



# **Mississippi Insurance Department**

**Report of Examination**

**of**

**BRIERFIELD INSURANCE COMPANY**

**as of**

**December 31, 2015**

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND  
PROCEDURES USED IN AN EXAMINATION**


State of Georgia,

County of Gwinnett,

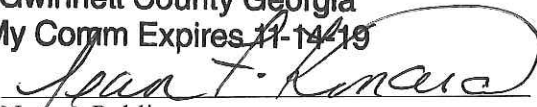
Philip D. Engelhart, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Brierfield Insurance Company as of December 31, 2015.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Brierfield Insurance Company was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

  
\_\_\_\_\_  
Philip D. Engelhart, CPA, AIAF, CFE

Subscribed and sworn before me by Philip D. Engelhart on this 4<sup>th</sup> day of May, 2017.

**Jean F Kinard**  
(SEAL) **Notary Public**  
**Gwinnett County Georgia**  
**My Comm Expires 11-14-19**  
  
\_\_\_\_\_  
Notary Public

My commission expires 11-14-19 [date].



**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

**MISSISSIPPI INSURANCE DEPARTMENT**

501 N. WEST STREET, SUITE 1001  
WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
www.mid.ms.gov

MAILING ADDRESS  
Post Office Box 79  
Jackson, MS 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 576-2568

May 4, 2017

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2015, of the affairs and financial condition of:

**BRIERFIELD INSURANCE COMPANY**  
1020 Highland Colony Parkway, Suite 800  
Ridgeland, MS 39157-2128

License #	NAIC Group #	NAIC #	FEETS#	MATS#
9900035	474	10993	10993-MS-2015-5	MS-MS099-8

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* and was performed in Ridgeland, Mississippi, at the statutory home office of the Company, and the main administrative office of the Company in Sarasota, Florida. The report of examination is herewith submitted.

## **SCOPE OF EXAMINATION**

We have performed our multi-state examination of Brierfield Insurance Company (“Company”). The last exam was completed as of December 31, 2013. This examination covers the period January 1, 2014 through December 31, 2015.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination 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 Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

There were no comments and/or recommendations deemed necessary for inclusion in the previous examination report.

## **HISTORY OF THE COMPANY**

The Company was incorporated and licensed under the laws of the State of Mississippi on September 1, 1999 for the purpose of transacting property and casualty insurance pursuant to Miss. Code Ann. §83-19-1 et seq. (Rev. 1999). The Company's initial ownership structure consisted of FCCI Insurance Group, Inc. ("FIG"), with eighty percent (80%) ownership, and Mississippi Insurance Managers, Inc. ("MIM"), an unaffiliated managing general agent, with twenty percent (20%) ownership. FIG, an intermediate holding company, was wholly owned by FCCI Insurance Company ("FCCI"), a Florida domiciled property and casualty insurer. On December 31, 2008, FIG purchased MIM, making the Company a wholly owned subsidiary of FIG. In December 2009, one hundred percent (100%) of MIM's stock in the Company was dividdened to FIG.

## **CORPORATE RECORDS**

Articles of Incorporation, Bylaws and amendments thereto were reviewed and duly applied in other sections of this report where appropriate. 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 adequately documented its meetings and approval of Company transactions, including the authorization of investments and the review of its audit, actuarial and examination reports.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

As of December 31, 2015, the Company had issued and outstanding all 1,000,000 shares of its authorized common capital stock with a par value of \$1.00 per share. The common capital stock was 100% owned by FIG. During the examination period, the Company paid \$0 in dividends to its stockholder.

### **Board of Directors**

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board of Directors ("Board"). The members of the duly elected Board, along with their place of residence, number of years as Director, and principal occupation, at December 31, 2015, were as follows:

Name and Residence	Year Elected/Appointed	Principal Occupation
Charles Robert Baumann Sarasota, FL	2004	Shareholder, Kerkering, Baberio & Co.
John Joseph Cox Sarasota, FL	2012	President & Owner of Halfacre Construction Company
Robert Winthrop Flanders Sarasota, FL	1999	President & Owner of Quality Walls
Gordon William Jacobs Sarasota, FL	1999	Former Insurance Executive
Craig Allan Johnson Sarasota, FL	2011	President of FCCI Ins. Co.
John Thomas Stafford Sarasota, FL	1999	Former Banking Executive, Chairman
Roy Allan Yahraus Sarasota, FL	2007	Former Business Executive

