Seminole Casualty Insurance Company in Liquidation
Insolvency Report
April 10, 2015

Receivership Information/Reference:

Name of Receivership	**Seminole Casualty Insurance Company (SCIC)**
Receivership Number	532
Date of Conservation	N/A
Date of Rehabilitation	N/A
Date of Liquidation	March 15, 2011

Scope:

As provided in that Provider Contract Amendment No. 1 between the "Receiver of the Estate of Seminole Casualty Insurance Company (SCIC)" (the Receiver being the Florida Department of Financial Services, Division of Rehabilitation and Liquidation), hereinafter referred to as "RECEIVER" and Gregory, Sharer & Stuart, P.A., hereinafter referred to as "PROVIDER" effective October 14, 2013, under Section 5, SCOPE OF WORK, states in part:

> 5.1 Prepare an insolvency summary report ("Insolvency Report"), pursuant to the requirements of *631.398 (3), Florida Statutes,* relating to the history and causes of insolvency, including a statement of the business practices of SEMINOLE CASUALTY INSURANCE COMPANY (SCIC), which led to the company's insolvency.
>
> 5.1.1 For the receivership listed in paragraph 5.1, PROVIDER will review the company's records in the RECEIVER's possession for information relating to the cause(s) of the company's insolvency and prepare and submit an approved, written summary report on those causes. The initial review of records should be performed at RECEIVER's offices; other work may be performed at PROVIDER's offices.

The document review of the files in the PROVIDER's possession was conducted at various dates from October 18, 2011through the date of this report, inclusive, by Daniel J. Hevia, CPA at the PROVIDER's offices.

The authority under which this insolvency report is written is Section 631.398, Florida Statutes, which states as follows:

Title XXXVII Chapter 631
INSURER INSOLVENCY; GUARANTY OF INSURANCE PAYMENT

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.

<u>Business</u>:

Historical information regarding SCIC is as follows:

- **Date and Location of Incorporation**: SCIC originally incorporated in Florida on June 9, 1988[1].

- **Date the Company Began Doing Business in Florida:** SCIC was licensed to begin doing business in Florida as a property and casualty insurance company in December 1988[2] and continued to do so through March 2011.

- **Lines of Business**: SCIC was licensed in 8 states but wrote primarily personal and commercial auto insurance only in Florida and Maryland. As of February 28, 2011, SCIC had a total of 36,671 Florida personal auto policies, 1,764 commercial auto policies and 2,644 artisan contractors' general liability policies. Additionally, SCIC had approximately 1,160 Maryland personal auto policies in force.[3]

- **Certificates of Authority**: At the time of insolvency, SCIC was operating under a certificate of authority issued by the states of Florida and Maryland.[4]

- **Geographic Areas**: At the time of insolvency, SCIC's area of insurance coverage was Florida and Maryland.[5]

- **Operating Results**: According to SCIC's 2010 NAIC Annual Statement[6]:
  - Premiums earned were $28,520,653 and $28,872,965 in 2010 and 2009, respectively.
  - Underwriting income (loss) was ($17,328,336) and ($8,056,385) in 2010 and 2009, respectively.
  - Net income (loss) was ($13,709,928)) and ($3,828,932) in 2010 and 2009, respectively.

- **Ownership**: SCIC's 2010 NAIC Annual Statement identified The Estate of Carl Seaman as the owner of SCIC[7]. SCIC's 2010 Annual Report filed with the Florida Secretary of State listed the following officers and directors at December 31, 2010[8].
  - Randy Sutton, President and Director

- Steven Mevorah, Secretary and Director
- William Joyce, Treasurer and Director
- Linda Seaman, Director
- Steven Halper, Director
- Leslie Genatt, Director

- **Affiliates**: SCIC's 2010 NAIC Annual Statement identified the following affiliates[9]:

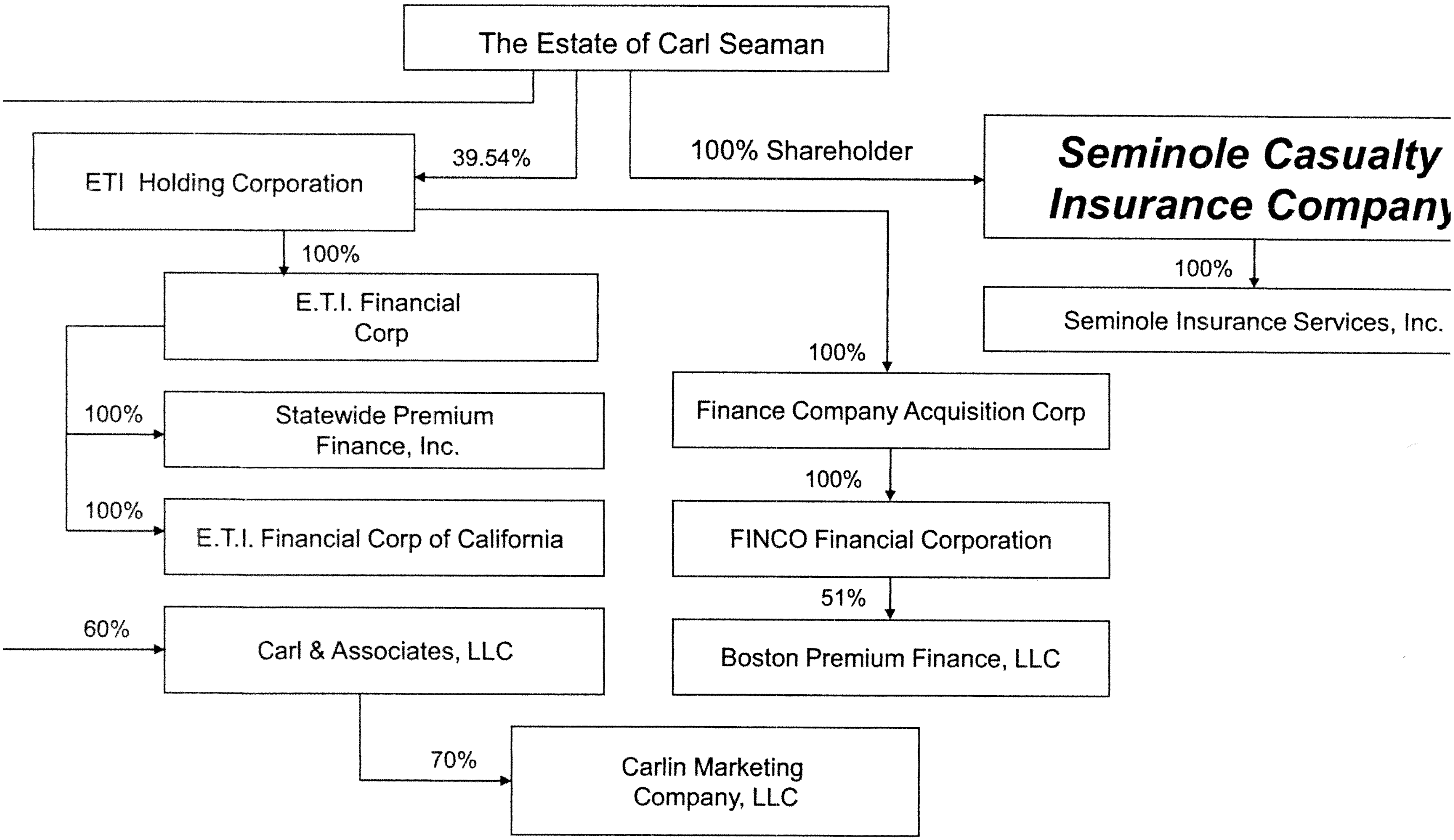
  The Estate of Mr. Carl Seaman, which owns 100% of the Company's total outstanding shares of Common Stock, also owns 39.54% of ETI Holding Corporation and 70% of Carlin Marketing Company, LLC. During 2010 and 2009, approximately 45% and 43% of the Company's financed business was financed through E.T.I. Financial a wholly owned subsidiary of ETI Holding Corporation. E.T.I. Financial loans the insured fund to pay premiums. The Company receives proceeds of those loans at time of application and pays return premiums to E.T.I. Financial.

  From 2006 to 2010 SCIC entered into marketing and investment management agreements with Metlin Marketing, LLC (Metlin) and Carlin Marketing Company (Carlin). Metlin and Carlin were controlled and principally owned by the principal owner of SCIC, Carl Seaman. From 2006 to 2010 SCIC paid to Metlin $2,150,600 and to Carlin $7,739,862 in fees.

