaneous; and Marine & Transportation.

The principal office facilities of the Company are located in St. Petersburg, Florida.

Plan of Operation

At December 31, 2011, 100% of direct written premium of \$30,378 was produced in the state of Delaware.

Agency Relations and Sales Distribution

The Company markets property, casualty, and marine & transportation business through independently licensed agents in the state of Delaware.

A summary of premiums written for 2011 is described as follows:

Line of Business	Direct	Reinsurance Assumed From		Reinsurance Ceded To		Net
	Premiums	Affiliates	Non-Affiliates	Affiliates	Non-Affiliates	Premiums
	<u>Written</u>	<u>Affiliates</u>	<u>Affiliates</u>	<u>Affiliates</u>	<u>Affiliates</u>	<u>Written</u>
Fire	\$ 2,854	\$0	\$0	\$ 428	\$0	\$ 2,426
Allied lines	4,682	0	0	702	0	3,980
Homeowners multi peril	22,402	0	0	3,360	0	19,042
Other liability-occurrence	<u>440</u>	<u>0</u>	<u>0</u>	<u>66</u>	<u>0</u>	<u>374</u>
Totals	\$30,378	\$0	\$0	\$4,557	\$0	\$25,821

Best Rating's

As of December 31, 2011, the Company was not rated by A.M. Best.

**GROWTH OF THE COMPANY**

The following information was extracted from copies of the Company's filed Annual Statements, for each year indicated, and covers the period from the Company's incorporation.

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards to Policyholders</u>	<u>Change in Capital and Surplus</u>	<u>Net Premiums Written</u>	<u>Net Income / (Loss)</u>
2011	\$5,031,149	\$4,974,471	\$ (7,929)	\$25,821	\$ (7,929)
2010*	5,009,996	4,982,400	4,982,400	0	(17,600)

Note: Schedule does not include adjustments as a result of the current examination.

\* The Company was funded and incorporated on August 20, 2010. Expenses incurred (\$17,600) were as a result of startup cost.

The Company commenced business on April 11, 2011, and issued its first policy on November 2, 2011.

Total assets grew \$21,153 (0.4%) primarily due to positive cash flow from operations of \$33,963. The Company invested \$3 million of the \$5 million received in capital contributions during 2011.

At December 31, 2011, the Company did not report any claims, and does not have any unpaid losses and loss adjustment expenses (LAE).

As discussed previously, the Company did not begin writing business until November 2011. As a result, the Company recognized a small loss of \$7,929 in 2011. There were no other items effecting policyholders' surplus during 2011.

### **LOSS EXPERIENCE**

As of December 31, 2011, the Company did not report any contract claims or establish any loss reserves.

### **REINSURANCE**

For 2011, the Company reported the following distribution of net premiums written:

Direct business	\$30,378
Reinsurance assumed (from affiliates)	0
Reinsurance assumed (from non-affiliates)	<u>0</u>
Total direct and assumed	\$30,378
Reinsurance ceded (to affiliates)	(4,557)
Reinsurance ceded to (non-affiliates)	<u>0</u>
Net premiums written	<u>\$25,821</u>

The Company had the following reinsurance programs and agreements in effect as of December 31, 2011:

#### Assumed

As of December 31, 2011, the Company did not assume any business.

Ceded

Effective June 1, 2011 to May 31, 2012, the Company and its affiliates entered into a 15% Quota Share (QS) agreement with XL Re Ltd (XL). Per the terms of the agreement, XL will assume 15% of the net base written premium and gross losses incurred by the Company, with a 28% ceding commission of base premium ceded by the Company excluding premium ceded to inuring reinsurance treaties. Effective June 1, 2012, this QS agreement was renewed but reduced XL's assumption percentage to 10% of the net base written premium and gross losses incurred by the Company, and changed the ceding commission rate of 28% to a provisional ceding commission rate.

Effective June 1, 2011 to May 31, 2012, the Company and its affiliates entered into a Property Catastrophic Excess of Loss contract to protect their solvency for an event in excess of the 200 year Probable Maximum Loss (PML) (less than 0.5% chance of occurrence) through contracts with the private market. The reinsurance program also protects against two 100-year events or three smaller events similar to those experienced during the 2004 hurricane season. XL participates 6% on the second layer and 1% on the third layer of the Company's Multiple-Layer Property Catastrophe Excess of Loss contracts. Reinstatement Premium Protection (RPP) treaties have been purchased to pay the reinstatement premiums required to reinstate the limits after a loss. It was noted that the Company intends to purchase a similar reinsurance program going forward.