## Committees

FCCI Mutual Insurance Holding Company (Ultimate Parent), has established several internal committees. The following were the principal internal board committees and their members as of December 31, 2015:

### Committee Structure

<b>Executive</b>	<b>Claims/Reserving</b>	<b>Audit</b>	<b>Investment</b>
John T. Stafford Chairman	Robert W. Flanders Chairman	Gordon W. Jacobs Chairman	Gordon W. Jacobs Chairman
Craig A. Johnson	Charles R. Baumann	Charles R. Baumann	Charles R. Baumann
	Gordon W. Jacobs	Robert W. Flanders	Robert W. Flanders
	Roy A. Yahraus	Roy A. Yahraus	John J. Cox



## **Officers**

<b>Name</b>	<b>Year Elected/Appointed</b>	<b>Title</b>
Craig Allan Johnson	2011	President
Thomas Augustine Koval	2011	Secretary
Christopher Samir Shoucair	2011	Treasurer
Lisa Patrizi Weiland	2015	Executive Vice President
Joseph Anthony Keene	2006	Executive Vice President
Lisa Ann Krouse	2014	Executive Vice President
Michelle Marie Jalbert	2011	Vice President

## **Conflict of Interest**

The Company had formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with the official duties of such persons. Written statements were signed annually by all officers and members of the Board.

## **Corporate Governance**

The risk-focused surveillance approach requires examiners to consider the insurer's corporate governance and established risk management processes. This evaluation included assessing the "tone-at-the-top", board of directors and management oversight and understanding and conveyance of the necessity of internal controls to employees. Strong corporate governance encompasses a clearly defined vision of ethics, appropriate goals, effective strategy, effective implementation of the strategy, and appropriate reporting systems emphasizing feedback and transparency.

The Company does not have any employees. All administration and management of the Company is performed by employees of its parent and /or affiliates through a Management Services Agreement.

The Board's involvement and oversight along with its independence from management was considered during the course of our examination. Other key variables in our consideration of the Board's involvement included but were not limited to factors such as: (1) the frequency of Board meetings, (2) the type of information communicated to the Board prior to meetings and the topics discussed along with the depth and quality of discussions and (3) key communication channels to and from management to the Board along with the overall "tone at the top". Information regarding the Board members, committees and other related information can be found in the Management and Control section of this report.

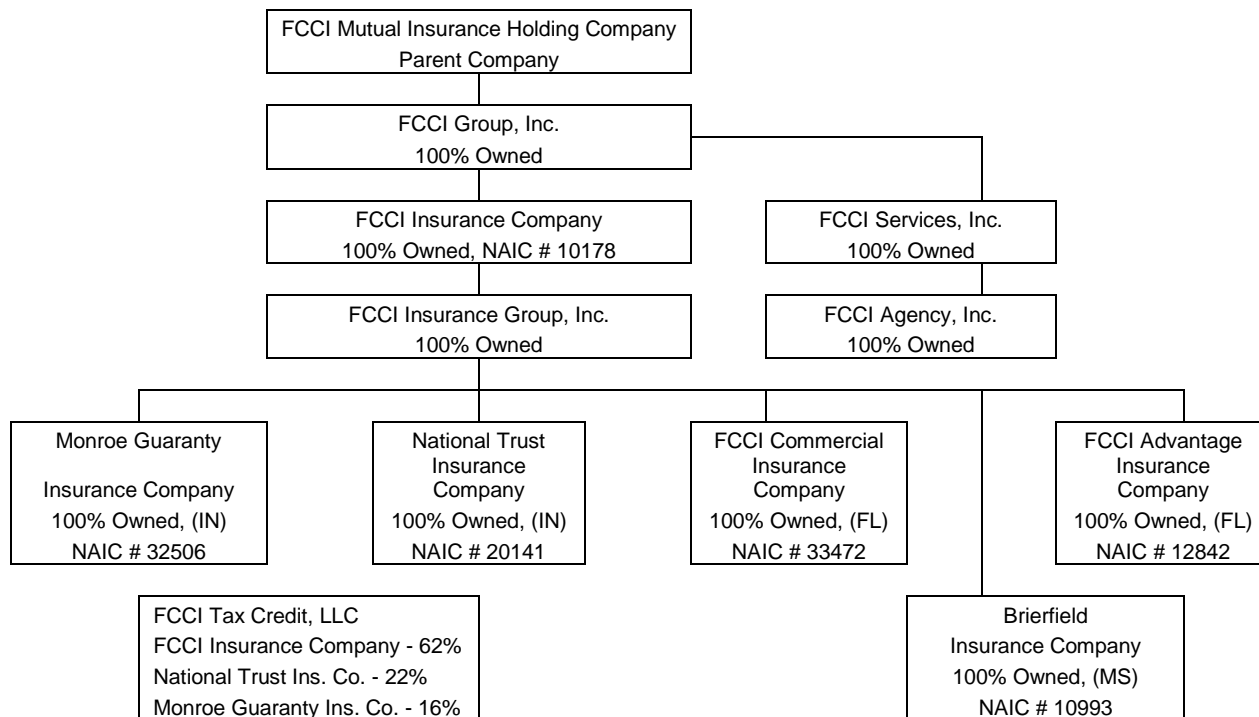
The appropriateness of the organizational structure, and its ability to provide the necessary information flow to manage activities were considerations in obtaining our understanding of the organizational structure of the Company and its affiliates. This included consideration of the entity's structure and its ability to communicate information upstream, downstream and across all business activities. Management's competence was also considered in the overall assessment of corporate governance. In our review of this area; we considered factors such as (1) experience level within key management, (2) management turnover and (3) previous experience of key management.

