

REPORT ON EXAMINATION
OF
SAWGRASS MUTUAL INSURANCE
COMPANY
DAVIE, FLORIDA

AS OF
DECEMBER 31, 2011

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS.....	2
PRIOR EXAM FINDINGS.....	2
SUBSEQUENT EVENTS	2
HISTORY	3
GENERAL	3
DIVIDENDS TO POLICYHOLDERS.....	3
SURPLUS DEBENTURES.....	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	4
CORPORATE RECORDS	4
CONFLICT OF INTEREST.....	5
MANAGEMENT AND CONTROL	5
MANAGEMENT	5
AFFILIATED COMPANIES	6
ORGANIZATIONAL CHART	7
MANAGING GENERAL AGENT AGREEMENT.....	8
COST ALLOCATION AGREEMENT	8
FIDELITY BOND AND OTHER INSURANCE	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
TERRITORY AND PLAN OF OPERATIONS	9
TREATMENT OF POLICYHOLDERS	9
COMPANY GROWTH	10
PROFITABILITY OF COMPANY	10
LOSS EXPERIENCE	10
REINSURANCE	11
ASSUMED	11
CEDED	11
ACCOUNTS AND RECORDS	12
CUSTODIAL AGREEMENT	12
INDEPENDENT AUDITOR AGREEMENT	12
CLAIMS AGREEMENT.....	13
INFORMATION TECHNOLOGY REPORT	13
STATUTORY DEPOSITS	13
FINANCIAL STATEMENTS PER EXAMINATION	14

ASSETS	15
LIABILITIES, SURPLUS AND OTHER FUNDS	16
STATEMENT OF INCOME	17
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	18
COMMENTS ON FINANCIAL STATEMENTS.....	19
LIABILITIES	19
CAPITAL AND SURPLUS	19
CONCLUSION.....	20

February 19, 2013

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, and 628.041 Florida Statutes, Rule 69O-138.005, Florida Administrative Code, Chapter 628, Florida Statutes and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2011, of the financial condition and corporate affairs of:

**SAWGRASS MUTUAL INSURANCE COMPANY
351 SW 136 AVE., SUITE 205
DAVIE, FLORIDA 33325**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2011, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2010. This examination commenced with planning at the Office on September 18, 2012, to September 20, 2012. The fieldwork commenced on September 25, 2012, and concluded as of February 19, 2013.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed 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 risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2011.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2010.

SUBSEQUENT EVENTS

In June of 2012, the Chief Financial Officer, Michael Samach, left the Company and was replaced by the Controller, Paul Simeone. The Company also changed actuaries in 2012 from Cornerstone Actuarial Solutions to Milliman, Inc. and changed reinsurance brokers from Guy Carpenter to Holborn Corporation. The Company was party to Consent Order 125213-12-CO which required the Company to pay administrative costs of \$3,000, submit a rate/rule manual filing and clarify how masonry veneer is rated in relation to masonry and frame construction factors in the Homeowner's Multi-Peril Program. The Consent Order also required the Company to conduct a self audit and refund any additional premiums collected after the 90th day of the policy period, unless such additional premiums collected were a result of a policyholder request, increase in coverage provided, or the failure to comply with underwriting requirements established by the

insurer within 90 days after the date of coverage. The Company was in compliance with Consent Order 125213-12-CO.

HISTORY

General

The Company was incorporated in Florida on May 25, 2007, and commenced business on April 17, 2009, as Sawgrass Mutual Insurance Company.

The Company was party to Consent Order 103653-09-CO, filed April 7, 2009, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with Consent Order 103653-09-CO.

The Company was authorized to transact the following insurance coverage in Florida on April 7, 2009 and continued to be authorized as of December 31, 2011:

Homeowners multi peril
Allied Lines

Fire
Other Liability

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Policyholders

The Company did not declare or pay any dividends during the period of this examination.

Surplus Debentures

A surplus note executed February 24, 2009, was issued in the amount of ten million dollars (\$10,000,000) between the Company and Verdant Holding Company, Ltd. The pay off for this note was set at eleven million Dollars (\$11,000,000), which was the original cash amount of ten million plus a one million dollar performance fee, plus interest. The Company issued an additional four million five hundred thousand dollars (\$4,500,000) surplus note between the Company and Verdant Holding Company, LTD. Interest was to be calculated at a rate equal to the three month LIBOR plus 600 basis points computed on the basis of a year of 360 days and actual days elapsed. The principal amount is scheduled to be paid in full on December 31, 2018.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual policyholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2011, were:

Directors

Name and Location	Principal Occupation
James W. Newman, Jr. Tallahassee, Florida	Executive Vice President/Board Chairman. Sawgrass Mutual Insurance Company
James A. Esse Plantation, Florida	President/Chief Executive Officer Sawgrass Mutual Insurance Company
Randy Dumm Tallahassee, Florida	Associate Professor Florida State University
Dan O'Neal Lighthouse Point, Florida	Chief Executive Officer Physicians Insurance
Guy Marvin III Jacksonville, Florida	Retired
Leonard Goldberg Sarasota, Florida	Director, Greenlight Capital Re. LTD

The Board in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
James Esse	President/Chief Executive Officer
James W. Newman, Jr.	Executive Vice President
Michael Samach (a)	Chief Financial Officer/Treasurer

(a) Resigned in June 2012, and was replaced by Paul Simeone as Chief Financial Officer in June 2012.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2011:

Audit Committee

Randy Dumm ¹
Dan O'Neal
Guy Marvin

¹Chairman

Investment Committee

James W. Newman ¹
Michael Samach

Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 28, 2012, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2011, reflecting the holding company system, is shown below. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

**SAWGRASS MUTUAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2011



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

Managing General Agent Agreement

The Company had a five year exclusive Managing General Agent (MGA) agreement with Cladium, LLC, which had certain overlapping officers and directors. Under this agreement the Company wrote all direct business through Cladium, LLC, which provided policy services, underwriting services, marketing services, customer services, sub-producer contracting and reinsurance advisement services to the Company. The agreement remained in force until terminated and could be terminated at any time by either party upon one-hundred eighty days prior written notice to the other party, provided the termination date was not earlier than sixty months from the effective date of the agreement. Termination of the agreement on the part of the Company was contingent upon repayment of the Surplus Note in full including all accrued interest. The agreement remained in force through the examination period. MGA fees were based on the following schedule:

- Policies with no sub-producer – 20% of new business and 17.5% renewal business
- Policies from sub-producers – 25% of new and renewal business
- Policy fee of \$25

Fees incurred under this agreement during 2011 amounted to \$6,946,515.

Cost Allocation Agreement

The Company entered into a Cost Allocation Agreement with Cladium, LLC (MGA) on November 30, 2009, with an effective date of January 1, 2009. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company. Annually, the services provided and costs associated with the provided services are reviewed and a revised

allocation of costs between the Company and MGA, expressed as a percentage, is agreed upon for the next fiscal year.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$5,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance, Excess D&O, Errors & Omissions and General Liability coverage with limits of \$1,000,000 to \$4,000,000 and deductibles ranging from \$25,000 to \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

There were no pension, stock ownership or insurance plans in place at the Company during the period of this examination.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

The decrease in the Company's earned premiums resulted from timing differences when policies were written in 2011 as compared to 2010. The increase in net underwriting losses and net losses in 2011 was due to the decrease in earned premium combined with increases in incurred losses and loss adjustment expenses and other underwriting expenses incurred.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2011	2010	2009
Premiums Earned	2,799,441	2,995,004	(281,321)
Net Underwriting Gain/(Loss)	(4,632,074)	(2,698,041)	(4,893,792)
Net Income	(1,294,336)	(706,071)	(4,339,792)
Total Assets	16,689,685	10,979,504	11,048,405
Total Liabilities	7,786,915	4,389,367	3,559,851
Surplus As Regards Policyholders	8,902,772	6,590,134	7,488,554

LOSS EXPERIENCE

During the current examination period, the Company showed an overall negative loss development history. This was a result of additional claims being reported for prior accident years that management had not anticipated as the Company commenced writing business on April 7, 2009 and did not have complete loss development patterns or a credible history of experience.

The one year net loss development at the end of the current examination period was unfavorable at \$371,000 and the two year net loss developments at the end of the current examination period was favorable at (\$45,000).

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume any reinsurance during the period of this examination.

Ceded

The Company purchased catastrophe reinsurance from private reinsurers and the Florida Hurricane Catastrophe fund. Additionally, for the treaty period of June 1, 2011 to May 31, 2012, the Company entered into a quota share reinsurance contract with Greenlight Reinsurance Limited, an affiliate of its surplus note holder, Verdant Holding Company, LTD. Beginning on June 1, 2011, the Company proceeded to cede 75% of its direct written premiums. In addition, the company purchased a reinstatement premium protection policy with respect to the Company's catastrophic excess of loss contracts as described above.

For the same period, the Company purchased second and third event coverage of \$1,000,000 excess of \$1,000,000. When used in conjunction with the Company's quota share agreement above, the net retention on a second and third event was \$250,000.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Davie, Florida.

An independent CPA audited the Company's statutory basis financial statements for the year 2011, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained using Fiserv Pro Financial applications for General Ledger and Accounts Payable. The Company used Fiserv/StoneRiver eFreedom platform to prepare the Company's Quarterly and Annual Statements.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Wells Fargo Bank executed on March 15, 2010. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

Claims Agreement

The Company contracted with National Catastrophe Adjusters (NCA) to provide claims administrative services on claims arising out of the Company's policies for both non-catastrophic and catastrophic claims. The agreement was executed on January 1, 2011. The agreement included a number of schedules related to fees to be charged by NCA for claims activity and catastrophe claims.

