

**EXAMINATION REPORT**  
**OF THE**  
**MOSAIC INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2012**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2012 of the

**MOSAIC INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: Brandi Biddle

Date: June 3, 2014



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 3<sup>rd</sup> day of June, 2014.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION  
OF THE  
MOSAIC INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2012

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 3<sup>rd</sup> day of June, 2014

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April 12, 2014

**SALUTATION**

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner of Insurance  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 12.031, dated September 20, 2012, an examination has been made of the affairs, financial condition and management of the

**MOSAIC INSURANCE COMPANY**

hereinafter referred to as “Company”, incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the main administrative office of the Company located at 125 Broad Street, New York, New York 10004. The report of such examination is submitted herewith.

**SCOPE OF EXAMINATION**

The last examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2007, and covered the five (5) year period from January 1, 2003 to December 31, 2007. This examination of the Company covers the period from January 1, 2008 through December 31, 2012, and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

## MOSAIC INSURANCE COMPANY

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (“ Handbook”) and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to Delaware state regulations.

All accounts and activities of the Company were considered in accordance with the NAIC Handbook risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company’s external accounting firm, WeiserMazars LLP (“Mazars”). Certain auditor work papers have been incorporated into the examination work papers and have been utilized in determining the scope and areas of emphasis in conducting the examination.

The Company is an indirect subsidiary of the AXA America Holdings, Inc. and a member of NAIC Group Number 968, AXA Insurance Group (“Group”). The Company, its direct parent, Coliseum Reinsurance Company (“Coliseum”), and its affiliate, AXA Insurance Company (“AIC”), are the only property and casualty companies in the Group and share common administration and facilities under administrative services agreements with AXA

## **MOSAIC INSURANCE COMPANY**

Liabilities Managers, Inc. (“AXALM”). Examination coordination with the Group was not applicable given the unique management, operations and statutory mandates of Coliseum, the Company and AIC. An examination of Coliseum was conducted concurrently with this examination by the Delaware Department of Insurance. An examination of AIC was also conducted concurrently with this examination by the New York State Department of Financial Services. Coordination of the Coliseum, the Company, and AIC examinations was discussed with Company management, the New York State Department of Financial Services and the Delaware Department of Insurance. Coordination was performed in common areas where duplication of effort could be eliminated. This examination did not rely upon any work performed by the New York State Department of Financial Services.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description. In addition to items noted in this report, the Company’s pension and employee benefit plans and fidelity bond coverage and limits were reviewed without material exception. Supporting documents for this review are included in the work papers of this examination.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material adjustments to the Company’s financial statements that warranted disclosure in this examination report.

### **SUBSEQUENT EVENTS**

#### **Corporate Realignment**

The Company’s direct parent, Coliseum, was party to a corporate realignment subsequent to the examination date. The realignment was performed to allow deconsolidation of Coliseum

## MOSAIC INSURANCE COMPANY

and its wholly owned subsidiaries tax grouping in an effort to utilize the net deferred tax assets of the companies before they begin to expire. The newly deconsolidated tax groupings become effective for the 2014 tax year. Effective December 31, 2013, 73,000 newly issued shares of Coliseum’s direct parent, AXA America Corporate Solutions, Inc. (“AXACS”), were issued to an affiliate, Colisée Re. AXACS remains the direct parent of Coliseum, but Colisée Re owns approximately 21% of AXACS. AXA SA (“AXA”) remains the ultimate controlling party and the reorganization has no direct effect on the corporate governance structure or management of Coliseum or the Company. The corporate realignment was approved by the Delaware Department of Insurance on December 20, 2013.