The Company outsourced their Internal Audit ("IA") function to Ernest & Young, until it was brought in-house in 2015. The Chief Auditor reported directly to the FCCI Mutual Insurance Holding Company Audit Committee ("AC") Chairman and the AC Committee was comprised of independent directors. The Board and AC meeting minutes were reviewed noting evidence of detailed discussion during meetings regarding IA activities. The IA Department provided input on operating and financial reporting risks and as well as internal controls.

### **HOLDING COMPANY STRUCTURE**

The Company is a member of an insurance holding company system as defined by Miss. Code Ann. §83-6-1. The Company was required to file with the MID, Holding Company Registration Statements in accordance with Miss. Code Ann. §83-6-5 and §83-6-9. These filings set forth material changes in structure, identity or relationships of affiliates and any material transactions by and between the Company and its affiliates.

## Organizational Chart



## Affiliated and Related Party Transactions

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

### **Tax Allocation Agreement**

The Company, along with FCCI Insurance Company and its affiliates, file a consolidated federal income tax return. On December 31, 2015, the method of allocation between the Company and its parent was the “separate-entity” basis described in Internal Revenue Code (IRC) Section 1552(a) (2) and Treasury Regulation 1.1552-1(a) (2) on the basis of the percentage of the total tax which each member, if computed on a separate return would bear to the total taxes for all members.

### **Management Services Agreement**

The Company, along with its parents and affiliates, had a management services agreement with FCCI Services, Inc. (“FSI”), which provided insurance and general management services including, but not limited to: underwriting, premium formulation, collection services, accounting services, internal operations, personnel, information systems, marketing, facilities management, tax services, reinsurance services, corporate governance, and other services related to the effective management of the Company. The Company incurred expenses for these services of \$6,780,878 and \$6,414,153 in 2015 and 2014, respectively.

### **Capital Maintenance Agreement**

As a condition of authorization to write workers' compensation coverage under the Longshore and Harbor Workers' Compensation Act and its extensions, the Department of Labor, Office of Workers' Compensation Programs, Division of Longshore and Harbor Workers' Compensation, required the Company to enter into a capital maintenance agreement with FCCI Insurance Company. The agreement requires FCCI and the Company to maintain sufficient capital in the Company that will meet or exceed levels required by Mississippi law.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company's ultimate parent, FCCI Mutual Insurance Holding Company, maintained fidelity bond coverage, which included the Company, up to \$5,000,000 with a \$50,000 deductible, which meets the suggested minimum as recommended by the NAIC.

The Company also was a named insured on a commercial property and general liability policy, workers' compensation and employer's liability policy, commercial umbrella liability policy, and business auto policy.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company and FSI, along with certain affiliated insurance companies, were members of a retirement and savings plan ("401k Plan", a defined 401k contribution and profit sharing plan) in which all employees were eligible to participate.

Also, certain members of the Board of Directors of FCCI Group Inc. ("FCCI Group"), an upstream parent of the Company, entered into a deferred compensation plan, which included a deferred compensation payment of three times the director's annual fees at retirement subject to certain vesting criteria.

