

SOUTHERN EAGLE INSURANCE COMPANY **INSOLVENCY REPORT**

The format of each Insolvency Report should include the following section headings and content.

Receivership Information/Reference: Each Insolvency Report shall begin with a table setting forth the following information:

Name of Receivership	SOUTHERN EAGLE INSURANCE COMPANY (SEIC)
Receivership Number	538
Date of Conservation	N/A
Date of Rehabilitation	12/6/2011
Date of Liquidation	12/16/2011

Scope: This section should consist of a restatement of the instructions the provider receives from the Division Director or the Assistant Division Director of the Division of Rehabilitation and Liquidation, Florida Department of Financial Services. The section should set out the location and dates upon which the document review was conducted and the name(s) of the provider's employees who conducted the review. This section should also include a recitation of the authority under which the insolvency report is written. The report should specifically refer to, and may incorporate, Section 631.398, Florida Statutes, regarding the prevention of insolvencies. The authority under which this insolvency report is written is Section 631.398 (3) Florida Statutes, which states as follows:

631.398 Prevention of insolvencies.—To aid in the detection and prevention of insurer insolvencies or impairments:

(1) Any member insurer; agent, employee, or member of the board of directors; or representative of any insurance guaranty association may make reports and recommendations to the department or office upon any matter germane to the solvency, liquidation, rehabilitation, or conservation of any member insurer or germane to the solvency of any company seeking to do an insurance business in this state. Such reports and recommendations are confidential and exempt from the provisions of s. 119.07(1) until the termination of a delinquency proceeding.

(2) The office shall:

(a) Report to the board of directors of the appropriate insurance guaranty association when it has reasonable cause to believe from any examination, whether completed or in process, of any member insurer that such insurer may be an impaired or insolvent insurer.

(b) Seek the advice and recommendations of the board of directors of the appropriate insurance guaranty association concerning any matter affecting the duties and responsibilities of the office in relation to the financial condition of member companies and companies seeking admission to transact insurance business in this state.

(3) The department shall, no later than the conclusion of any domestic insurer insolvency proceeding, prepare a summary report containing such information as is in its possession relating to the history and causes of such insolvency, including a statement of the business practices of such insurer which led to such insolvency.

History.—ss. 28, 39, ch. 83-38; ss. 187, 188, ch. 91-108; s. 4, ch. 91-429; ss. 2, 6, ch. 93-118; s. 385, ch. 96-406; s. 1351, ch. 2003-261.

Business:

This section should provide historical information regarding the company, including the date and location of incorporation, the date the company began doing business in Florida, and a discussion of the lines of business, certificates of authority, geographic areas, operating results, ownership, and affiliates. Please include an organization chart similar to the NAIC Schedule Y.

Historical information related to the company is as follows:

- Date and location of incorporation – SEIC, a workers’ compensation only insurance company, was originally incorporated on May 19, 2005 in the state of Florida. The principal office was located at 410 43rd Street West, Suite N, Bradenton, FL 34209. SEIC was a wholly-owned subsidiary of Peel-Bushong Holding Corp., a company domiciled in the state of Florida. Administrative Concepts Corporation (“ACC”) was an affiliated entity through common ownership with a common business purpose. ACC became the sole workers’ compensation policyholder of SEIC at the time of SEIC’s approval to transact insurance business in the state of Florida through a certificate of authority issued by the Florida Office of Insurance Regulation. SEIC commenced business on June 1, 2005.
- Lines of Business – SEIC was authorized to transact in the Workers’ Compensation (0016) Line of Business
- Geographic areas – SEIC primarily transacted business in the state of Florida
- Operating results – the following information was taken from the 2010 Annual Statement Five-Year Historical Data page:

	2010	2009	2008	2007	2006
Gross Premiums Written	\$6,625,213	\$9,054,756	\$12,600,209	\$18,28,772	\$18,603,467
Net Premiums Written	\$4,748,976	\$6,971,014	\$10,516,636	\$15,068,561	\$16,635,046
Net Income (loss)	\$466,156	(\$2,592,109)	\$255,021	\$2,031,583	\$2,458,722

Management:

This section should identify the people involved in the ownership and management of the company. Job titles, dates of employment, results, and effectiveness of those persons materially affecting the operation of the business should be discussed. At a minimum, the report should identify the officers and directors of the company at the time of receivership. Include as exhibits any orders, fines, and settlements reached (either administrative or court ordered) by individual shareholders or management members. Any finding that an affiliate agreement, holding company statute or rule was not followed should also be documented and commented upon.