Effective November 1, 2011, the Company was added to a June 1, 2011 Excess per Risk Treaty, which limits the risk on a single building for the ASI companies. The treaty provides \$9 million of coverage in excess of \$1 million. The risk on a single personal lines policy is further limited to \$850,000 through the 2011/2012 QS agreement with XL discussed previously. For

2012/2013, this risk is reduced to \$900,000 through the June 1, 2012 QS agreement with XL. Refer to the “Subsequent Event” section of this Report, under the caption “Reinsurance” for additional comments regarding a material reinsurance transaction entered into subsequent to December 31, 2011, which further reduces the Company’s risk on a single personal lines policy for 2012/2013 from \$900,000 to \$400,000.

## **ACCOUNTS AND RECORDS**

### **Accounting System and Information**

Pursuant to service agreements with ASIS affiliates, the affiliates provide services and personnel necessary for the Company to conduct its operations. The accounts and records reviewed during the examination included an evaluation of the operational, organizational and application controls. The areas evaluated included computer and accounting systems, organizational structure, and the information processing structure. The ASI Companies (American Strategic Insurance Corp, ASI Preferred Insurance Corp, ASI Assurance Corp, ASI Lloyds, and ASIS) data processing environment for significant financial applications consists of a blended platform, made up primarily of Intel, Microsoft Windows-based servers within the ASI Companies’ IT processing environment and the web-based policy and claims administration systems supported by e-INS, LLC. The ASI Companies’ internal IT support is limited to providing basic services such as desktop, workstation and network connectivity support. This includes services such as email, internet access, shared storage, helpdesk support, incident management, etc. Additionally, the internal IT function assists in supporting the accounting department with their use of third-party software implemented to produce company financials. The ASI Companies’ affiliate, e-INS, LLC, provides and supports a web-based policy and claims administration system that handles the bulk of the Companies’ primary processing needs.

A high-level assessment of the internal control structure and process for the Company's accounting and computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC. The discussions and review, which were performed by the FLOIR, did not reveal any material deficiencies in the Company's internal control structure over General Computer Controls (GCC). Based on work performed, the overall strength of risk mitigation strategies/controls related to information systems at the Company was deemed to be sufficient for those policies and procedures that had been in place during the period from January 1, 2011 to December 31, 2011, and until March 1, 2013.

Based on the examination review of the filed Annual Statements, observations, and subsequent discussions with management, the accounting system and procedures generally conformed to insurance accounting practices and requirements.

### **Independent Accountants**

The Company was exempt from filing an audited financial statement in accordance with 18 Del. Admin. Code 301 (2.2). Accordingly, there were no audited statutory financial statements or associated workpapers as of December 31, 2011. However, subsequent to the aforementioned exemption the Company's financial statements are subject to audit each year by the firm of BDO, of Grand Rapids, MI.

### **Actuarial Opinion**

The Company was exempt from filing an actuarial opinion for the year 2011 as the Company had less than \$1 million in direct plus assumed premium during the calendar year, and less than \$1 million in direct and assumed loss and loss adjustment expense reserves at year end, thereby qualifying for the small company exemption.

**STATUTORY DEPOSITS**

The following statutory deposits were on file with the following states:

State	Deposits For the Benefit of All Policyholders		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Delaware	\$1,000,000	\$1,000,000		
<b>TOTAL DEPOSITS</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>		

**FINANCIAL STATEMENTS**

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2011, as determined by this examination, along with supporting exhibits as detailed below:

Assets  
 Liabilities, Surplus and Other Funds  
 Statement of Income  
 Capital and Surplus Account  
 Reconciliation of Capital and Surplus for the Examination Period  
 Schedule of Examination Adjustments

The narratives on the individual accounts, with the exception of the reserve related balances, are presented on an “exception basis” in the Notes to the Financial Statements section of this report.

**Assets  
 As of December 31, 2011**

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>	<u>Notes</u>
Bonds	\$ 2,925,480	\$	\$ 2,925,480	
Cash, cash equivalents and short-term investments	2,077,017		2,077,017	
Investment income due and accrued	13,116		13,116	
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	9,521		9,521	
Deferred premiums, agents' balances and booked but deferred	2,065		2,065	
Current federal and foreign income tax recoverable and interest thereon	3,950		3,950	
Net deferred tax asset	1,699	1,699		
Total assets excluding Separate Accounts	<u>\$ 5,032,848</u>	<u>\$ 1,699</u>	<u>\$ 5,031,149</u>	
From Separate Accounts	-	-	-	
Total	<u><u>\$ 5,032,848</u></u>	<u><u>\$ 1,699</u></u>	<u><u>\$ 5,031,149</u></u>	

**Liabilities, Surplus and Other Funds  
As of December 31, 2011**

Liabilities, Surplus and Other Funds

		<u>Notes</u>
Commissions payable, contingent commissions and other similar charges	\$ 3,188	
Other expenses	2,313	
Taxes, licenses and fees (excluding federal and foreign income taxes)	17,466	
Unearned premiums	24,267	
Advance premiums	5,073	
Ceded reinsurance premiums payable (net of ceding commissions)	2,485	
Payable for parent, subsidiaries and affiliates	1,886	
Total liabilities excluding protected cell liabilities	<u>\$ 56,678</u>	
Protected cell liabilities		
Total liabilities	<u>\$ 56,678</u>	
Common capital stock	1,900,000	
Gross paid-in and contributed surplus	3,100,000	
Unassigned funds (surplus)	(25,529)	
Surplus as regards policyholders	<u>\$ 4,974,471</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 5,031,149</u></u>	



**Statement of Income  
As of December 31, 2011**

UNDERWRITING INCOME		
Premiums earned		\$ 1,554
DEDUCTIONS		
Losses incurred		
Loss adjustment expenses incurred		
Other underwriting expenses incurred		33,461
Aggregate write-ins for underwriting deductions		
Total underwriting deductions		<u>\$ 33,461</u>
Net income of protected cells		
Net underwriting gain (loss)		<u>\$ (31,907)</u>
INVESTMENT INCOME		
Net investment income earned		19,757
Net realized capital gains (losses)		
Net investment gain (loss)		<u>\$ 19,757</u>
OTHER INCOME		
Net gain (loss) from agents' or premium balances charged off		
Finance and service charges not included in premiums		\$ 275
Aggregate write-ins for miscellaneous income		
Total other income		<u>\$ 275</u>
Net income before dividends to policyholders, after capital gains tax and before all federal and foreign income taxes		(11,875)
Dividends to policyholders		
Net income after dividends to policyholders, after capital gains tax and before all federal and foreign income taxes		<u>(11,875)</u>
Federal and foreign incomes taxes incurred		(3,946)
Net income		<u><u>\$ (7,929)</u></u>

**Capital and Surplus Account  
As of December 31, 2011**

Capital and surplus, December 31, prior year	\$	4,982,400
Net income (Loss)		(7,929)
Change in net deferred income tax		1,699
Change in nonadmitted assets		(1,699)
Capital changes:		
Paid in		1,900,000
Surplus adjustments:		
Paid in		(1,900,000)
Dividends to stockholders		
Change in surplus as regards policyholders for the year		(7,929)
Capital and surplus, December 31, current year	\$	4,974,471

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

There were no financial adjustments as a result of the examination.

**NOTES TO FINANCIAL STATEMENTS**

**Assets**

There were no findings noted with regards to asset accounts.

**Liabilities**

As noted previously, the Company did not report any claims or loss reserves as of December 31, 2011. Accordingly, the Company was exempted from filing an actuarial opinion for the year 2011.

**SUMMARY OF RECOMMENDATIONS**

No examination report recommendations were noted as a result of this examination.

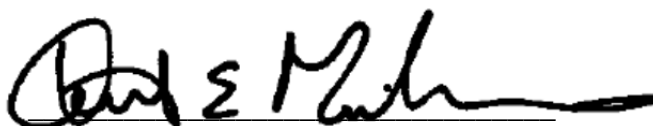
**CONCLUSION**

The following schedule shows a comparison of the results from year-end December 31, 2010 to December 31, 2011 Annual Statement balances, with changes between:

<b><u>Description</u></b>	<b><u>December 31, 2010</u></b>	<b><u>December 31, 2011</u></b>	<b><u>Increase (Decrease)</u></b>
Assets	\$5,009,996	\$5,031,149	\$21,153
Liabilities	\$27,596	\$56,678	\$29,082
Common capital stock	0	1,900,000	1,900,000
Gross paid in and contributed surplus	5,000,000	3,100,000	(1,900,000)
Unassigned funds (surplus)	(17,600)	(25,529)	(7,929)
Total Capital and Surplus	4,982,400	4,974,471	(7,929)
Total Liabilities, Capital and Surplus	\$5,009,996	\$5,031,149	\$21,153

The assistance of the Florida Office of Insurance Regulation is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, BDO, and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,



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