Additionally, FCCI Group had established for members of the Board of Directors and officers of FSI a Long-Term Incentive Plan ("Incentive Plan") that offered two types of performance-based incentive awards, a Full Value Performance Unit Award ("Performance Units") and a Performance Unit Appreciation Rights Award ("Appreciation Rights"). After satisfaction or lapse of the restrictions, terms and conditions established by the Incentive Plan with respect to a grant of Performance Units, the Incentive Plan participant would receive a cash payment equal to the number of vested Performance Units multiplied by a Company Value as of the Exercise Date as defined in the Incentive Plan. Appreciation Rights may be exercised subject to the terms of the Incentive Plan and upon exercise, the Incentive Plan participant will receive the number of vested Appreciation Rights exercised multiplied by the increase in Company Value as of the Exercise Date compared to the Company Value on the Grant Date.

Costs for retirement and deferred compensation plans are allocated to the Company based on the direct written premiums and the level of claims transactions to the totals for the consolidated Company.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in the States of Alabama, Arkansas, Florida, Georgia, Mississippi and Tennessee, but only issued business in the States of Florida and Mississippi through the examination date.

## **GROWTH OF COMPANY**

Following is selected financial information as reported by the Company within the filed annual statements.

	<b>2015</b>	<b>2014</b>
Change in surplus	259,445	240,933
Net cash from operations	535,136	444,354
Net income	295,403	243,737
Investment yield	2.3%	2.3%
Gross premiums written to surplus	525.5%	468.7%

## **REINSURANCE**

The Company has a reinsurance program in place that is intended to reduce overall risks, including exposure to large losses and catastrophic events. The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting, and settlement information.

### **Quota Share Reinsurance Agreement**

The Company has a 100% quota share reinsurance contract with FCCI, an upstream parent through which the Company ceded 100% of the premiums written and earned and all loss and loss adjustment expenses incurred on or after January 1, 2005.

The reinsurance contract with FCCI included a provision for ceded commission income equal to 100% of operating expenses incurred. The Company recognized ceded commission income of \$13,916,632 and \$12,434,795 in 2015 and 2014, respectively, under this provision.

The Company's net reinsurance recoverable, including unearned premiums, at December 31, 2015 and 2014 was \$53,065,379 and \$48,756,525, respectively, and are presented as a reduction to direct and assumed loss and unearned premium reserves on the balance sheet. These amounts are due from FCCI and are unsecured.

The quota share agreement provides the Company the right to purchase facultative reinsurance on any of its policies which the Company utilizes from time to time.

The following table summarizes the effect of reinsurance on net premiums written for the period of this examination:

	<b>2015</b>	<b>2014</b>
Direct premiums	\$45,333,864	\$39,165,540
Assumed premiums	270,818	292,462
Ceded premiums to affiliate	(45,494,416)	(39,285,104)
Ceded premiums to nonaffiliates	<u>(110,266)</u>	<u>(172,898)</u>
Net premiums	\$ -	\$ -

### **ACCOUNTS AND RECORDS**

The Company maintains its principal operational offices in Sarasota, Florida. The Company's accounting records were maintained on a computerized system and balance sheet accounts were verified with the line items of the annual statement submitted to the Mississippi Insurance Department. The Company contracted with an external independent CPA firm to perform an annual audit of its financial statements.

## STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. §83-19-31(2). The following chart displays the Company's total statutory deposits as held by the various states at December 31, 2015.

<b>Description</b>	<b>State Deposited</b>	<b>Carrying Value</b>	<b>Fair Value</b>
U.S. Treasury Note	Mississippi	\$ 555,306	\$ 551,810
Total Held in Mississippi		555,306	551,810
State Bond	Arkansas	252,972	261,170
U.S. Treasury Note	Florida	219,940	219,617
U.S. Treasury Note	Georgia	100,763	105,259
U.S. Treasury Note	U.S. Department of Labor	504,823	501,645
Total Held in all Other States or Jurisdictions		1,078,498	1,087,691
<b>Total of all States &amp; Jurisdictions</b>		<b>\$ 1,633,804</b>	<b>\$ 1,639,501</b>

## **FINANCIAL STATEMENTS**

### **Introduction**

The financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2015, a Summary of Operations for year ended December 31, 2015, and a Reconciliation of Capital and Surplus for the examination period ended December 31, 2015.

The following financial statements are based on the statutory financial statements filed by the Company with the Mississippi Insurance Department and present the financial condition of the Company for the period ending December 31, 2015.