- Officers reported as of the 9/30/2011 Quarterly Financial Statement: Sarah Peel – CEO / COO / Treasurer; Christine Broomell – Secretary
- Directors reported as of the 9/30/2011 Quarterly Financial Statement: Sarah Peel, James Roger Zuhlke, Craig Edward Johnson, Christine Marie Broomell, Kevin Todd Walton

Background/Events of Impact:

George Bushong had a long time involvement with the employee leasing industry and was part of the original group that created Staff Leasing in Bradenton, Florida in the early 1980s. In 1995, Mr. Bushong started Administrative Concepts Corporation ("ACC"), a leasing and benefits business. Sarah Peel and Bushong were married in December 1998 and by the time they filed for divorce in May 2011, they owned and operated several professional employee related companies affiliated with ACC, the ACC Companies, providing payroll administration and taxes, risk management, and recordkeeping services to businesses. Their services also included staffing/pre-employment screening, employee administration, employment compliance, employee benefits, and other retirement planning services to construction trades, accounting firms, high-tech companies, and small manufacturers; and professionals, including doctors, retailers, mechanics, and engineers.

In 2005, Peel and Bushong started SEIC, with Peel as its principal. SEIC provided workers' compensation insurance to ACC employee leasing clients. In 2008 Peel and Bushong formed Four Corners of Excellence, Inc. a holding company for all the ACC affiliates.

On November 15, 2011 SEIC submitted its September 30, 2011 Quarterly Financial Statement to OIR in which it reported surplus as regards policyholders of \$3,624,884. Pursuant to Section 624.408, Florida Statutes, SEIC was required to maintain a minimum surplus of \$4,000,000. Based on those amounts, SEIC was deemed to be impaired.

Subsequently, on November 29, 2011, Sarah Peel submitted a Corrective Action Plan to OIR. Ms. Peel represented that the retroactive accrued premium receivable due SEIC from ACC was in dispute and that she believed that there would be no amounts due from ACC for the years 2005-2008. SEIC had reported the amount to be \$10,178,678 on the September 30 Quarterly Statement. Based on Ms. Peel's representation, that amount was reduced to \$0 and reduced surplus to (\$6,553,744). SEIC was deemed to be insolvent by OIR and referred to the Division for initiation of receivership proceedings.

The Receiver retained Steven Glicksman to assess amounts owed by the ACC Companies to SEIC and Glicksman has determined that the ACC Companies owe SEIC in excess of \$14 million for workers' compensation retrospective premiums for 2005 through 2009, a policy deductible for 2010 and a 2011 premium (collectively, the "ACC Receivable"). The ACC Insureds were SEIC's primary client, but failed to pay the ACC Receivable for the years 2005 to 2011.

This section should include a discussion of any series of events or circumstances impacting the insurer and/or its business enterprises. It may include a list of reasons, such as consumer complaints, which brought the company to the attention of the Office of Insurance Regulation. Please reference and include a discussion of any orders from the Florida Department of Financial Services or the Office of Insurance Regulation which may have had impact on the company, including any administrative supervision orders and those revoking or suspending Certificates of Authority or charging fines. Any referenced orders should be attached as exhibits to the report.

Underwriting Results:

This section should include a discussion of any trends, costs, and ratios impacting the business. According to the SEIC 2010 Annual Statement Five-Year Historical Data page, the Net Underwriting Gain (Loss) was \$45,121 for 2010, (\$3,744,522) for 2009, \$434,635 for 2008, \$2,853,630 for 2007, and \$3,272,723 for 2006.

Reinsurance:

This section should describe the reinsurance that was in force at the time of liquidation. Please include a discussion on any reinsurance recoveries, costs, etc. Include references to any documents that conclude that the company had reinsurance that did not transfer risk or conclude that the company failed to properly collateralize reinsurance.