  The Company also owned 100% of Seminole Insurance Services, Inc., a managing general agent through which premiums were written.

- **Organization Chart**: The following Organizational Chart was taken from Schedule Y of SCIC's 2010 NAIC Annual Statement:

Organizational Chart – Seminole Casualty Insurance Company



Management :

The management of SCIC was comprised of the following officers and directors[10]:

- Ronald Sammarios served as a member of the Board of Directors from July 17, 2007 until August 2010. He also served as President from July 17, 2007 until August 3, 2010.
- Dana Seaman served as a Director from 2006 until her resignation on June 5, 2009.
- Randy Sutton was a member of the Board of Directors from May 10, 2007 until March 15, 2011. During 2006 he was the CFO and Treasurer and on July 17, 2007 became the CEO. A position he retained until March 15, 2011.
- Leslie Genatt served a member of the Board of Directors from August 13, 2007 until March 15, 2011.
- Joseph Scaturro served as a member of the Board of Directors during 2006 and 2007 until his removal May 10, 2007. He also served as president until May 2007
- Myron Finkelstein served as member of the Board of Directors during 2006 and until March 5, 2007.
- Steven Halper served as a member of the Board of Directors from May 10, 2007 until March 11, 2011.
- Steven Mevorach served as a member of the Board of Directors during 2006 and until March 15, 2011 and also served at various times as an officer.
- Linda Seaman served as Chairman of the Board of Directors from May 1, 2009 until March 15, 2011.

From January 1, 2006 until his death in April 2009 Carl Seaman was an 80% shareholder of SCIC. After his death the co-executors of his estate became an 80% shareholder. In late 2009 the co-executors for the Seaman estate acquired the remaining 20% of the outstanding ownership in SCIC from Joseph Scaturro as part of a settlement of a shareholder dispute, and became the 100% owner of SCIC[11].

The Department entered into two agreements to settle claims against the officer, directors and owners of SCIC for actions more fully described below. The settlements resulted in gross recoveries of $5.4 million.[12]

Background/Event of Impact:

SCIC was licensed as a property & casualty insurer in 1988 to write personal and commercial automobile insurance in the State of Florida. The Company was licensed in 8 states – Florida, Alabama, Georgia, Maryland, Nevada, New York, Pennsylvania and Tennessee. However, it wrote coverage exclusively in Florida and Maryland.

As of February 2011 the Company has a total of 36,361 Florida automobile policies and 1,764 commercial auto policies and 2,644 artisan contractor general liability policies. Additionally, the company had approximately 1,160 personal auto policies in Maryland in force.[13]

SCIC entered into marketing and investment management agreements with Metlin Marketing LLC (Metlin) and Carlin Marketing Company LLC (Carlin) from the years 2006 to 2010.Both of these companies were controlled by Carl Seaman, the principal shareholder of SCIC. During these years SCIC paid to Metlin $2,150,600 and to Carlin $7,739,862 in fees[14].

Based on a forensic investigation conducted of the transactions between SCIC and Metlin and Carlin it is believed that that these entities provide few if any services to SCIC and the fees charged by these entities were considerably in excess of what would have been paid had these services been received from an unrelated third-party. Payments to these entities amounted to illegal distribution to the SCIC shareholders and related parties. Had these funds not been paid out to Metlin and Carlin, SCIC would have had these additional funds available to pay policyholder claims or remain in the company's surplus and be available to the Receiver to pay policyholder claims[15].

In 2013 the Department brought legal action against the officers, directors and owners of SCIC seeking to recover amounts paid to Metlin and Carlin as being excessive and unreasonable. These claims were settled in 2013 for 5.4 million.[16]

SCICs primary line of business was personal and commercial automobile coverage . This line of business represented approximately 96% of direct written premiums for 2010 and 2009 and 97% for 2008[17].

SCIC report losses from operations from 2007 to 2010. Its total capital and surplus decreased from $15,405,381 at January 1, 2007 to a negative $(5,793,852) at December 31, 2010[18].

As of December 31, 2010 the Company reported a negative surplus of ($5,793,852) and a net loss of ($13,709,928) for 2010[19]. The 2010 loss was due largely to a change in actuarial estimates of ultimate claims losses and negative claims development for prior years and 2010 claims. Prior year's negative claims development was $6.6 million. Based on its 2010 annual filing, a determination was made by the Office of Insurance Regulation that SCIC was insolvent and did not maintain the statutorily required level of surplus for a P&C insurer as required by Section 62.408, Florida Statutes. As a result SCIC's certification of authority was suspended effective March 4, 2011.[20]

Loss reserves appear to have understated in years prior to 2010. It is likely that SCIC was under its minimum surplus requirement of $4 million as early as the first or second quarter of 2009 due to understatement of loss reserves in its annual statements. While most of SCIC's cumulative losses arose in 2010 and 2009, there are indications of financial stress as early as 2007 when SCIC started becoming unprofitable.

Underwriting Results:

Underwriting results for SCIC's years ended December 31, 2010, 2009, 20098 and 2007 as reported in its annual statement were as follows:[21]

	2007	2008	2009	2010
Underwriting Income	$ 34,185,265	$ 35,980,896	$ 28,872,965	$ 28,520,653
Underwriting Expenses:				
Losses and LAE Incurred	$ 23,717,566	$ 27,773,337	$ 26,502,594	$ 32,466,903
Loss Ratio	69.4%	77.2%	91.8%	113.8%
Other Underwriting Expenses:				
Commissions & Brokerage				
Direct	$ 10,981,191	$ 14,172,056	$ 14,928,878	$ 10,013,723
Reinsurance Ceded	$ (6,351,131)	$ (9,034,436)	$ (12,897,043)	$ (4,027,042)
Policy Fees	$ 267,097	$ 304,814	$ 287,554	$ 280,230
Boards & Bureaus	$ 110,032	$ 134,602	$ 37,810	$ 204,908
Payroll and Payroll Related	$ 4,549,748	$ 4,497,957	$ 4,305,463	$ 4,141,269
Insurance	$ -	$ -	$ 110,728	$ 133,194
Travel	$ 194,527	$ 159,469	$ 141,887	$ 118,343
Rent	$ 137,288	$ 166,144	$ 162,529	$ 143,252
Equipment	$ 275,939	$ 243,729	$ 259,297	$ 354,508
Postage and Telephone	$ 243,632	$ 325,416	$ 364,357	$ 446,553
Legal & Audit	$ 640,278	$ 521,513	$ 283,432	$ 236,391
Taxes Licenses	$ 689,723	$ 657,517	$ 844,451	$ 487,413
Outside Consulting	$ 408,406	$ 325,825	$ 557,193	$ 542,542
Other	$ 569,702	$ 547,216	$ 1,040,220	$ 306,802
Total Other Underwriting Expenses	$ 12,716,432	$ 13,021,822	$ 10,426,756	$ 13,382,086
Net Underwriting Gain (Loss)	$ (2,248,733)	$ (4,814,263)	$ (8,056,385)	$ (17,328,336)

The above analysis reveals a continuing deterioration in underwriting results of operation with increasing yearly losses from 2007 to 2010. This deterioration is primarily the result of increasing losses and LAE ratios. Loss ratios increased from 69% in 2007, to 77% in 2008, to 91% in 2009 and to 113% in 2010. Increasing loss ratios as reflected on SCIC's annual statement are attributed in part to negative development of loss reserves for earlier years and higher losses for 2009 and 2010.

SCIC experienced cumulative underwriting losses from 2007 through 2010 of over $32 million. Losses in 2010 alone were over $17 million.

Reinsurance:

SCIC has been party to various reinsurance agreements since its inception; however, all reinsurance agreements relating to policy years 2002 and earlier have been commuted.

We were unable to determine the reinsurance in force at the time of liquidation, however, the reinsurance in force through 2009 was as follows:[22]

a. Quota Share: A two-year quota share reinsurance contract covering SCIC's private passenger and commercial automobile business was entered into with Aspen Insurance Limited (Aspen) effective January 1, 2008. The contract with Aspen replaces the quota share treaty with Hannover Re (Ireland) and Swiss Re America that expired as of December 31, 2007. The basic terms of the new treaty were similar with both treaties covering SCIC's private passenger and commercial automobile physical damage and liability business. The ceding percentage was 40% for both years until December 31, 2008 when it was increased to 60%. Concurrently, SCIC entered into an agreement with Aspen as of that same date to cede an additional 20% of its unearned premium.