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents, and affiliates with direct business relationships with the Company after the corporate realignment (changes highlighted in bold):

Company Name	Domicile	Ownership
AXA SA	France	
AXA Liabilities Managers, SAS	France	100%
AXA Liabilities Managers, Inc.	US	100%
<b>Colisée Re</b>	<b>France</b>	<b>100%</b>
<b>AXA America Corporate Solutions, Inc.</b>	<b>DE</b>	<b>21.0%</b>
AXA America Holdings, Inc.	DE	100%
<b>AXA Corporate Solutions Life Reinsurance Company</b>	<b>DE</b>	<b>100%</b>
<b>AXA America Corporate Solutions, Inc.</b>	<b>DE</b>	<b>79.0%</b>
AXA Financial, Inc.	DE	100%
AXA Equitable Financial Services, LLC	US	100%
AXA Equitable Life Insurance Company	NY	100%
Coliseum Reinsurance Company	DE	100%
Alliance Bernstein LP	DE	2.94%
AXA Delaware LLC	DE	100%
AXA Insurance Company	NY	100%
Mosaic Insurance Company	DE	100%

**Change in President and Chief Executive Officer**

During September 2013, the President, Chief Executive Officer and Board member of the Company, Klaus Endres, resigned to take a position with another insurance organization in Germany, his country of origin. Mr. Tom Taylor was appointed as the new President and Chief Executive Officer. Mr. Taylor has been with the AXA organization for over ten years and also serves as the General Counsel of AXA Liabilities Managers SAS.

**COMPANY HISTORY**

The Company was originally incorporated as Hanseco Insurance Company (“Hanseco”) on July 26, 1971, under the laws of the State of Delaware. As of January 1, 1987, Hanseco owned all of the outstanding shares of three insurance subsidiaries including: John Hancock Property and Casualty Company of Illinois (“JHP&C-Illinois”), John Hancock Indemnity Company (“Indemnity”) and John Hancock Reinsurance Company (“JHRE”). JHP&C-Illinois and Indemnity were direct writers of personal lines property and casualty insurance, and JHRE was a reinsurer.

JHP&C-Illinois’s name was changed to John Hancock Property and Casualty Insurance Company (“JHP&C”) on July 7, 1988. Indemnity and JHRE were sold in 1996 and 1998, respectively. JHP&C’s only remaining business in force as of September 8, 1999, was run-off business related to the treaty reinsurance book of business assumed from JHRE prior to its sale.

On September 9, 1999, JHP&C was purchased by Coliseum from John Hancock Property and Casualty Holding Company. Coliseum was formerly known as AXA Reinsurance Company until September 2000 and AXA Corporate Solutions Reinsurance Company until April 2008. On September 10, 1999, JHP&C’s name was changed to AXA Re Property and Casualty Insurance Company. At this time, the Company’s ultimate controlling party became AXA. During 2000,

## **MOSAIC INSURANCE COMPANY**

the Company began a new strategy to write direct personal lines and commercial lines insurance programs through select managing general agents. On November 26, 2002, the Company informed the Delaware Department of Insurance of its intention to enter run-off in accordance with AXA's strategic decision to exit the United States property and casualty market. The Company implemented the exit strategy in 2003.

Effective January 1, 2004, management responsibilities of the Company were assumed by AXALM under the terms of an affiliated management services agreement. Effective January 1, 2007, the Company and Coliseum entered into a 100% Aggregate Quota Share Assumption Agreement whereby the Company's net policy liabilities were ceded to Coliseum. The agreement was entered in contemplation of efforts to sell the Company. On September 21, 2010, the Company changed its name to Mosaic Insurance Company.

### Common Capital Stock and Paid-in Surplus

As amended, the Certificate of Incorporation authorizes the Company to issue 50,000 shares of \$115 par value common stock. As of December 31, 2012, the Company had 35,191 common shares issued and outstanding common capital stock totaling \$4,046,965. All shares are owned by the Company's parent, Coliseum.

As of December 31, 2012, the Company reported gross paid in and contributed surplus of \$143,867,866. There were no changes in paid in or contributed surplus during the examination period.

### Dividends

The Company paid no dividends during the examination period.

**CORPORATE RECORDS**

The minutes of the Board of Directors, Stockholders and committees of the Board were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

The bylaws require the Board of Directors to meet annually after the annual stockholder meeting, and provide for written consent in lieu of formal meetings. The minutes of the meetings verified annual meetings took place in each year of the examination period.

Copies of the Form B and C Holding Company Registration Statements filed with the Delaware Department of Insurance during the period under examination were reviewed. Per the review, the Company has complied with the provisions of 18 Del. Admin. Code §1801.