Reinsurance ceded:

SEIC purchased Excess of Loss Treaty reinsurance through the BMS Group, a reinsurance intermediary based out of London, UK. The reinsurance treaty was structured as follows:

- 1st Layer: \$750,000 xs \$250,000
- 2nd Layer: \$4,000,000 xs \$1,000,000
- 3rd Layer: \$5,000,000 xs \$5,000,000

Reinsurance assumed:

SEIC also had assumed reinsurance at 100% on behalf of Star Insurance Company (Star), a Michigan based insurance company, since several ACC clients required a higher rated carrier than what SEIC could offer. The claims for the business generated by the Star book of business are managed by Meadowbrook Insurance Group, a Star affiliate. Star required SEIC to encumber SEIC assets for the payment of Star claims and subsequently required a personal guarantee letter of credit from the SEIC major shareholder.

Financial:

This section should include a discussion of the company's capitalization, income and expenses, financial flexibility, investment activity/plans and investors (if other than the referenced management). Business strategies implemented by the company concerning the possible growth and expansion of the company, if any, should also be discussed. This section may include an analysis of the company's reserving practices and apparent cost of resolving claims through litigation or otherwise. It should include details regarding any unusual or inappropriate operating costs or other transactions. Finally, the section should include specific details pertaining to the company's financial condition as of the date of receivership, including any capital or surplus deficiency as may have been determined by the Office of Insurance Regulation.

	Year Ended 12/31/2010	Year Ended 12/31/2009	Year Ended 12/31/2008	Year Ended 12/31/2007	Year Ended 12/31/2006
Total Admitted Assets	\$18,659,267	\$22,891,848	\$23,348,249	\$24,133,632	\$21,035,715
Total Liabilities	9,896,263	13,855,064	12,176,565	12,370,194	11,059,972
Surplus (Deficit)	8,763,004	9,036,784	11,171,684	11,763,438	9,975,743
Premiums Earned	8,270,293	3,774,547	9,972,828	14,719,752	16,635,046
Total Underwriting Deductions	<u>8,225,172</u>	<u>7,519,069</u>	<u>9,538,193</u>	<u>11,866,122</u>	<u>13,362,323</u>

Net Underwriting Gain (Loss)	45,121	(3,744,522)	434,635	2,853,630	3,272,723
Net Investment Gain	122,894	65,101	86,533	472,438	575,520
Other Income					
Federal income taxes incurred (Recovered)	<u>(298,141)</u>	<u>(1,087,312)</u>	<u>266,147</u>	<u>1,294,485</u>	<u>1,389,521</u>
Net income (loss)	<u>\$466,156</u>	<u>(\$2,592,109)</u>	<u>\$255,021</u>	<u>\$2,031,583</u>	<u>\$2,458,722</u>

Miscellaneous/Other: N/A

Conclusion:

Ultimately, the cause(s) of the SEIC insolvency may not be as clearly identified as the Receiver might normally require. Assessment of the flow of money between the ACC Companies, SEIC, and their respective principles would likely have provided insight into funds due to pay the ACC Receivable were directed and potentially misdirected or improperly commingled. Given that ACC accounted for over 90% of the SEIC premiums from 2005 to 2010, the non-payment of the ACC Receivable was the proximate cause of the insolvency. However, an investigation into the reasons behind this non-payment, including misrepresentations, errors, omissions, or preferential transfers, was not conducted in sufficient depth due to the dearth of estate assets. This section should provide a concise summary of contributing factors impacting the insolvency. In particular, the Conclusion should identify if any of the following factors contributed to the insolvency:

- Deficient loss reserves (inadequate pricing)
- Rapid growth
- Potential fraud – management
- Potential fraud – other
- Overstated assets
- Miscellaneous discontinued operations
- Significant change in business
- Reinsurance failure
- Impairment of an affiliate

Any findings of such contributing factors should be fully discussed in the Insolvency Report, with appropriate references or exhibits attached as necessary to document the findings. The Conclusion should also include any other observations regarding actions, strategies, or developments that may have prevented the insolvency. As applicable and appropriate, the conclusion might also include constructive suggestions for improvements to procedures or amendments to rules and statutes in order to minimize the potential for future insolvencies.

References: This section should include a list of any documents relied upon in preparing the report, with a reference to the location of the document if it is included in the Receiver’s electronically maintained Master Files.

It may also include a brief summary of the documents. If a document that is relied upon is not previously imaged and maintained in the Receiver's Master Files, it should be attached as an exhibit to the insolvency report.

1. SEIC 2006 – 2010 Annual Statements filed with the NAIC