   In November 2010, SCIC commuted its reinsurance contracts with Hanover Re and Swiss Re as of December 31, 2009 for the 2003 through 2006 contract years and as of June 30, 2010 for the 2007 contract year.

b. Auto Physical Damage CAT (APD CAT) Treaty: Effective January 1, 2008, SCIC entered into a new auto physical damage catastrophe reinsurance treaty with a Lloyds of London Syndicate (Lloyds) replacing the expiring treaty which was also Lloyds. The coverage terms are $2.5 million excess $500,000 as compared to the $4.0 million excess of $1.0 million coverage for 2007. Estimates of SCIC's probable maximum loss (PML) under various scenarios showed that $4.0 million coverage was excessive so SCIC elected to decrease the coverage commensurate with its exposure.

   Effective January 1, 2009, SCIC entered into a new APD CAT reinsurance treaty with Shelter Mutual Insurance Company (50%), OBE Reinsurance Corporation (25%) and American Agricultural Insurance Company (25%) under the same coverage terms as the expiring treaty with the Lloyds of London Syndicate.

c. Artisan Contractors' General Liability: Effective November 1, 2007, SCIC entered into an agreement with Swiss Re America (Swiss Re) to provide excess of loss coverage on its new artisan contractors' general liability program. Under the terms of the treaty, Swiss Re will provide coverage of 95% of $875,000 excess $125,000 per occurrence and 95% of $3,500,000 total coverage per contract year. The coverage runs through December 31, 2008.

   Effective January 1, 2009, SCIC entered into a new reinsurance agreement with Scor Reinsurance Company (Scor Re) to replace the expiring treaty with Swiss Re. Under the terms of the new treaty, Scor Re will provide coverage of $850,000 excess of $150,000 per occurrence. The new treaty is effective for all policies issued on or after January 1, 2009 and the coverage runs through December 31, 2010.

The following page shows information related to reinsurance excerpted from SCIC 2008, 2009 and 2010 NAIC annual statements.

	2008	2009	2010
Balance Sheet			
Amount Recoverable from Reinsurers	$ 3,475,175	$ 6,720,667	$ 9,967,538
Ceded Reinsurance Payable	$ (7,218,000)	$ (9,493,000)	$ (10,688,000)
Other Amounts Receivable Under Reinsurance Contracts	$ 1,057,090	$ 1,095,739	$ 425,876
Funds Held Under Reinsurance Treaties	$ (8,593,000)	$ -	$ (4,906,000)
Net	$ (11,278,735)	$ (1,676,594)	$ (5,200,586)
Part 1 and 1B - Premiums Written/Earned			
Direct Business	$ 60,236,908	$ 68,074,286	$ 56,704,596
Reinsurance Assumed From Non- affiliates	$ -	$ -	$ -
Reinsurance Ceded to Non-Affiliates	$ 28,081,983	$ 38,567,254	$ 31,642,120
Net Premiums Written per Part 1	$ 32,154,925	$ 29,507,032	$ 25,062,476
Premiums Earned , Part 1 Column 4	$ 35,980,896	$ 28,872,965	$ 28,520,653
Part 2, Colum 3, Reinsurance Recovered	$ 11,827,063	$ 20,726,304	$ 30,108,241
Schedule F, Part 3			
Reinsurance Premiums Ceded	$ 28,081,000	$ 38,567,000	$ 31,642,000
Paid Losses and LAE	$ 3,475,000	$ 6,721,000	$ 9,968,000
Know Case Loss and LAE Reserves	$ 4,481,000	$ 8,750,000	$ 8,044,000
IBNR Loss and LAE Reserves	$ 1,892,000	$ 3,198,000	$ 7,115,000
Unearned Premiums	$ 14,938,000	$ 15,633,000	$ 13,776,000
Subtotal	$ 24,786,000	$ 34,302,000	$ 38,903,000
Ceded Balances Payable	$ 7,218,000	$ 9,493,000	$ 10,688,000
Net Recoverable	$ 18,499,000	$ 24,809,000	$ 28,215,000

Financial:

According to SCICs 2010 Annual Statement[23]:

Total Surplus at 12/31/10 was a negative ($5, 7938, 520). 2010 net losses were ($ 13,709,928) consisting primarily of $28,520,653 premiums earned less $45,848,989 underwriting expense. Other revenues comprised of finance and service charges reduced the net underwriting losses by $3,291,087.