**MANAGEMENT AND CONTROL**

Pursuant to its bylaws, the business and affairs of the Company are managed by or under the direction of its Board of Directors. Accordingly, the Board of Directors may perform all lawful acts not otherwise reserved by stockholders or prohibited by either law or the Certificate of Incorporation. The bylaws require a minimum number of three Directors and a maximum number of fifteen.

The Directors are elected annually by the Stockholders and serve until resignation or their successors are elected and qualified. Directors duly elected and serving as of December 31, 2012, and their principal residence locations and business affiliations are as follows:

<u>Name</u>	<u>Address</u>	<u>Business Affiliation</u>
Cedric de Linares	Paris, France	Chief Executive Officer AXA Liabilities Managers (Paris)
Klaus Endres*	Feldkirchen, Germany	President & Chief Executive Officer AXA Liabilities Manager, Inc. (US)

**MOSAIC INSURANCE COMPANY**

Robert Andrew Wolf II            Short Hills, New Jersey            Chief Financial Officer  
AXA Liabilities Managers, Inc. (US)

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, one or more Vice Presidents, a Secretary, and a Treasurer. The following officers were serving as of December 31, 2012:

<u>Name</u>	<u>Title</u>
Klaus Endres*	President
Susan Burns Wilcher	Secretary
Robert Andrew Wolf II	Treasurer
Roderick Edler Perry	Vice President

\* Subsequent to the examination date, Klaus Endres resigned and was replaced by Thomas Jeremy Taylor.

Holding Company System

The Company is a member of an Insurance Holding Company System pursuant to 18 Del. C. §5001. The Company is a wholly owned subsidiary of Coliseum (“Coliseum”), a property and casualty insurance company domiciled in the State of Delaware. The Company and Coliseum are ultimately controlled by AXA through the United States insurance holding company, AXA America Holdings, Inc. AXA is a financial service company domiciled in France and trades on the Euronext Paris stock exchange.

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents, and affiliates with direct business relationships with the Company as of December 31, 2012:

## MOSAIC INSURANCE COMPANY

<u>Company Name</u>	<u>Domicile</u>	<u>Ownership</u>
AXA SA	France	
AXA Liabilities Managers SAS	France	100%
AXA Liabilities Managers, Inc.	US	100%
AXA America Holdings, Inc.	DE	100%
AXA America Corporate Solutions, Inc.	DE	100%
AXA Financial, Inc.	DE	100%
AXA Equitable Financial Services, LLC	US	100%
AXA Equitable Life Insurance Company	NY	100%
Coliseum Reinsurance Company	DE	100%
Alliance Bernstein LP	DE	2.94%
AXA Corporate Solutions Life Reinsurance Company	DE	100%
AXA Delaware LLC	DE	100%
AXA Insurance Company	NY	100%
Mosaic Insurance Company	DE	100%

### Management, Service and Other Agreements

Below is a summary of all material affiliated and unaffiliated agreements in effect as of December 31, 2012. All affiliated agreements and amendments were properly filed and approved by the Delaware Department of Insurance.

#### Affiliated Agreements

As of December 31, 2012, the Company had the following service and other agreements in effect with affiliates:

- Guarantee Agreement – Effective January 1, 2002, the Company entered into a guarantee agreement with its parent, Coliseum, under which payment of contract claims against the Company are assured. As of December 31, 2012, Coliseum has not been required to make any payments, nor establish any reserve under this guarantee.
- Administrative Services Agreement – Effective January 1, 2004, the Company entered into an affiliated Administration and Services Agreement with AXALM. The agreement had a five-year term and was renewed on January 1, 2009, for an additional five years. In accordance with the agreement, AXALM provides or arranges for the provision of

## MOSAIC INSURANCE COMPANY

administrative, management and other services requested by the Company. All services related to the Company's business operations are included in this agreement. The Company reimburses AXALM for the actual costs and expenses paid by AXALM. The allocation is based upon fair and reasonable methods. On July 1, 2009, the Agreement was amended primarily to respond to recommendations presented to the Company during the prior examination. Effective January 1, 2011, the Company entered into the Second Amended and Restated Administration and Services Agreement. Under this second amendment, AXALM was given authority to charge a five percent (5%) margin on the shared costs and expenses billed to the Company. Effective April 13, 2012, the Company entered into the Third Amended and Restated Administration and Services Agreement. The purpose of the third amendment was to remove AIC as a party to the agreement and delete references to New York laws and regulations. The third amendment also clarified the agreement is to renew automatically unless twelve months' notice is provided by either party.