**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2015**

**Admitted Assets**

Bonds	\$ 12,173,173
Cash and short-term investments	567,073
Investment income due and accrued	128,451
Funds held by or deposited with reinsured companies	3,247
Net deferred tax asset	11,976
Aggregate write-in:	
Other assets	3,113
<hr/>	
<b>Total admitted assets</b>	<b>\$ 12,887,033</b>

**Liabilities and Surplus**

Reinsurance payable	\$ 1,552,604
Commissions payable	1,602,574
Taxes, licenses, and fess	460,353
Current federal income taxes	7,797
Advance premiums	78,825
Ceded reinsurance premiums payable	497,004
Amounts withheld by Company for account of others	9,563
<hr/>	
<b>Total liabilities</b>	<b>4,208,720</b>
<hr/>	
Common capital stock	1,000,000
Gross paid in and contributed surplus	4,000,000
Unassigned funds	3,678,313
<hr/>	
<b>Surplus as regards policyholders</b>	<b>8,678,313</b>
<hr/>	
<b>Total liabilities and surplus</b>	<b>\$ 12,887,033</b>

**SUMMARY OF OPERATIONS  
FOR YEAR ENDED DECEMBER 31, 2015**

**Underwriting Income**

Other underwriting expenses incurred	\$ 218,671
Net underwriting loss	(218,671)

**Investment Income**

Net investment income earned	283,186
Net realized capital gains	24,201
Net investment gain	307,387

**Other Income**

Net loss from agents' or premium balances charged off	(46,088)
Finance or service charges not included in premiums	248,160
Total other income	202,072

Net income before dividends to policyholders, after capital gains tax and before all other federal income taxes	290,788
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Dividends to policyholders	-
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Net income after dividends to policyholders, after capital gains tax and before all other federal income taxes	290,788
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Federal income taxes	4,615
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<b>Net income</b>	<b>\$ 295,403</b>
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**RECONCILIATION OF CAPITAL AND SURPLUS  
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2015**

	2015	2014
Capital and surplus, beginning of the year	\$ 8,418,868	\$ 8,177,935
Net Income	295,403	243,737
Change in net deferred income tax	(27,384)	(12,503)
Change in nonadmitted assets	(8,574)	9,699
Capital and surplus, end of the year	\$ 8,678,313	\$ 8,418,868

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS  
DECEMBER 31, 2015**

There were no changes made to the admitted assets, liabilities, or surplus balances reported by the Company for the year ended December 31, 2015. The surplus as regards policyholders, which totaled \$8,678,313 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31(1)(b).

## **MARKET CONDUCT ACTIVITIES**

### **Policyholder Services**

The Company maintained complaint documentation during the period under examination. All complaints appeared to have been appropriately resolved and no policyholder abuse was noted.

### **Underwriting and Rating**

It appeared that all cancellation, nonrenewal, discontinuance, and declination notices comply with policy provisions, state laws and the regulated entity's guidelines.

### **Claims Handling**

Claim files were reviewed for general indicators of policyholder treatment concerns. No significant areas of concerns noted.

### **Producer Licensing**

The Company was appropriately licensed to issue its products and agents writing business for the Company appeared to have been properly licensed and appointed.

### **Privacy**

Privacy notices were sent to the Company's policyholders

## **COMMITMENTS AND CONTINGENT LIABILITIES**

There were no commitments or other contingent liabilities noted during this examination.

## **SUBSEQUENT EVENTS**

During 2016, Lisa Ann Krouse was elected as a Director, Craig Allan Johnson was nominated as Chairman, Robert Winthrop Flanders was elected Vice Chairman, John Thomas Stafford retired as a Director, and Joseph Anthony Keene retired as Executive Vice President.

## **COMMENTS AND RECOMMENDATIONS**

The examination did not identify any material comments and/or recommendations deemed appropriate for inclusion in the examination report

## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-Charge:	Philip D. Engelhart, CPA, AIAF, CFE
IT Specialist:	Joanna Latham, CISA, AES, CPA, CFE
Actuary Specialist:	Anthony Pipia, ACAS, MAAA
Actuary Specialist:	Gustave Krause, FCAS, MAAA, FCA
Examiner:	Chris Davis, CPA
Examiner:	Paul Sliwinski, CPA, ARe
Supervising Examiner:	Thomas Mayberry, CPA, CFE

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



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Philip D. Engelhart, CPA, AIAF, CFE  
Examiner-in-Charge