INFORMATION TECHNOLOGY REPORT

Leon Pressman, CISA of ParenteBeard, LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cert. of Deposit, SunTrust Bank .20% 5/27/12	<u>\$300,000</u>	<u>\$300,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$300,000</u>	<u>\$300,000</u>

Subsequent event: The Company's Certificate of Deposit with SunTrust Bank has a current maturity date of June 27, 2013.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

SAWGRASS MUTUAL INSURANCE COMPANY

Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$7,916,368		\$7,916,368
Cash and Short-Term Investments	4,902,280		4,902,280
Premiums and considerations:			
Uncollected premium	255,542		255,542
Deferred premium	1,237,883		1,237,883
Reinsurance recoverable	1,109,927		1,109,927
Interest and dividend income due & accrued	45,653		45,653
Net deferred tax asset	918,444		918,444
Aggregate write-in for other than invested assets	303,588		303,588
	<hr/>		<hr/>
Totals	\$16,689,685	\$0	\$16,689,685

SAWGRASS MUTUAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,403,497		\$1,403,497
Loss adjustment expenses	521,995		521,995
Commissions payable, contingent commissions and other similar charges	452,053		452,053
Other expenses	335,239		335,239
Taxes, licenses and fees	340,700		340,700
Unearned premium	(2,015,309)		(2,015,309)
Advance Premium	686,416		686,416
Ceded reinsurance premiums payable	6,062,324		6,062,324
<hr/>			
Total Liabilities	\$7,786,915	\$0	\$7,786,915
Aggregate write-ins for other than special surplus funds	\$777,649		\$777,649
Surplus notes	14,500,000		14,500,000
Unassigned funds (surplus)	(6,374,877)		(6,374,877)
<hr/>			
Surplus as regards policyholders	\$8,902,772	\$0	\$8,902,772
<hr/>			
Total liabilities, surplus and other funds	<u>\$16,689,687</u>	<u>\$0</u>	<u>\$16,689,687</u>

SAWGRASS MUTUAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2011

Underwriting Income

Premiums earned		\$2,799,441
	Deductions:	
Losses incurred		1,932,792
Loss expenses incurred		864,655
Other underwriting expenses incurred		4,634,068
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$7,431,515
Net underwriting gain or (loss)		(\$4,632,074)

Investment Income

Net investment income earned		\$107,882
Net realized capital gains or (losses)		6,394
Net investment gain or (loss)		\$114,276

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$670)
Finance and service charges not included in premiums		3,224,132
Aggregate write-ins for miscellaneous income		0
Total other income		\$3,223,462
Net income before dividends to policyholders and before federal & foreign income taxes		(\$1,294,336)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$1,294,336)
Federal & foreign income taxes		0
Net Income		(\$1,294,336)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$6,590,134
Net Income		(\$1,294,336)
Net unrealized capital gains or losses		0
Change in non-admitted assets		(330,030)
Change in net deferred income tax		437,002
Change in surplus notes		3,500,000
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$2,312,636
Surplus as regards policyholders, December 31 current year		\$8,902,770

A comparative analysis of changes in surplus is shown below.

SAWGRASS MUTUAL INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2011, per Annual Statement	\$8,902,770
-----------------------------------------------------------------------------	-------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No Adjustment			
LIABILITIES: No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2011, Per Examination			<u><u>\$8,902,770</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$1,925,492

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2011, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Ronald T. Kuehn, FCAS, MAAA of Huggins Actuarial Services, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and noted that the Company's reserves were at the low end of the range of reasonable reserves. He calculated the actuarial Central Estimate of total Net Losses and Loss Adjustment Expenses to be \$2,127,206. The difference of \$(201,714) was 2.2% of Surplus as Regards Policyholders. An adjustment to Losses and Loss Adjustment Expenses was not deemed necessary as the amount of the difference was immaterial.

Capital and Surplus

The amount of Capital and surplus reported by the Company of \$8,902,772, exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Sawgrass Mutual Insurance Company** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$8,902,772, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Michael C. Brennan, CPA, Examiner-in-Charge and Richard J. Sowalsky and Mary Seng, Participating Examiners, and Leon Pressman, CISA, IT Manager of ParenteBeard, LCC participated in the examination. Additionally, Ronald T. Kuehn, FCAS, MAA, Consulting Actuary of Huggins Actuarial Services, Inc., Kethessa Carpenter, CPA, Examination Manager and Vetrecia Smith, Financial Specialist, of the Office also participated in the examination.

Respectfully submitted,

Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation