

Examination Warrant Number 11-00000-37052-R1

**Report of Examination of  
Regis Insurance Company  
Wayne, PA**

**As of December 31, 2011**

**For Informational Purposes Only**

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Harrisburg, Pennsylvania  
April 26, 2013

Honorable Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 11-00000-37052-R1, dated, February 25, 2011, an examination was made of

**Regis Insurance Company, NAIC Code: 37052**

a Pennsylvania domiciled stock property and casualty company, hereinafter referred to as "Company", or "Regis." The examination was conducted at the Company's home office, located at 1325 Morris Drive, Wayne, PA 19087.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Company was last examined as of December 31, 2006.

This examination covered the five-year period from January 1, 2007 through December 31, 2011, and consisted of a general survey of the Company's business practices, management, and operations, and an evaluation of the Company's financial condition as of the latter date. Material subsequent events were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance Department ("Department") and the National Association of Insurance Commissioners ("NAIC").

The format of this report is consistent with the current practices of the Department and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

For each year during the period under examination, the Certified Public Accountant ("CPA") firm of Clairmont Paciello & Co. provided an unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA firm during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

## **HISTORY**

The Company was incorporated on April 30, 1979, licensed by the Department on July 9, 1979 and commenced business on July 9, 1979.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, Subsection (b), paragraphs (1) fire and allied lines and (2) inland marine and auto physical damage, and Subsection (c), paragraphs (3) glass, (4) other liability including professional liability, medical malpractice, etc., (5) boiler and machinery, (6) burglary and theft, (8) water damage, and (9) elevator.

## **MANAGEMENT AND CONTROL**

### **CAPITALIZATION**

As of the examination date, December 31, 2011, the Company's total capitalization was \$5,163,592, consisting of 10,000 shares of issued and outstanding common stock with a par value of \$200 per share amounting to \$2,000,000 in common capital stock, \$1,845,000 in gross paid-in and contributed surplus, and \$1,318,592 in unassigned funds ("surplus").

To engage in the types of business for which it is licensed, the total capitalization required of the Company is \$950,000 in capital and \$475,000 in surplus. The Company meets this requirement.

### **STOCKHOLDER**

The Company is substantially wholly-owned by Tiber Holding Corporation ("THC"), a Delaware company. According to SSAP No. 25, paragraph 4, "Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee." Therefore, the Company's President, Mr. Richard A. Di Loreto ("RAD"), is effectively the Ultimate Controlling Person ("UCP") of the insurance holding company system, based on his direct management of THC and his indirect ownership of THC.

There were no dividends paid during the examination period. But, during 2007 and 2008, total contributions of \$400,000 were made to the Di Loreto Foundation, which was founded by the UCP. The contributions are thereby considered as "other distributions" in accordance with 40 P.S. §§ 991.1404(e) and 1405(b), and Title 31, Pa. Code § 25.22.

### **INSURANCE HOLDING COMPANY SYSTEM**

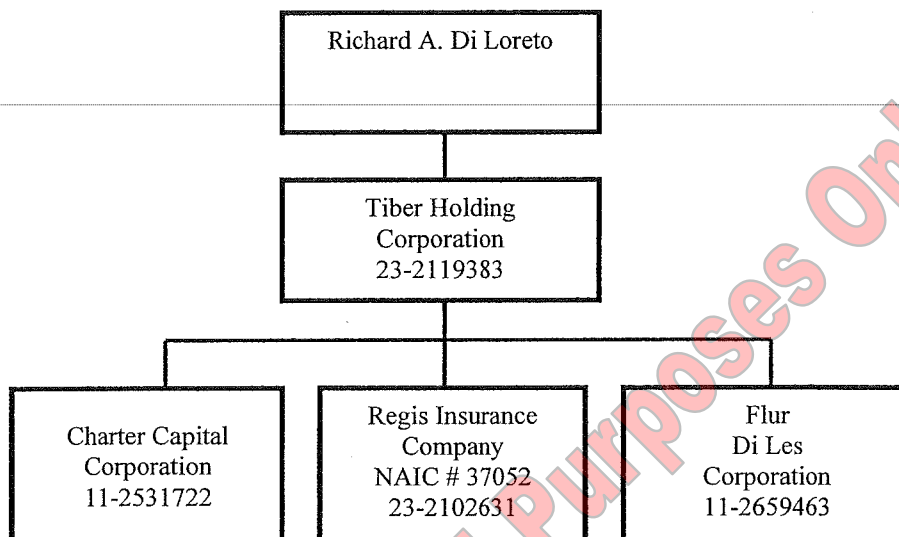
The Company meets the requirements for filing an Insurance Holding Company System Registration Statement, in compliance with 40 P.S. §§ 991.1401-991.1413. For each year during the examination period, the Company filed the appropriate Insurance Holding Company Registration Statements with the Department.

## Regis Insurance Company

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Jeanne S. Di Loreto owns 34% of THC's outstanding shares, the Di Loreto Foundation owns 57%, and Mary Di Loreto Ciullo owns 9%. However, as previously noted, Richard A. Di Loreto is the UCP.

Functional members of the Holding Company System include the following entities briefly described below:



THC is a Delaware company whose sole activity is to function as a holding company for the above entities. Its CPA audit report as of December 31, 2011 disclosed that it was uncertain whether THC could continue as a going concern. Mr. DiLoreto is the UCP of THC by reason of his actual control, although he is not the legal owner of its outstanding stock.

Charter Capital Corporation ("CCC"), a Delaware corporation, and Flur Di Les Corporation ("FDL"), a Delaware Corporation (previously Fleur De Lis Corporation, a New York corporation), are real estate investment companies.

## BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2011:

### **Name and Address**

Richard A. Di Loreto  
Malvern, PA

Mary Di Loreto Ciullo  
Old Brookville, NY

Jeanne S. Di Loreto  
Fort Myers, FL

O'Neil D. Bouknight  
East Norwich, NY

### **Principal Occupation**

CEO, President, & CFO  
Regis Insurance Company

Insurance Broker & Corporate Secretary  
Regis Insurance Company

Investment Committee Chair  
Regis Insurance Company

Retired Engineer

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Anthony J. Maltese  
Palm Coast, FL

Edwin B. Barber  
Demarest, NJ

Timothy C. Rivers  
Daufuskie Is., SC

Richard A. Di Loreto, Jr.  
West Chester, PA

Retired Reinsurance Accountant

Self-employed  
Reinsurance Consultant

Retired  
Reinsurance Consultant

President  
A-Sys-T Inc.

At the Annual Stockholder Meeting, all Directors are elected to serve a one-year term. In accordance with good business practices, it is required that each director, officer, and key employee should complete and annually file a written Conflict of Interest Questionnaire with the Company's Board, detailing any real or potential conflicts between the Company's interests and the respective interests of each individual. The Company currently has no written policy of such requirement and no documentation of any filings. The Company meets the requirements for filing an Insurance Holding Company System Registration Statement, in compliance with 40 P.S. §§ 991.1401-991.1413.

*It is recommended that the Board formalize a policy to require annual written conflict of interest statements to be filed by its directors, officers, and key employees as required in accordance with good business practices.*

## COMMITTEES

The Directors and/or Officers were assigned to serve on the following Committees as listed below:

### Administrative Committee

Edwin B. Barber

Anthony J. Maltese

O'Neil Bouknight

Timothy Rivers

### Investment Committee

Jeanne S. Di Loreto, Chairman

Timothy Rivers

Richard A. Di Loreto

40 P.S. § 991.1405(c)(3), Standards of management of an insurer within a holding company system, states: "not less than one-third of the directors of a domestic insurer and not less than one-third of the members of each committee of the board of directors of any domestic insurer shall be persons who are not officers or employees of such insurer or of any entity controlling, controlled by or under common control with such insurer and who are not beneficial owners of a controlling interest in the voting stock of such insurer or of any such entity. At least one such person must be included in any quorum for the transaction of business at any meeting of the board of directors or any committee thereof."

Likewise, 40 P.S. § 991.1405(c)(4) and (4.1), Standards of management of an insurer within a holding company system, states: "The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or

employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have the responsibility for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating committees for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers."

The Board is in compliance with the above independence requirement, since more than one-third of the members are not officers, employees, or beneficial owners of a controlling interest in the Company's voting stock or of its controlling company.

The Administrative Committee is likewise in compliance with all the foregoing provisions concerning independence and annually recommends the auditors' appointment, reviews the insurer's financial condition, the scope and results of the independent audit and nominates committees for director for election by shareholders or policyholders, evaluates the performance of officers deemed to be principal officers of the insurer and recommends to the board of directors the selection and compensation of the principal officers.

## OFFICERS

As of the examination date, December 31, 2011, the following officers were appointed and serving in accordance with the Company's By-laws:

Name	Title
Richard A. Di Loreto	President & Treasurer
Mary Di Loreto Ciullo	Secretary
Jeanne S. Di Loreto	Vice Chairman
George Morrison	Vice President
Karen Standen	Vice President
Wendy Ferguson	Vice President

## CORPORATE RECORDS

### MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's stockholder were held in compliance with its By-laws.
- The stockholder elects directors at such meetings in compliance with the By-laws.
- The stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The individual investments are not properly approved as required by 40 P.S. § 653b, which states that "No investment or loan or an investment practice shall be made or



engaged in by any domestic company unless the same has been authorized or ratified by the board of directors or by a committee thereof charged with the duty of supervising investments or loans.”

- All directors regularly attend Board meetings.
- The Company’s Board meeting minutes do not show evidence of the Board’s approval of the reinsurance contracts.

*It is recommended that the Company comply with 40 P.S. § 653b by requiring the approval of all Company investment transactions by either the Board or a Board committee which is charged with that duty.*

*It is recommended the Board of Directors review and approve all new or modified Reinsurance agreements and that these Board actions are documented in the Board of Director meeting minutes.*

## ARTICLES OF AGREEMENT

There were no changes during the current examination period.

## BY-LAWS

There were no changes during the current examination period.

## SERVICE AND OPERATING AGREEMENTS

### LEASE FOR OFFICE SPACE

The Company leases its office space under an agreement with FV Office Partners, LP, which expires on April 30, 2015. For 2011, the office rent was \$188,303 and future minimum lease payment commitments through the expiration date amount to \$552,896. This lease with an unrelated entity appears to be fair and reasonable.

### INFORMATION TECHNOLOGY (“IT”) SERVICES

On December 12, 2011, the Company agreed to acquire IT services on an hourly basis from A-Sys-T Inc. The resulting agreement with an unrelated entity specifies neither a termination date nor minimum fees, but otherwise appears to be fair and reasonable. However, it must be noted that, although neither the Company nor the UCP has any known direct or indirect ownership interest in A-Sys-T, it is wholly-owned by a director of the Company, who is also a son of the UCP.

### ISO RATING LICENSE

On June 20, 2011, the Company agreed to annually license the ISO rating system from AQS, Inc. under a Software License and Maintenance Agreement. The initial license fee was



\$75,000 in 2011, with \$3,750 quarterly payments thereafter, to cover rating updates and any software maintenance. This lease with an unrelated entity appears to be fair and reasonable.

### PERSONAL SERVICES AGREEMENT ("PSA")

On April 30, 2007, the Board agreed to extend the Company's PSA with "RAD" until December 31, 2013, continuing his compensation at \$200,000 per year as of January 1, 2001, annually adjusted for the Philadelphia consumer price index from that date onward. The terms and conditions remain unchanged, except for the lifetime extension of Mrs. Di Loreto's car expense payments, should RAD pre-decease her. In addition, in the event of RAD's death, 50% of his salary will be paid to Mrs. Di Loreto for the remainder of the PSA contract or until her death and they both continue to receive lifetime health insurance and personal nursing care. RAD also receives an office and secretarial services during the agreement and lifetime disability compensation at 50% of his normal rate. The agreement is non-cancelable, non-terminable and non-disputable and the Company will defend RAD's rights under this agreement at its own cost.

### TAX ALLOCATION AGREEMENT

On March 19, 2003, the Company and its affiliates signed an allocation agreement to file a consolidated Federal Income Tax Return and to share the federal tax liability in proportion to their separate, adjusted taxable incomes. The Agreement stated that it had been approved by the companies' Boards, but the Company's Board minutes did not state such approval had occurred. This Board approval was recommended in the prior examination report, but such approval was also not found in the Board minutes of the current examination.

*It is again recommended that the Company comply with 40 P.S. § 991.1405(a)(1)(iii) by having its Board approve the Tax Allocation Agreement and document such approval in its minutes.*

### REINSURANCE

#### CEDED

The Company entered into a Multi-line Excess of Loss contract with an effective date of April 1, 2006. The term of the original contract was for one year, and it has been renewed annually through the present time.

Reinsurer:	QBE Reinsurance Corporation, 50% Hannover Ruskversicherung AG., 50%
Type of contract:	Multi-line & Liquor Liability Excess of loss
Effective date:	March 1, 2004 to present
Term:	Annually renewed on April 1
Business covered:	All policies classified as Property and Casualty business, including Liquor Liability

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Company's retention:	Multi-line: currently \$500,000 per occurrence; from 3/1/04 to 3/31/11, \$650,000; from 4/1/11 to 3/31/12, \$500,000, and from 4/1/12 to 3/31/13, \$350,000 Liquor Liability: \$250,000 per occurrence from 3/1/04 to present; from 4/1/12, \$100,000 per occurrence
Reinsurance limits:	Multi-line: currently \$500,000 per risk, \$1,000,000 per occurrence for property; prior to 4/1/11, \$350,000 per risk, and \$700,000 per occurrence for property; from 4/1/12, \$650,000 per risk, and \$1,350,000 per occurrence for property Liquor Liability: currently \$250,000 per occurrence; prior to 4/1/10, \$400,000 per occurrence, and \$200,000 per occurrence from 4/1/10 to 3/31/11; \$250,000 per occurrence from 4/1/12
Reinstatements:	Multi-line: currently, two free, with \$500,000 per occurrence, then seven more at \$500,000 each for 50% of the annual premium; all with the same reinsurance limits, and a total contract limit of \$5,000,000 Liquor Liability: currently, two free with \$250,000 per occurrence, with the same reinsurance limits and a total contract limit of \$750,000

An annual deposit premium of \$385,000 is payable in quarterly installments of \$96,250. At contract expiration, the premium is adjusted at 8.2% of net earned premium, subject to an annual minimum of \$308,000.

The Company's current reinsurance intermediary, Axiom Re, Inc., and its prior intermediary, AON Benfield, are licensed by the Department as required by 40 P.S. §321, Article VII Reinsurance intermediaries; licensing. Furthermore, 40 P.S. §321.3 stipulates that "transactions between a Reinsurance Broker and insurer it represents shall only be entered into pursuant to a written authorization specifying the responsibilities of each party". The Company has entered into a written agreement with Axiom Re, Inc.

Reinsurer:	General Reinsurance Corporation
Effective date:	Property Facultative Binding Agreement
Term:	Effective 1/1/2006 to Present
Business covered:	Fire, allied lines, for the property coverage of commercial multiple peril policies
Company Retention:	\$1,000,000
Reinsurance Limit:	\$3,000,000

Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company

## Regis Insurance Company

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Type of contract:	Excess of loss
Term:	July 1, 2005 to present
Business covered:	Equipment Breakdown
Company's retention:	\$0
Reinsurance limits:	100% up to \$25,000,000 per policy, per accident

All reinsurance agreements contain appropriate insolvency and arbitration clauses. They also meet the minimum risk transfer requirements of SSAP No. 62.

On March 17, 2011, the Company and Everest Reinsurance Company ("Everest") agreed to commute excess of loss reinsurance contracts previously effective from September 1, 1989 through August 31, 1993. The Company had received lead paint toxicity claims relating to policies reinsured under those contracts and on June 18, 2010, had commenced arbitration proceedings against Everest to enforce recovery.

As a result of the commutation, the Company received \$31,279 from Everest for the disputed claims and an additional \$525,000 to settle any and all past, present, and future known and unknown reinsurance obligations under the Everest contracts. The net effect for the Company was a \$280,280 credit to Losses Incurred, after reversing the effect of previous entries relating to the claims. In return, the Company agreed to terminate the arbitration actions and to relieve Everest from involvement in any and all past, present, and future known and unknown reinsurance obligations under the contracts. The Company currently has one open lead paint toxicity claim for which it has established a reserve deemed adequate under the currently-known circumstances. It also has a substantial Incurred but Not Reported reserve open to cover any developments through the December 31, 2014 termination date for reporting any new claims.

### ASSUMED

The Company does not assume coverage from other insurers.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed in the following jurisdictions: Alabama, Delaware, District of Columbia, Indiana, Maryland, Massachusetts, North Carolina, Ohio, Pennsylvania, Tennessee, and West Virginia. On a non-admitted basis, the Company also writes business as a surplus lines carrier in Georgia, Illinois, and Kentucky.

The Company principally writes package policies for small and medium-sized commercial risks. These policies include property, multiple peril, inland marine and general liability coverage. They sometimes include liquor liability coverage, if the liquor sales are an incidental part of the overall business. Nearly all the package policies also contain equipment breakdown cover.

The Company obtains its business through a network of more than one hundred (100) brokers located in the eastern and southern sections of the United States. Most of them have a long tenure with the Company and have no legal ties with each other or with the Company. The

## Regis Insurance Company

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Company writes in ten states and the District of Columbia. About seventy-six percent of the Company's business is written in Pennsylvania, with Alabama and North Carolina contributing another seventeen percent. None of the remaining eight has more than 2% each.

The Company's premium distribution as of December 31, 2011 is as follows:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
<b>December 31, 2011</b>				
Fire	\$ 119,199	\$ 14,649	\$ 104,550	3.0%
Allied lines	56,731	3,917	52,814	1.5%
Commercial multiple peril	3,468,135	307,686	3,160,449	90.8%
Other liability - occurrence	174,461	11,227	163,234	4.7%
Boiler and machinery	242,979	242,979	0	0.0%
Totals	<u>\$ 4,061,505</u>	<u>\$ 580,458</u>	<u>\$ 3,481,047</u>	<u>100.0%</u>

### SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are on an earned/incurred basis, and encompass the five-year period covered by this examination.

	Amount	Percentage
Premiums earned	\$ 23,709,256	100.0 %
Losses incurred	\$ 10,529,135	44.4 %
Loss expenses incurred	5,418,384	22.9 %
Other underwriting expenses incurred	14,088,307	59.4 %
Net underwriting gain or (loss)	(6,326,570)	(26.7)%
Totals	<u>\$ 23,709,256</u>	<u>100.0 %</u>

The Company has experienced significant losses during the five-year examination period. This is due to shrinking annual premiums (down 38% from 2006), combined with rising losses and underwriting expenses in relation to the premiums. Even though all the expense categories decreased along with the premiums, both losses incurred and underwriting expenses increased as a percentage of premiums earned. Although underwriting expenses have been controlled and head counts were reduced, these actions were not enough to offset the impact of fixed costs and the premium decreases. The production decreases were exacerbated by the rating downgrade mentioned in the following "Pending Litigation" section and the Company hopes an overturn of that action will restore much of its lost premiums. The Company has also implemented the ISO rating structure and is exploring new products and production sources in order to combat the premium decreases.

The Company reported the following net underwriting, investment and other gains or losses during the period under examination:

	2011	2010	2009	2008	2007
Admitted assets	\$ 11,460,707	\$ 14,802,541	\$ 16,908,746	\$ 17,076,677	\$ 17,661,538
Liabilities	\$ 6,297,115	\$ 7,755,311	\$ 8,122,785	\$ 9,049,528	\$ 10,044,322
Surplus as regards policyholders	\$ 5,163,592	\$ 7,047,230	\$ 8,785,961	\$ 8,027,149	\$ 7,617,216
Gross premium written	\$ 4,061,505	\$ 4,389,375	\$ 5,256,863	\$ 5,390,416	\$ 5,935,508
Net premium written	\$ 3,481,047	\$ 3,706,469	\$ 4,453,062	\$ 5,842,313	\$ 5,117,194
Underwriting gain/(loss)	\$ (1,637,569)	\$ (2,816,830)	\$ (1,299,494)	\$ 41,132	\$ (613,809)
Investment gain/(loss)	\$ 998,047	\$ 1,213,326	\$ 1,558,114	\$ (117,219)	\$ 1,874,888
Other gain/(loss)	\$ (35,666)	\$ (27,685)	\$ (2,684)	\$ 91,198	\$ (837)
Net income	\$ (675,188)	\$ (1,631,189)	\$ 255,937	\$ 32,240	\$ 1,228,813

## ACCOUNTS AND RECORDS

The Company's accounting, investment, underwriting, and claim records are kept at its home office in Wayne, PA and were all available for this examination. The recordkeeping system is integrated and much of it is automated on the Company's AS/400 server. However, there are extensive manually maintained paper files for accounting, claims, and underwriting operations. Automated maintenance, operating assistance, backup and storage facilities, disaster recovery, and enhancement services are provided on an as-needed basis by an unrelated company, A-SYS-T, Inc., which is owned by a Board director. System backups are run on a daily basis and maintained outside the premises. All processing is done at Company headquarters. Financial reporting is done on the Peachtree system, investment accounting is done on the Portman system, and all other functions are done on PMS v6r2 (developed by A-Sys-T, Inc.) using an Oracle Database.

