

REPORT ON EXAMINATION

OF

STILLWATER PROPERTY AND CASUALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

MAY 15, 2017

EXAMINER

ADEBOLA AWOFESO

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

May 15, 2017

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21527 dated September 1, 2016 attached hereto, I have made an examination into the condition and affairs of Stillwater Property and Casualty Insurance Company as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Stillwater Property and Casualty Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s main administrative office located at 4905 Belfort Road, Jacksonville, Florida 32256.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2012. This examination covered the three-year period from January 1, 2013 through December 31, 2015. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of California, which was the coordinating state of the WBL Group. The examination was performed concurrently with the examination of Stillwater Insurance Company.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination 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. This examination also includes 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 annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants where deemed appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation

Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated as Soflens Insurance Company under the laws of the State of New York on June 7, 1971. It became licensed and commenced business on September 15, 1971. On January 1, 1980, the name was changed to Bausch & Lomb Insurance Company and later to First Community Insurance Company on January 1, 1993.

On October 1, 1993, the Company was acquired by Bankers Insurance Group, Inc. from Bausch & Lomb.

On January 3, 2003, the Company was acquired by Fidelity National Financial, Inc. ("FNF"), an insurance holding company incorporated in Florida and traded on the New York Stock Exchange under the trading symbol "FNF". On February 28, 2003, the Company's stock was contributed by FNF to a wholly-owned subsidiary, Fidelity National Title Insurance Company ("FNTIC"), a California domiciled title insurer. On February 28, 2003, the Company's stock was contributed by FNTIC to Fidelity National Insurance Company ("FNIC"). On December 12, 2003, the Company's name was changed to Fidelity National Property and Casualty Insurance, Inc., and

on January 23, 2004, its name was changed again to Fidelity National Property and Casualty Insurance Company.

On June 28, 2005, FNF acquired 100% of the outstanding shares of the Company and its parent, FNIC, from FNTIC.

On October 20, 2006, the Company and its parent, FNIC, were contributed by FNF to National Alliance Marketing Group, Inc. (“NAMG”) as part of an internal restructuring with FNF remaining as the ultimate parent of the Company.

On January 18, 2012, NAMG contributed the Company and its parent, FNIC, to Duval Holdings, Inc. (“Duval”). Duval was formed by FNF for the purpose of divesting itself of business not related to its core title insurance business.

On May 1, 2012, FNF sold 85% of its interest in Duval; 84.3% to WTJ Holdings, Inc. (“WTJ”), and 0.7% to Mark O. Davey. FNF retained a minority interest in Duval through its 100% ownership of NAMG which still owned the remaining 15%. After this transaction WBL, a Tennessee limited liability company, and various other investors became the ultimate controlling entity or persons of the Company and its parent, FNIC. Effective October 1, 2013, the Company’s name was changed from Fidelity National Property and Casualty Insurance Company to Stillwater Property and Casualty Insurance Company. In addition, on the same date, its parent changed its name from Fidelity National Insurance Company to Stillwater Insurance Company (“SIC”).

On July 22, 2014, NAMG contributed its ownership in the Company and its parent, SIC, to FNF and FNF then contributed its Duval ownership to Fidelity National Financial Ventures, LLC, as part of an internal restructuring with FNF remaining as the ultimate parent of the Company.

At December 31, 2015, capital paid in was \$3,465,564 consisting of 10,898 shares of common stock with a par value of \$318 per share. Gross paid in and contributed surplus was \$2,384,436. Capital paid in and gross paid and contributed surplus did not change during the examination period.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than fifteen members. At December 31, 2015, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mark Owen Davey, Ponte Vedra Beach, FL	President & Chief Executive Officer, Stillwater Property and Casualty Insurance Company
David L. Eigen, Westport, CT	Managing Member, Post Road Capital Management
Emmel B. Golden III, Memphis, TN	Executive Vice President, NFC Investment, LLC
Richard B. Jennings, New York, NY	President, Realty Capital International, LLC
Thomas W. Korona, Charlotte, NC	Vice President, SGP Land, LLC
James D. Lackie, Memphis, TN	President, Lackie Trading Inc.
Damon D. Navarro, Niantic, CT	Manager, Grove Property Fund, LLC
Charles K. Slatery, Memphis, TN	President, NFC Investments, LLC
William V. Thompson III, Memphis, TN	Executive Vice President, NFC Investment, LLC
Henri L. Wedell, Memphis, TN	Retired, The Robinson Humphrey Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Mark Owen Davey	President & Chief Executive Officer
John M. Giorgianni	Executive Vice President and Chief Financial Officer
Deborah S. Price	Vice President and Secretary

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business in all 50 states and the District of Columbia. Approximately 68% of the Company's direct writings in 2015 were concentrated in California, Colorado, Florida, Maryland and New Jersey.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Worker's compensation and employer's liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
24	Credit unemployment
26	Gap

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,550,000.

The Company operations are conducted jointly with its parent, Stillwater Insurance Company ("SIC"), at SIC's home office in Jacksonville, Florida. As of December 31, 2015, the underwriting operations of the companies were conducted through two business units: Commercial and Personal.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State Direct Premiums Written</u>	<u>Total Direct Premiums Written</u>	<u>Premiums Written in New York as a Percentage of Total Direct Premiums Written</u>
2013	\$8,517,487	\$91,489,096	9.31%
2014	\$(79,769)	\$81,489,337	-0.10%
2015	\$(4,546)	\$82,370,081	-0.01%

All business was produced through Stillwater Insurance Services, an affiliated insurance agency.

Prior to 2013, the Company wrote a substantial amount of flood premium through its participation in the National Flood Insurance "Write Your Own" program which was ceded 100% to FEMA. On November 10, 2011, FNF sold the Company's flood insurance business to WRM America Holdings, LLC. The terms of the sale required the Company to continue to write flood business in the states in which the new owner was not yet licensed. This licensure process was completed, and the Company discontinued writing new flood policies in June 2013.

The Company participates in the Florida Hurricane Catastrophe Fund ("FHCF") which is administered by the State Board of Administration of the State of Florida. Pursuant to Florida statute, participation in the FHCF is mandatory for all insurers writing homeowners insurance in

the State of Florida. Pursuant to this program, each insurer must elect a reimbursement percentage indicating the amount that the FHCF will reimburse the Company for losses caused by any storm declared to be a hurricane by the National Hurricane Center. The Company has elected a 90% reimbursement percentage. It is noted that since the Company cedes 100% of its liabilities to SIC, the cessions to the FHCF are shown on SIC's annual statement Schedule F, Part 3, not the Company's.

C. Reinsurance

Assumed

During the period covered by this examination, the Company did not assume any business.

Ceded

100% Quota Share Reinsurance Agreement

Pursuant to a 100% quota share reinsurance agreement with its direct parent Stillwater Insurance Company ("SIC"), the Company cedes 100% of its net liability, premiums, losses, and other expenses for existing, new, and renewal business, net of unaffiliated reinsurance to SIC. As a result of this agreement, the Company retains no underwriting risk.

This agreement has been effective since 2003. It was amended on February 10, 2015 to reflect the Company's current name.

The quota share agreement was filed with and was non-disapproved by the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law. The agreement was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions.

At December 31, 2015 the Company reported approximately \$66 million in reinsurance recoverables from SIC. These reinsurance recoverables are the Company's most significant

financial item and ultimately the Company's most significant financial risk is its ultimate ability to collect on these reinsurance recoverables. It is noted that SIC was examined concurrently with the Company and there were no examination changes made to SIC's balance sheet and income statement.

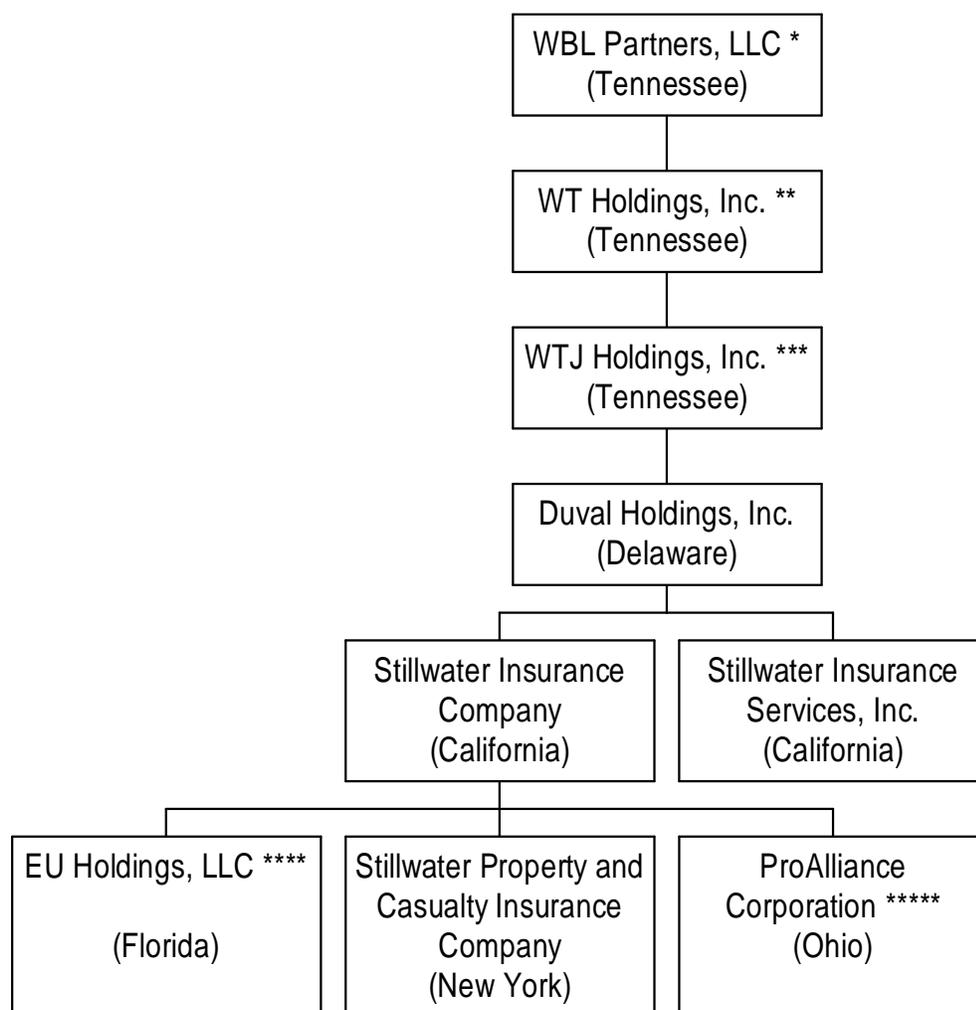
D. Holding Company System

The Company is a member of the Duval Holdings Group. The Company is a wholly-owned subsidiary of Stillwater Insurance Company, a California domiciled property and casualty insurer, which is ultimately controlled by WBL Group.

A review of the Holding Company Registration Statements filed with this Department revealed that Regulation 52-A filing for the years 2014 and 2015 were not filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

It is recommended that the Company file all required holding company registration statements with the Department in a timely fashion.

The following is an abridged chart of the holding company system at December 31, 2015:



*WBL Partners, LLC, owned 10% of WT Holdings, Inc. and various individual investors hold the remaining 90% of WT Holdings, Inc.

**WT Holdings, Inc. owned 75% of WTJ Holdings, Inc. while Thaynes Capital Insurance, LLC, owned the remaining 25%.

***WTJ Holdings, Inc. owned 84.3% of Duval Holdings, Inc., Fidelity National Financial Ventures, LLC (owned 100% by Fidelity National Financial, Inc.) owned 15%, and the remaining 0.7% was owned by SIC management. Effective June 16, 2016, the ownership of the Company's parent, Duval, changed. WT Holdings, purchased the 25% interest of Thaynes Capital Insurance, LLC and the 15% interest of Fidelity National Financial Ventures, LLC, and now owns 99.3% of Duval. Additionally, WTJ was merged into WT Holdings.

****SIC owned 63% membership interest of EU Holdings, LLC. WTJ Holdings, Inc. owned 35% membership interest and remaining 2% membership interest is held by SIC management.

*****SIC owned 90% of ProAlliance Corporation and various individual investors owned the remaining 10%.

All ownership is 100% unless otherwise noted

At December 31, 2015, the Company was party to the following agreements with other members of its holding company system:

1. General Agency Agreement

Effective February 1, 2003, the Company entered into a general agency agreement with Stillwater Insurance Services, Inc. (“SIS”). Under the terms of the agreement, SIS agrees to administer the Company’s underwriting and premium collection function subject to the terms of the agreement. The agreement was amended on February 10, 2015 to reflect participants’ current names.

The agreement was submitted to and non-disapproved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

2. Tax Sharing Agreement

Effective May 1, 2012, the Company entered into a tax allocation agreement with its immediate parent, WTJ Holding, Inc. and several affiliated companies. Pursuant to the terms of the agreement, for each taxable year, the consolidated tax liability of the group shall be allocated among the members who agree to pay an amount equal to the separate tax liability for each member. The tax liability of each member shall not exceed the amount each member would have paid if it had filed on a separate return basis. The agreement was amended February 10, 2015 to reflect the Company’s current name.

The agreement was submitted to and non-disapproved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

3. Investment Advisory Service Agreement

Effective April 26, 2012, the Company entered into an investment advisory service agreement with its affiliate NFC Investment, LLC (“NFC”). Under the terms of the agreement, NFC agrees to provide investment advisory and consulting services for the Company’s investment portfolio. The agreement was amended February 10, 2015 to reflect the Company’s current name.

The agreement was submitted to and non-disapproved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

4. Service Agreement

Effective November 16, 2012, the Company entered into a service agreement with Tri-State Consumer Insurance Company (“Tri-State”). Under terms of this agreement, Tri-state agrees to provide statutory home office space for the maintenance of the Company books and records and statutory home office services. The agreement was amended August 1, 2014 to reflect the Company’s current name.

The agreement was submitted to and non-disapproved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2015, based upon the results of this examination:

Net premiums written to policyholders’ surplus	2%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	7%
Premiums in course of collection to surplus as regards policyholders	3%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the three-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ (1,696)	-0.03%
Other underwriting expenses incurred	2,387,555	39.47
Net underwriting gain	<u>3,662,622</u>	<u>60.55</u>
Premiums earned	<u>\$6,048,481</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 58,571,335		\$ 58,571,335
Preferred stocks	15,386,263		15,386,263
Common stocks	23,523,497		23,523,497
Cash, cash equivalents and short-term investments	7,882,812		7,882,812
Other invested assets	3,022,524		3,022,524
Receivable for securities	26,440		26,440
Investment income due and accrued	913,885		913,885
Uncollected premiums and agents' balances in the course of collection	2,773,484		2,773,484
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,206,026		1,206,026
Amounts recoverable from reinsurers	3,358,788		3,358,788
Current federal and foreign income tax recoverable and interest thereon	220,219		220,219
Net deferred tax asset	2,091,724	\$745,291	1,346,433
Other asset-assessments recoverable	<u>124,402</u>	<u>0</u>	<u>124,402</u>
Total assets	<u>\$119,101,399</u>	<u>\$745,291</u>	<u>\$118,356,108</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$	0
Commissions payable, contingent commissions and other similar charges		500,000
Other expenses (excluding taxes, licenses and fees)		664,300
Taxes, licenses and fees (excluding federal and foreign income taxes)		476,611
Ceded reinsurance premiums payable (net of ceding commissions)		4,308,204
Payable to parent, subsidiaries and affiliates		8,369
Payable for securities		<u>2,199,883</u>
Total liabilities		<u>\$8,157,366</u>

Surplus and Other Funds

Common capital stock	\$	3,465,564
Gross paid in and contributed surplus		2,384,436
Unassigned funds (surplus)		<u>104,348,742</u>
Surplus as regards policyholders		<u>110,198,742</u>
Total liabilities, surplus and other funds		<u>\$118,356,108</u>

Note: The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Net income for the three-year examination period as reported by the Company, January 1, 2013 through December 31, 2015 was \$15,143,973 detailed as follows:

Underwriting Income

Premiums earned		\$ 6,048,481
Deductions:		
Losses and loss adjustment expenses incurred	\$ (1,695)	
Other underwriting expenses incurred	<u>2,387,555</u>	
Total underwriting deductions		<u>2,385,860</u>
Net underwriting gain		\$ 3,662,621

Investment Income

Net investment income earned	\$15,412,674	
Net realized capital gain	<u>50,828</u>	
Net investment gain		15,463,502

Other Income

Other miscellaneous income	\$ <u>1,342</u>	
Total other income		<u>1,342</u>
Net income before federal and foreign income taxes		\$ 19,127,465
Federal and foreign income taxes incurred		<u>3,983,492</u>
Net income		\$ <u>15,143,973</u>

C. Capital and Surplus Accounts

Surplus as regards policyholders as reported by the Company increased \$5,588,516 during the three-year examination period January 1, 2013 through December 31, 2015, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2012			\$104,610,226
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$15,143,973		
Net unrealized capital losses		\$3,066,658	
Change in net deferred income tax		89,448	
Change in non-admitted assets		660,351	
Dividends to stockholder	<u>0</u>	<u>5,739,000</u>	
Total gains and losses	<u>\$15,143,973</u>	<u>\$9,555,457</u>	
Net increase in surplus			<u>5,588,516</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2015			<u>\$110,198,742</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2015. Effective August 25, 2010, 100% of the Company's insurance liabilities are ceded to its direct parent Stillwater Insurance Company ("SIC") pursuant to a 100% quota share reinsurance agreement.

It is noted that the net premiums earned reported in the income statement of this report represent service fees. There are no loss reserves associated with this type of income.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained two recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. It was recommended that the Company maintain formal minutes for all of its committee meetings</p> <p>The Company has complied with this recommendation.</p>	5
<p>B. It was recommended that the Company maintain policy level detail of its Agents' balance so that it can identify any balances that are over 90 days due and should be not admitted pursuant to the provisions of Paragraph 9 of SSAP No. 6.</p> <p>The Company has complied with this recommendation.</p>	12

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Holding Company System</u> It is recommended that the Company file all required holding company registration statements with the Department in a timely fashion.	9

Respectfully submitted,

Adebola Awofeso
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Adebola Awofeso, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

Adebola Awofeso

Subscribed and sworn to before me
this _____ day of _____, 2017.

APPOINTMENT NO. 31527

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Adebola Awofeso

as a proper person to examine the affairs of the
Stillwater Property and Casualty Insurance Company
and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 1st day of September, 2016

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

*Joan Riddell
Deputy Bureau Chief*