- Services Agreement – Effective June 1, 2005, AXA Equitable Life Insurance Company (“AXA Equitable”) and AXALM entered into an affiliated services agreement. In accordance with the agreement, AXA Equitable performs investment accounting functions for the Company and other affiliated companies on behalf of AXALM.
- Consolidated Federal Income Tax Agreement – Effective November 4, 2004 and entered into on May 26, 2006, AXA America Holdings, Inc. (“AXA America”) and AXACS entered into a consolidated federal income tax agreement with the Company and certain other subsidiaries. In accordance with the agreement, AXA America files a consolidated

## MOSAIC INSURANCE COMPANY

federal income tax return, and each participant is allocated tax liabilities based upon separate tax return calculations.

- Investment Advisory Agreement – Effective July 1, 2005, the Company entered into an affiliated Discretionary Investment Advisory Agreement with Alliance Capital Management L.P., which is now known as AllianceBernstein L.P (“AllianceBernstein”). In accordance with the agreement, AllianceBernstein was granted discretionary authority to manage the Company’s investment portfolio within the terms of Company’s investment guidelines. The agreement was amended on February 1, 2011, in order to update the Company’s name to Mosaic Insurance Company.

### Other Third Party Agreement

As of December 31, 2012, the Company had the following third party agreement:

- Custodial Agreement – Effective September 10, 1999, the Company entered into a Custodial Agreement with Chase Manhattan Bank, which is now known as JPMorgan Chase Bank, N.A. The agreement was amended effective August 8, 2008, in order to make provisions to the termination clause in accordance with the *NAIC Model Act on Custodial Agreements and the Use of Clearing Corporations* and *NAIC Model Regulation on Custodial Agreements and the Use of Clearing Corporations*.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2012, the Company was licensed in the District of Columbia and all states except Tennessee. However, the certificates of authority for New Hampshire, Nebraska, North Carolina and Ohio were suspended due to either insufficient surplus requirements or no new business. The Company’s Connecticut licensure was revised during 2011 to authorize only reinsurance.

## MOSAIC INSURANCE COMPANY

The Company has been in a run-off since 2003. Renewal business continued through a Managing General Agent (“MGA”) agreement with Tower Hill Insurance Group (Florida) due to regulatory requirements that the Company offer homeowners renewals. As of June 9, 2008, the Company’s last Florida homeowners’ policy expired. As of December 31, 2012, the Company’s primary gross policy liabilities relate to the John Hancock Reinsurance Company (JHRE) treaty reinsurance business originally acquired from John Hancock Property and Casualty Company. In addition, there are several outstanding claims related to the MGA block of business originally underwritten through various MGA’s.

### **GROWTH OF THE COMPANY**

The following information reflects the admitted assets, surplus as regards policyholders, gross premiums written and net income of the Company since the prior examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Gross Premiums Written</u>	<u>Net Income(Loss)</u>
2012	\$22,437,642	\$19,929,790	\$ 56,805	(\$1,711,404)
2011	24,545,888	20,703,440	28,475	(1,631,959)
2010	24,106,986	20,133,265	101,987	(1,405,563)
2009	30,821,674	23,292,236	(682,678)	(2,532,863)
2008	39,798,658	26,967,792	162,409	(1,530,831)
2007	52,976,986*	18,820,218*	2,052,030	(6,081,074)

*\* These amounts were adjusted \$(9.9) million during the prior examination for non-admitting portions of amounts recoverable from reinsurers and current federal income taxes recoverable.*

The Company has experienced decreasing admitted assets during the period under examination consistent with the continued run-off of existing business. Over the five year examination period, total admitted assets decreased by 57.6% and surplus as regards policyholders increased 5.9%.

### **LOSS EXPERIENCE**

As of December 31, 2012, the Company reported total gross reserves for losses and loss adjustment expenses in the amount of \$45.0 million versus \$49.6 million for the prior year ended. The reduction in total gross loss and loss adjustment expense reserves is primarily attributed to a \$3.6 million or 16.9% decline in case reserves compared to 2011. Meanwhile, reserves for incurred but not reported were stable at \$25.5 million and \$26.1 million for 2012 and 2011, respectively. For 2012, reserves for losses incurred but not reported were relatively unchanged primarily due to an additional \$3.0 million in reserves accrued related to the Company's covered losses with exposure to asbestos.

The Company cedes one hundred percent of its policy liabilities and assumed reinsurance agreement liabilities under an affiliated reinsurance agreement with its parent, Coliseum. Accordingly, the Company reports no net reserves for loss and loss adjustment expenses. In addition, the Company's 2012 Schedule P, Part 2 reflects no change in incurred net losses and loss adjustment expenses since it entered the affiliated reinsurance contract in 2007.

### **REINSURANCE**

The Company has not entered any new assumed or ceded reinsurance contracts since the prior examination. The following is a summary of the Company's assumed and ceded reinsurance program as of December 31, 2012:

#### **Assumed Reinsurance**

All of the Company's assumed reinsurance relates to run-off business originally written by JHRE when the Company was owned by the John Hancock Insurance Group. This business consists of various pro-rata and excess of loss contracts originally issued through various intermediaries and ceding companies.

## MOSAIC INSURANCE COMPANY

### Ceded Reinsurance

The following is a summary of the primary ceded reinsurance contracts by line of business and ceded case and loss adjustment expense reserve credits as of December 31, 2012:

<u>Line of Business</u>	<u>Reinsurer</u>	<u>Case Reserves</u>	<u>Loss Adjustment Expense Reserves</u>	<u>Total Case &amp; LAE LAE Reserves</u>
JHRE	Centre Reinsurance Company	\$ 5,827,327	\$ -	\$ 5,827,327
JHRE	Coliseum Reinsurance Company*	8,206,193	55,458	8,261,651
JHRE	Other - Various	2,241,893	390,374	2,632,267
<b>Sub-Total JH Re Ceded</b>		<u>\$ 16,275,413</u>	<u>\$ 445,832</u>	<u>\$ 16,721,245</u>
MGA	Coliseum Reinsurance Company*	\$ 141,317	\$ 98,772	\$ 240,089
MGA	Other - Various	1,250,254	241,980	1,492,234
<b>Sub-Total MGA Ceded</b>		<u>\$ 1,391,571</u>	<u>\$ 340,752</u>	<u>\$ 1,732,323</u>
<b>Total Ceded Case and LAE Reserves</b>		<u>\$ 17,666,984</u>	<u>\$ 786,584</u>	<u>\$ 18,453,568</u>

\*Total Case and LAE Reserves Ceded to Coliseum Reinsurance Company of \$8,501,740.

- Quota Share Reinsurance Agreement – Effective April 1, 1988, the Company (originally known as Hansco Insurance Company) and its then subsidiary, JHRE, entered a Quota Share Reinsurance Agreement with Centre Reinsurance Limited (“Centre Re”). The original agreement covered all business written through the John Hancock Reinsurance Management Company unless explicitly excluded by the contract. In accordance with the agreement, the Company currently cedes one hundred percent of the remaining in force JHRE assumed reinsurance business with respect to the 1981 to 1988 underwriting years. The contract specifies Centre Re’s maximum limit of liability of approximately \$154 million subject to several layers of coverage, inclusive of a maximum unallocated loss adjustment expense limit of approximately \$27.0 million.
- Quota Share Reinsurance Agreement - Effective January 1, 2007, the Company entered a Quota Share Reinsurance Agreement with its parent, Coliseum. In accordance with the agreement, the Company ceded one hundred percent of its policy liabilities and assumed reinsurance agreement liabilities as of the contract effective date, net only of ceded

## **MOSAIC INSURANCE COMPANY**

reinsurance agreements or inuring reinsurance, respectively. Coliseum was assigned all current and future rights under inuring ceded reinsurance agreements on covered policy liabilities, and assumed the risk the inuring reinsurance may not be collectable. In accordance with the agreement, Coliseum must provide an accounting and any balances due for transactions subject to the agreement within forty-five days after the end of the calendar quarter.

### **ACCOUNTS AND RECORDS**

The Company's administrative and technology services are provided by AXA LM or its designee, under an affiliated administration and services agreement. Databases and application software are maintained on various IBM operating systems hosted in the United States and France. The Company utilizes a PeopleSoft general ledger, various proprietary and third-party subsidiary ledger applications, and manual worksheets for accounting and financial reporting.

The Delaware Department of Insurance engaged INS Services, Inc. to perform a review and assessment of the Company's information systems and the related control environment. There were no examination comments or recommendations with respect to the Company's information technology systems and controls.

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**STATUTORY DEPOSITS**

The Company's statutory deposits as of December 31, 2012, as listed below were reviewed and verified during the examination:

<b><u>State</u></b>	<b><u>Deposit Type</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value</u></b>
Arkansas	Bonds	219,910	223,670
California	Bonds	100,017	100,219
Delaware	Bonds	3,109,510	3,142,313
Florida	Cash	100,000	100,000
Georgia	Bonds	40,007	40,088
Kansas	Bonds	201,159	201,188
Kentucky	Bonds	100,579	100,594
Massachusetts	Bonds	500,086	501,095
Michigan	Bonds	110,019	110,241
New Jersey	Bonds	1,819,254	1,850,358
New Mexico	Bonds	335,057	335,734
North Carolina	Bonds	300,051	300,657
Texas	Bonds	100,017	100,219
Virginia	Bonds	<u>530,231</u>	<u>531,253</u>
<b>Total</b>		<b><u>\$ 7,565,897</u></b>	<b><u>\$ 7,637,629</u></b>

**FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus, and other funds of the Company, as determined by this examination, as of and for the period ended December 31, 2012:

- Analysis of Assets, Liabilities and Surplus
- Summary of Operations for the Year Ended 2012
- Reconciliation of Capital and Surplus Since the Prior Examination

**MOSAIC INSURANCE COMPANY**

**Analysis of Assets, Liabilities and Surplus  
December 31, 2012**

	Ledger	Assets Not	Net Admitted	
	<u>Assets</u>	<u>Admitted</u>	<u>Assets</u>	<u>Notes</u>
Bonds	\$ 13,866,714	\$ -	\$ 13,866,714	1
Cash and short-term investments	4,753,950	-	4,753,950	
Receivable for securities	119	-	119	
Investment income due and accrued	145,710	-	145,710	
Uncollected premiums and agents' balances	567,556	-	567,556	
Amounts recoverable from reinsurers	1,818,400	-	1,818,400	
Funds held by or deposited with reinsured companies	59,641	-	59,641	
Current federal and foreign income tax recoverable	1,003,432	-	1,003,432	
Net deferred tax asset	9,857,731	9,857,731	-	
Aggregate write-ins for other than invested assets	222,120	-	222,120	
	<u>\$ 32,295,373</u>	<u>\$ 9,857,731</u>	<u>\$ 22,437,642</u>	
<b>Total assets</b>				
			<u>Liabilities and</u>	
			<u>Surplus Items</u>	<u>Notes</u>
Losses			\$ -	2
Reinsurance payable on paid loss and loss adjustment expenses			538,727	
Loss adjustment expenses			-	2
Commission payable, contingent commissions and other similar charges			(7,671)	
Other expenses			609,903	
Taxes, licenses and fees			19,153	
Ceded reinsurance premiums payable			747,246	
Funds held by company under reinsurance treaties			34,420	
Payable to parent, subsidiaries and affiliates			50,428	
Aggregate write-ins for liabilities			515,646	
			<u>\$ 2,507,852</u>	
<b>Total liabilities</b>				
Common capital stock			\$ 4,046,965	
Gross paid in and contributed surplus			143,867,866	
Unassigned funds (surplus)			(127,985,041)	
			<u>\$ 19,929,790</u>	
<b>Total surplus as regards policyholders</b>				
<b>Total liabilities and surplus as regards policyholders</b>			<u>\$ 22,437,642</u>	

**MOSAIC INSURANCE COMPANY**

Summary of Operations  
For the period ended December 31, 2012  
and  
Reconciliation of Capital and Surplus  
From December 31, 2007 to December 31, 2012

Income:			
	Net investment income earned	\$	100,763
	Net realized capital gains		1,336
	Other income		48,521
	Total income	<u>\$</u>	<u>150,620</u>
Expenses:			
	Other underwriting expenses	\$	2,884,619
	Federal and foreign income tax incurred		(1,022,595)
	Total expenses	<u>\$</u>	<u>1,862,024</u>
Net income:		<u>\$</u>	<u>(1,711,404)</u>
	*Surplus as regards to policyholders, December 31, 2007	\$	18,820,218
	Net income		(8,812,620)
	<u>Additions:</u>		
	Reversal of prior examination adjustments	\$	9,925,391
	Change in nonadmitted assets		264,979
	Change in net deferred income tax		42,945
	Total additions		<u>10,233,315</u>
<u>Deductions:</u>			
	Aggregate write-ins for gains and losses in surplus	<u>\$</u>	<u>(311,123)</u>
	Total deductions		(311,123)
	Surplus as regards to policyholders, December 31, 2012	<u>\$</u>	<u>19,929,790</u>

**NOTES TO THE FINANCIAL STATEMENTS****Note 1:****Bonds****\$ 13,866,714**

As of December 31, 2012, the Company reported total bond investments with book adjusted carrying values in the amount of \$13.9 million and fair market values of \$14.0 million.

Bond investment composition for the year ending 2012 was comprised of the following:

	<u>Statement Value</u>	<u>% of Total</u>
U.S. Governments	\$ 7,508,539	54.1%
U.S. Special Revenues	221,394	1.6%
Industrial and Miscellaneous	6,136,781	44.3%
Total	<u>\$ 13,866,714</u>	

Of the Company's total bond holdings, \$13.8 million or 99.2% were categorized as Class 1, with respect to NAIC credit quality standards. The remaining \$115 thousand were Class 2 bonds and accounted for less than 1% of total bonds. The examination verified the existence, ratings and reported values for the bond securities as of December 31, 2012.

**Note 2:****Losses****\$ 0****Loss Adjustment Expenses****\$ 0**

INS Consultants, Inc. ("Consulting Actuary") performed a review of the inherent risks, management oversight and other mitigating controls over the Company's actuarial processes and procedures. The Consulting Actuary's review included detail testing and an independent calculation of the Company's loss and loss adjustment expense reserves as of December 31, 2012. The Company's actuarial staff provided the Consulting Actuary the statement of actuarial opinion and the supporting actuarial data, documents and calculations. The Consulting Actuary determined the Company's loss and loss adjustment expenses reserves

## MOSAIC INSURANCE COMPANY

were sufficient on both a gross basis, and were properly stated at zero on a net basis as of December 31, 2012.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The following is a summary of the recommendations contained in the prior examination report as of December 31, 2007, and comments regarding the Company's compliance during the current examination period:

1. It is recommended that management closely monitor its compliance with SSAPs in the maintenance of its accounts and records and all NAIC instructions in the preparation of its Annual Statement.

**The Company has complied with this recommendation.**

2. It is recommended that the Company non-admit Amount Recoverable from Reinsurers not collected in a timely manner and better documentation should be maintained to support its Annual Statement Reinsurance Recoverable balances.

**The Company has complied with this recommendation.**

3. It is recommended that the Company non-admit FIT Recoverables over 90 days past due.

**The Company has complied with this recommendation.**

### **SUMMARY OF RECOMMENDATIONS**

There were no examination recommendations that warranted disclosure in this report on examination as of December 31, 2012.

### **CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

MOSAIC INSURANCE COMPANY

<u>Description</u>	<u>December 31, 2012</u>	<u>*December 31, 2007</u>	<u>Increase (Decrease)</u>
Assets	\$22,437,642	\$52,976,986	(\$30,539,344)
Liabilities	\$2,507,852	\$34,156,768	(\$31,648,916)
Capital and Surplus	\$19,929,790	\$18,820,218	\$1,109,572

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and the consulting information technology specialist with INS Services, Inc. is acknowledged.

Respectfully submitted,



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Richard E Palmatary, CPA, CFE  
Examiner In-Charge  
State of Delaware