In 2011, the Company decided to adopt the ISO rating model and began preparations to implement the model in 2012.

## PENDING LITIGATION

The Company advised the examiners that it is not a party to any pending material litigation that might have a material adverse impact on its financial position, other than as discussed below. Outside counsel supported this assertion.

The Company has instituted a suit against A. M. Best, a Nationally Recognized Statistical Rating Organization, seeking damages and other redress for its downgrading of the Company in 2010. The Company alleges that the downgrade resulted in significant losses of business for it in all of the intervening years. Therefore, it seeks monetary compensation for the losses, in addition to correction of its rating by A. M. Best.

On March 1, 2013, an A. M. Best motion for summary dismissal of the Regis lawsuit was rejected for two of the four active counts presented. Accordingly, the case will move forward to trial on the two remaining counts of defamation and commercial disparagement. The trial has been set for May 20, 2013.

## FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2011, and the results of its operations for the five-year period under examination, are reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;  
Comparative Statement of Income;  
Comparative Statement of Capital and Surplus; and  
Comparative Statement of Cash Flow

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# Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2011	2010	2009	2008	2007	Prior Exam
Bonds	\$ 3,138,263	\$ 5,977,453	\$ 7,075,253	\$ 5,957,150	\$ 6,897,117	\$ 8,230,262
Preferred stocks	4,784,516	5,317,552	5,112,906	854,500	1,049,300	1,254,800
Common stocks	2,672,023	1,748,806	2,148,679	0	1,726,845	2,550,638
Cash, cash equivalents, and short term investments	144,748	781,909	1,487,711	9,178,327	6,357,879	5,652,894
Receivable for securities	0	0	106,478	0	699,353	0
Subtotals, cash and invested assets	10,739,550	13,825,720	15,931,027	15,989,977	16,730,494	17,688,594
Investment income due and accrued	43,144	74,847	114,127	113,974	98,225	115,975
Premiums and agents' balances due	348,064	433,776	526,711	519,119	470,865	690,811
Amounts recoverable from reinsurers	6,244	10,418	6,513	5,950	1,722	587,582
Other amounts receivable under reinsurance contracts	22,598	24,467	15,145	104,895	21,470	16,471
Net deferred tax asset	212,140	210,084	238,779	238,763	262,923	292,647
Electronic data processing equipment and software	15,369	8,014	14,652	13,040	0	0
Receivable from parent, subsidiaries and affiliates	0	3,795	0	17,130	0	0
Aggregate write-ins for other than invested assets	73,598	211,420	61,792	73,829	75,839	79,953
Total	\$ 11,460,707	\$ 14,802,541	\$ 16,908,746	\$ 17,076,677	\$ 17,661,538	\$ 19,472,033
Losses	\$ 2,849,877	\$ 3,694,651	\$ 3,645,744	\$ 4,480,833	\$ 4,966,047	\$ 5,754,695
Loss adjustment expenses	1,272,385	1,514,418	1,611,000	1,736,000	1,320,769	1,513,401
Other expenses	193,588	224,174	206,581	213,688	258,749	266,844
Taxes, licenses and fees	22,829	76,427	118,015	129,654	110,217	227,859
Current federal and foreign income taxes	0	0	0	0	31,429	0
Unearned premiums	1,963,141	2,132,107	2,570,376	2,547,381	2,828,053	3,072,313
Ceded reinsurance premiums payable (net of ceding commissions)	(7,846)	108,017	(31,808)	(63,568)	10,573	(55,431)
Amounts withheld or retained by company for account of others	3,141	5,517	2,877	5,540	5,434	2,640
Payable for securities	0	0	0	0	513,051	678,696
Total liabilities	6,297,115	7,755,311	8,122,785	9,049,528	10,044,322	11,461,017
Common capital stock	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Gross paid in and contributed surplus	1,845,000	1,845,000	1,845,000	1,845,000	1,845,000	1,845,000
Unassigned funds (surplus)	1,318,592	3,202,230	4,940,961	4,182,149	3,772,216	4,166,016
Surplus as regards policyholders	5,163,592	7,047,230	8,785,961	8,027,149	7,617,216	8,011,016
Totals	\$ 11,460,707	\$ 14,802,541	\$ 16,908,746	\$ 17,076,677	\$ 17,661,538	\$ 19,472,033



### Comparative Statement of Income For the Year Ended December 31,

	2011	2010	2009	2008	2007
<b>Underwriting Income</b>					
Premiums earned	\$ 3,650,013	\$ 4,144,738	\$ 4,430,067	\$ 6,122,984	\$ 5,361,454
Deductions:					
Losses incurred	1,902,418	3,238,081	1,954,531	1,956,372	1,477,733
Loss expenses incurred	832,218	1,020,850	1,078,956	1,180,409	1,305,951
Other underwriting expenses incurred	2,552,946	2,702,637	2,696,074	2,945,071	3,191,579
Total underwriting deductions	5,287,582	6,961,568	5,729,561	6,081,852	5,975,263
Net underwriting gain or (loss)	(1,637,569)	(2,816,830)	(1,299,494)	41,132	(613,809)
<b>Investment Income</b>					
Net investment income earned	585,752	789,122	618,766	545,873	557,806
Net realized capital gains or (losses)	412,295	424,204	939,348	(663,092)	1,317,082
Net investment gain or (loss)	998,047	1,213,326	1,558,114	(117,219)	1,874,888
<b>Other Income</b>					
Net gain or (loss) from agents' or premium balances charged off	(37,500)	(965)	(522)	(10,990)	0
Aggregate write-ins for miscellaneous income	1,834	(26,720)	(2,162)	102,188	(837)
Total other income	(35,666)	(27,685)	(2,684)	91,198	(837)
Net income before dividends to policyholders and before federal and foreign income taxes	(675,188)	(1,631,189)	255,937	15,110	1,260,242
Federal and foreign income taxes incurred	0	0	0	(17,130)	31,429
Net income	\$ (675,188)	\$ (1,631,189)	\$ 255,937	\$ 32,240	\$ 1,228,813

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**Comparative Statement of Capital and Surplus  
For the Year Ended December 31,**

	2011	2010	2009	2008	2007
Surplus as regards policyholders,					
December 31, previous year	\$ 7,047,230	\$ 8,785,961	\$ 8,027,149	\$ 7,617,216	\$ 8,011,016
Net income	(675,188)	(1,631,189)	255,937	32,240	1,228,813
Net unrealized capital gains or (losses)	(1,198,659)	297,992	532,417	(223,930)	(971,044)
Change in net deferred income tax	558,100	496,794	(677,733)	339,018	(197,728)
Change in nonadmitted assets	(567,891)	(902,328)	648,191	1,212,605	(453,841)
Aggregate write-ins for gains and losses in surplus	0	0	0	(950,000)	0
Change in surplus as regards policyholder for the year	(1,883,638)	(1,738,731)	758,812	409,933	(393,800)
Surplus as regards policyholders,					
December 31, current year	\$ 5,163,592	\$ 7,047,230	\$ 8,785,961	\$ 8,027,149	\$ 7,617,216

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### Comparative Statement of Cash Flow For the Year Ended December 31,

	2011	2010	2009	2008	2007
<b>Cash from Operations</b>					
Premiums collected net of reinsurance	\$ 3,486,525	\$ 3,958,898	\$ 4,549,414	\$ 5,647,639	\$ 5,366,487
Net investment income	608,324	776,866	577,240	482,724	564,165
Miscellaneous income	(33,797)	(27,685)	(2,684)	91,198	(837)
Total income	4,061,052	4,708,079	5,123,970	6,221,561	5,929,815
Benefit and loss related payments	2,467,019	3,469,078	2,790,183	1,858,232	2,268,103
Net transfers to Separate, Segregated Accounts and Protected Cell Accounts	0	0	0	0	(4,114)
Commissions, expenses paid and aggregate write-ins for deductions	3,572,381	3,960,391	3,894,577	3,684,399	4,817,303
Federal and foreign income taxes paid (recovered)	0	0	0	31,429	0
Total deductions	6,039,400	7,429,469	6,684,760	5,574,060	7,081,292
Net cash from operations	(1,978,348)	(2,721,390)	(1,560,790)	647,501	(1,151,477)
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	3,125,058	3,829,959	5,483,440	6,038,908	2,400,000
Stocks	2,713,306	850,263	246,557	12,102,078	10,892,693
Net gain or (loss) on cash and short-term investments	(1)	(1)	0	0	0
Miscellaneous proceeds	0	106,479	0	256,697	213,456
Total investment proceeds	5,838,363	4,786,700	5,729,997	18,397,683	13,506,149
Cost of investments acquired (long-term only):					
Bonds	1	2,091,642	5,496,241	5,093,329	1,269,291
Stocks	4,166,586	521,823	6,245,804	11,121,687	9,516,991
Miscellaneous applications	0	0	106,478	0	864,998
Total investments acquired	4,166,587	2,613,465	11,848,523	16,215,016	11,651,280
Net cash from investments	1,671,776	2,173,235	(6,118,526)	2,182,667	1,854,869
<b>Cash from Financing and Miscellaneous Services</b>					
Other cash provided (applied):					
Other cash provided or (applied)	(330,589)	(157,647)	(11,300)	(9,720)	1,593
Net cash from financing and miscellaneous sources	(330,589)	(157,647)	(11,300)	(9,720)	1,593
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	(637,161)	(705,802)	(7,690,616)	2,820,448	704,985
Cash and short-term investments:					
Beginning of the year	781,909	1,487,711	9,178,327	6,357,879	5,652,894
End of the year	\$ 144,748	\$ 781,909	\$ 1,487,711	\$ 9,178,327	\$ 6,357,879

## SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

## NOTES TO FINANCIAL STATEMENTS

### ASSETS

### INVESTMENTS

As of December 31, 2011, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 3,138,263	29.2 %
Preferred stocks	4,784,516	44.6 %
Common stocks	2,672,023	24.9 %
Cash	144,748	1.3 %
Totals	<u>\$ 10,739,550</u>	<u>100.0 %</u>

The Company's bond portfolio had the following quality and maturity profiles and it had no short-term investments:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 750,398	23.9 %
2 - high quality	997,854	31.8 %
3 - medium quality	563,681	18.0 %
4 - low quality	826,330	26.3 %
Totals	<u>\$ 3,138,263</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 1,314,079	41.9 %
2 to 5 years	997,854	31.8 %
6 to 10 years	826,330	26.3 %
11 to 20 years	0	0.0 %
over 20 years	0	0.0 %
Totals	<u>\$ 3,138,263</u>	<u>100.0 %</u>

Twenty-four percent of the bonds were U.S. Government issues; the remainder was issued by U.S. financial institutions. All of the preferred stock and approximately 17 % of the common stock portfolio also consisted of financial-industry investments. In total, approximately 72% of the non-cash investments were in the financial industry.

The Company has a written investment policy, as required by 40 P.S. § 653 b (b). The investment policy is reviewed and approved on an annual basis by the Board of Directors. At December 31, 2011, the Company was following its investment policy and had no investments in any subsidiary or related companies. It also engaged in no financial transactions with its affiliates which might cause misstatements of their valuations. However, the investment policy was considered to be very sparse and also contained no provision for monitoring Other Than Temporary Impairments, nor was there a separate policy in place addressing this.

***It is recommended that a more comprehensive written investment policy be adopted to comply with 40 P.S. § 653 b (b).***

***It is recommended that a written Other Than Temporary Impairment ("OTTI") policy be adopted. In addition, consideration should be given to make the OTTI policy part of the Company's Investment Policy.***

The prior examination report recommended transfer of the Company's investments to an authorized custodian. In 2012, this transfer was substantially accomplished by transferring almost half of the portfolio to each of two authorized custodians. However, as of December 31, 2011, \$497,212 of preferred stock remained with an unauthorized custodian. Both the prior custodian and the current ones are empowered to execute discretionary transactions for the Company through affiliated investment organizations.

In order to comply with 31 Pa. Code §148a.3, which stipulates that all investments must be maintained in the custody of authorized institutions, it was recommended that the remaining investments be immediately transferred to such an institution. On April 25, 2013, the Company complied by moving the preferred stock to an authorized custodian.

One of the new custodians has a provision in its agreement stating that "The investment manager may buy or otherwise invest in, hold, sell or otherwise dispose of, any security or other interest it deems appropriate without limitation to investments authorized for fiduciaries by state law." This provision appears to be at variance with at least the spirit of 40 P.S. § 653b, which states that "Any domestic company may invest its funds in sound investments as provided in this act and not otherwise". The agreement's freedom from fiduciary investment restrictions may not be intended to release the Company from an obligation to make only sound investments, but it raises that possibility.

In order to ensure compliance with 40 P.S. § 653b, which stipulates making only sound investments, it was recommended that the custodian's agreement be modified to expunge the provision allowing freedom from any fiduciary investment restrictions under state law. On January 4, 2013, The Company complied by obtaining the custodian's written confirmation that the questioned provision did not diminish the institution's custodial responsibilities.

## LIABILITIES

### LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported net reserves of \$2,849,877 and \$1,272,385 for Loss and Loss Adjustment Expense ("LAE") reserves, respectively, as of December 31, 2011. These reserves were accepted as reasonable by Glenn Walker, FCAS, MAAA of G.M. Walker Actuarial Services, Bowie, Maryland, the Company's appointed actuary.

This liability represents actual unpaid claims, actuarial estimates of other claims, and actuarial estimates of incurred but unreported claims. Annually, the Company furnishes its appointed actuary with listings of the current year's loss and LAE payments, the individual outstanding loss reserves as of September 30<sup>th</sup>, the direct earned premium by quarter for the current year, and the subrogation amounts received for the period from January 1, 1998 through September 30<sup>th</sup>.

The on-site examination team reviewed the controls over data compilation and review and tested samples of the data furnished to its appointed actuary for use in estimating the reserves. The purpose of the tests was to assess the accuracy and completeness of the data used by the Company's appointed actuary. Testing included obtaining copies of the current submissions to the appointed actuary and testing to verify the completeness and accuracy of the data. Disbursement testing included comparing samples to the check register and to claim files. Account balances were traced to the General Ledger trial balance and to the quarterly statements, as appropriate. Subrogation samples were traced to the claim files and to the cash receipts listing.

The completeness and accuracy of the outstanding claim listing was verified by tracing selected balances to and from the listings and the claim files. To ensure completeness, both open and closed claims were used in tracing from the files. In addition, samples of both open and closed claim files were selected and reviewed for compliance with Company procedures, and the thoroughness, completeness, and adequacy of documentation. In all of the testing, no significant exceptions were found.

The Department property and casualty actuary performed an independent review of the 2011 Commercial Multi-Peril Liability loss reserves and Defense and Cost Containment reserves and developed them to ultimate values. Several generally accepted actuarial methods were utilized in this development, including incurred and paid loss development, incurred and paid Bornhuetter-Ferguson and expected loss ratio methods. Weights and expected loss ratio assumptions were varied to test reserve variability, producing both reasonable and optimistic estimates. The Department actuary also reviewed the bulk IBNR reserve documentation for lead paint claims as of December 31, 2011 and the reserve developments through December 31, 2012. The Department actuary accepted the Company's carried reserves for the other reserve segments.

Overall, the Department actuary concluded that the Company's reserves make a reasonable provision as of December 31, 2011.

## SUBSEQUENT EVENTS

The only notable subsequent event concerned the legal case covered in the "Pending Litigation" section on page 11.

## RECOMMENDATIONS

### PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It was recommended that the Administrative Committee assume the functions of "reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating committees for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers." It is further recommended that this committee maintain minutes to document performance of all its responsibilities.

The Company complied with the recommendation.

2. It was recommended that Regis appoint one more independent member to the Investment Committee. To avoid tie votes, two new members are needed, one of whom must be independent of the Company. The Committee must also maintain minutes of its meetings.

The Company complied with the recommendation.

3. It was recommended that a formal written expense sharing agreement be established between the Company and its affiliates, as required by 40 P.S. § 991.1405. Also, stale receivables from the Company's parent, and payments made on behalf of other companies should be reimbursed or accounted for as a dividend or a repayment of capital.

The Company no longer shares any expenses with its affiliates, so no agreement is needed. The stale receivables were written off. Overall, the Company complied.

4. It was recommended that the Administrative Committee assume the functions of "evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers."

The Company complied with the recommendation.

5. It was recommended that the Board immediately engage a qualified, independent, external legal authority to render an opinion concerning the legality of payments for the President's unrelated legal fees.



The Company did not engage a legal authority and continued to pay the President's unrelated legal fees. However, it was noted that the President had not taken his full salary during the years in question and agreed to offset those unpaid salary amounts against the unrelated fees and to repay the remaining fees which exceeded his salary. In the future, the Company says it will only pay its own expense, not those of the President or of other companies. These actions are considered to satisfy the recommendation.

6. It was recommended that the Board of each affiliated company approve the Tax Allocation Agreement and include such approval in their official minutes.

Again, the Company's Board did not approve the Tax Allocation Agreement and this recommendation is repeated below, in the current examination recommendations.

7. It was recommended that the Company create a written investment policy, updating it annually with the approval of the board of directors.

The Company did create a very sparse, written investment policy. However, the Company said it is comprehensively revising its investment policy and has committed that its Board will review and update the policy annually. The Company has not yet complied with this recommendation.

8. It was recommended that The Company take immediate steps to transfer all investments to an authorized custodian and to maintain such assets only with authorized institutions in the future.

In 2012 and 2013, the Company did transfer all investments to several authorized custodians. The Company has complied with this recommendation.

9. It was recommended that the Company and its Appointed Actuary should consider additional actuarially based development methods, such as loss ratio or Bornhuetter-Ferguson, to project ultimate losses.

The Appointed Actuary did begin employing the Bornhuetter-Ferguson method to project ultimate losses. The Company has complied with this recommendation.

## CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. It is recommended that the Board formalize a policy to require annual written conflict of interest statements to be filed by its directors, officers, and key employees as required in accordance with good business practices. (See "Board of Directors", page 4)
2. It is recommended that the Company comply with 40 P.S. § 653b by requiring the approval of all Company investment transactions by either the Board or a Board committee which is charged with that duty. (See "Corporate Records", page 6)

3. It is recommended the Board of Directors review and approve all new or modified Reinsurance agreements and that these Board actions are documented in the Board of Director meeting minutes. (See "Corporate Records", page 6)
4. It is again recommended that the Company comply with 40 P.S. § 991.1405(a)(1)(iii) by having its Board approve the Tax Allocation Agreement and document such approval in its minutes. (See "Service and Operating Agreements", page 7)
5. It is recommended that a more comprehensive written investment policy be adopted to comply with 40 P.S. § 653 b (b). (See "Investments", page 18, and prior recommendation #7)
6. It is recommended that a written Other Than Temporary Impairment ("OTTI") policy be adopted. In addition, consideration should be given to make the OTTI policy part of the Company's Investment Policy. (See "Investments", page 18)

### CONCLUSION

As a result of this examination, the financial condition of Regis Insurance Company, as of December 31, 2011, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 11,460,707	100.0 %
Liabilities	\$ 6,297,115	54.9 %
Surplus as regards policyholders	5,163,592	45.1 %
Total liabilities and surplus	\$ 11,460,707	100.0 %

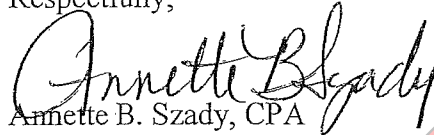
Since the previous examination, made as of December 31, 2006, the Company's assets decreased by \$8,011,326, its liabilities decreased by \$5,163,902, and its surplus decreased by \$2,847,424.

Regis Insurance Company

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This examination was conducted by Melissa Greiner; Keith D. Wandel, Jr., CFE, CISA, AES; and John J. Gaynard, CFE, CPA, with the latter in charge.

Respectfully,




Annette B. Szady, CPA

Director, Bureau of Financial Examinations



David R. Evans, CFE

Examination Manager



John J. Gaynard, CFE, CPA

Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.

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