In 2009 SCIC began to experience liquidity difficulties because of continuing higher than projected claims payments and the fact that much of it's policy premiums were billed on an installment basis with minimum down payments at inception of the policy. In fact the commission and reinsurance payouts on new policies was in excess of the cash collected from the customer at the inception of the policy. As of 12/31/10 the Company had $25.8 million in assets to cover liabilities (including projected claims losses) of $31.6 million. Of the total assets only $4.2 million was comprised of liquid cash and investments. The balance of the assets was comprised mostly of deferred premiums financed and reinsurance recoverable.

The capital deficiency as of the date of the receivership as determined by the Office of Insurance Regulation was ($5,793,852).

Conclusions:

For the years that SCIC operated as an insurance company, substantially all of its business was from writing personal and commercial automobile coverage. SCIC incurred continuing and growing losses from 2007 to 2010 largely due to deteriorating loss ratios and excessive marketing and investment management fees paid to related parties.

SCIC changed actuaries in 2010 and the opinion of the successor actuary showed significant negative development in prior years claims and under-reserving of claims particularly for 2009 and 2010.

While SCIC was experiencing losses, the owners of SCIC through marketing and investment agreements with related entities controlled by them took distributions from SCIC in excess of $9,890,462. These distributions were taken in the form of marketing and investment fees charged to SCIC. These distributions were not arms-length and these related entities performed little in the way of services and the fees were excessive and unreasonable.

A combination of the continuing underwriting losses, negative loss development for earlier years, and capital reduction caused by excessive marketing and investments fees paid to related entities, resulted in SCIC not having sufficient capital to support its operations and caused it to be insolvent.

The ultimate liquidation of SCIC is projected to leave a net deficit in excess of $22 million to cover the payment of remaining claims over and above the value of liquidation assets, which sum, will be borne by the Florida Insurance Guaranty Association and ultimately by other Florida auto insurance policyholders[24].

[1] SCIC Notes to Audited Financial Statements, Note 1, Years ended December 31, 2009 and 2008.

[2] Ibid

[3] SCIC 2010 NAIC Annual Statement

[4] SCIS Notes to audited financial statements, Note 1, year ended December 31, 2009 and 2008

[5] Schedule T of SCIC's 2010 NAIC Annual Statement

[6] Statement of Income from SCIC's 2010 NAIC Annual Statement

[7] Schedule Y of SCIC's 2010 NAIC Annual Statement

[8] 2010 for profit corporation annual report downloaded from Florida Secretary of State website

[9] Schedule Y SCIC 2010 NAIC Annual Statement

[10] Complaint filed in the circuit court in and for Broward County – Florida Department of Financial Services, as Receiver of Seminole Casualty Insurance Company vs. Linda Seaman Et Al

[11] Ibid

[12] Settlement agreements in FDFS vs Randy Sutton Et Al and settlement agreement in FDFS vs Linda Seaman Et Al

[13] SCIC Notes to Audited Financial Statements, Note 1, Year ended December 31, 2009 & 2008

[14] Complaint filed in the circuit court in and for Broward County – Florida Department of Financial Services, as Receiver of Seminole Casualty Insurance Company vs. Linda Seaman Et Al

[15] Ibid

[16] Settlement agreements in FDFS vs Randy Sutton Et Al and settlement agreement in FDFS vs Linda Seaman Et Al

[17] Exhibit of premiums and losses from SCIC, 2010 and 2009 NAIC Annual Statement

[18] Statement of Income of SCIC, 2007 to 2010 NAIC Annual Statement

[19] Balance Sheet and Statement of Income of SCIC 2010 NAIC Annual Statement

[20] FOIR order of March 4, 2011

[21] Statement of Income & Underwriting and Investment Exhibit Part 3 of NAIC Annual Reports for 2007 to 2010

[22] Note 7 of SCIC's 2009 Audited Financial Statements

[23] SCIC 2010 NAIC Annual Statement

[24] Complaint filed in the circuit court in and for Broward County – Florida Department of Financial Services, as Receiver of Seminole Casualty Insurance Company vs. Linda Seaman Et Al