

EXAMINATION REPORT

OF

SOUTHERN FIDELITY PROPERTY & CASUALTY, INC.

TALLAHASSEE, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAMINATION FINDINGS	2
PRIOR EXAMINATION FINDINGS	2
COMPANY HISTORY	2
GENERAL	2
DIVIDENDS	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	3
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH REINSURANCE	3
CORPORATE RECORDS	4
CONFLICT OF INTEREST.....	4
MANAGEMENT AND CONTROL	4
MANAGEMENT	4
DIRECTORS	5
SENIOR OFFICERS	5
AFFILIATED COMPANIES	6
ORGANIZATIONAL CHART	7
TAX ALLOCATION AGREEMENT.....	8
MANAGING GENERAL AGENT AGREEMENT.....	8
MANAGEMENT AGREEMENT	8
POLICY MANAGEMENT SERVICES AGREEMENT	9
TERRITORY AND PLAN OF OPERATIONS	9
TREATMENT OF POLICYHOLDERS	9
REINSURANCE	10
ASSUMED	10
CEDED	10
ACCOUNTS AND RECORDS	11
CUSTODIAL AGREEMENT	12
INDEPENDENT AUDITOR AGREEMENT	12
INFORMATION TECHNOLOGY REPORT	12
STATUTORY DEPOSITS	12
FINANCIAL STATEMENTS	14

ASSETS.....	15
LIABILITIES, SURPLUS AND OTHER FUNDS	16
STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT	17
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	18
COMMENTS ON FINANCIAL STATEMENTS.....	19
LOSS AND LOSS ADJUSTMENT EXPENSES	19
CAPITAL AND SURPLUS	19
SUBSEQUENT EVENTS.....	20
CONCLUSION.....	21

May 18, 2016

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, 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, 2014, of the financial condition and corporate affairs of

Southern Fidelity Property & Casualty, Inc.
2255 Killlearn Center Blvd.
Tallahassee, Florida 32309

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, 2014 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2013 through December 31, 2013. This examination commenced with planning at the Office on November 30, 2015 to December 3, 2015. The fieldwork commenced on January 18, 2016 and concluded as of May 18, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The Company was not in compliance with Consent Order 162157-14-CO paragraph 12 g, which required the Company to make rule filings in the voluntary and assumed homeowners programs within thirty (30) days of the execution of the consent order.

Prior Examination Findings

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2013.

COMPANY HISTORY

General

The Company was incorporated in Florida on January 6, 2012, and commenced business on January 12, 2012.

The Company was authorized to transact insurance coverage in Florida on January 6, 2012 and continued to be authorized for the following coverage(s) as of December 31, 2014.

Fire

Homeowners Multiple-Peril

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	30,000
Number of shares issued and outstanding	20,000
Total common capital stock	\$2,000,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, SFPC Holding Company, LLC (parent), who owned 100 percent of the stock issued by the Company. The parent contributed \$18,000,000 in cash to the Company as of December 31, 2014

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

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

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

CORPORATE RECORDS

The recorded minutes of the Shareholder, 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 periodic 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 shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2014 are shown on the following page.

Directors

Name and Location	Principal Occupation
James Anthony Graganella Tallahassee, Florida	President and Chief Executive Officer, Southern Fidelity Property & Casualty, Inc.
Byron Hamelin Wells Tallahassee, Florida	Vice President, Southern Fidelity Property & Casualty, Inc.
Keith Edward Martin Tallahassee, Florida	Vice President and Chief Financial Officer, Southern Fidelity Property & Casualty, Inc.
Charles William Whittaker Bainbridge, Georgia	Partner, Dowdy & Whittaker CPA's
Ralph Powell, Jr. Brinson, Georgia	Insurance Executive, Tim Smith & Associates and Financial Services
Timothy Lee Smith Bainbridge, Georgia	Partner, Tim Smith & Associates and Financial Services
John Adams Dowdy, Jr. Bainbridge, Georgia	Partner, Dowdy & Whittaker CPA's

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	Title
James Anthony Graganella	President and Chief Executive Officer
Byron Hamelin Wells	Vice President
Keith Edward Martin	Vice President and Treasurer
Kristie Beavers Mock	Secretary

The Company's Board appointed an internal committee. Following was the principal internal Board committees and their members as of December 31, 2014:

Audit Committee

John Adams Dowdy, Jr.¹
Timothy Lee Smith
Charles William Whittaker

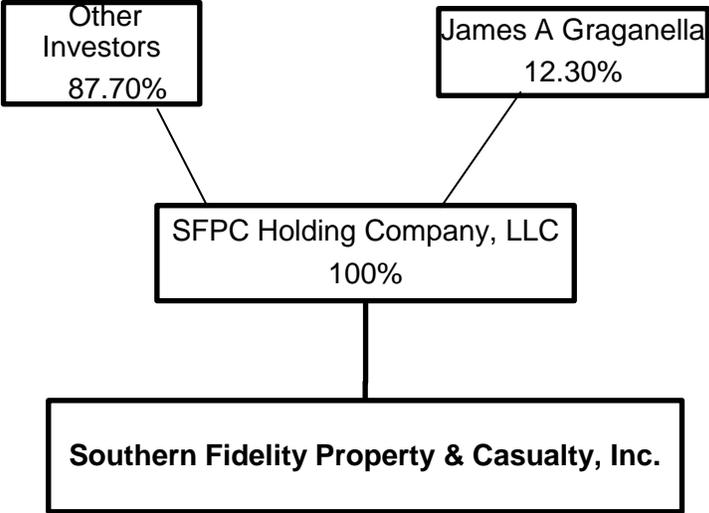
¹ Chairman

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

Affiliated Companies

The most recent holding company registration statement was filed with the Office on February 25, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

Southern Fidelity Property & Casualty Insurance Company, Inc.
Organizational Chart
December 31, 2014



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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2014, the method of allocation between the Company and its parent was on a separate-entity basis.

Managing General Agent Agreement

The Company entered into a Managing General Agent Agreement with Southern Fidelity Risk Managers, LLC (Agency) on January 6, 2012. The Agency is affiliated by common ownership and common management. The Agency provided claims and policy administration services on behalf of the Company. The Agency received for its services an MGA policy fee of \$25 per policy written by the Company and a commission of 31% of the earned direct premium of the Company. An addendum executed on February 27, 2013, retroactively adjusted the commission percentage from 31% to 27.5% for the calendar year commencing January 1, 2012. The agreement continues in force for a term of three years and will automatically renew for successive three-year periods, unless otherwise terminated within the guidelines of the agreement. Fees incurred under this agreement during 2014 amounted to \$32,410,308. A subsequent addendum executed on February 25, 2015 retroactively adjusted the commission percentage from 31% to 30% for the calendar year commencing January 1, 2014.

Management Agreement

The Company entered into a Management Agreement upon licensure on January 12, 2012, with Preferred Managing Agency, Inc. (Preferred), a party related by common management, along with Agency, whereby Preferred provided assistance in the information and development of policies and procedures of the Company. The Company did not incur fees directly under these agreements; fees were incurred by the Agency.

Policy Management Services Agreement

The Company entered into a policy management services agreement upon licensure on January 12, 2012, with Preferred, a related by common management, along with Agency, whereby Preferred provide various policy administration services, including premium billing and collection. The Company did not incur fees directly under these agreements; fees incurred by the Agency.

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.

REINSURANCE

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

Assumed

The Company has only assumed policies from Citizens.

Ceded

As of December 31, 2014, the Company's ceded reinsurance program consisted of catastrophe and per risk excess of loss reinsurance provided by agreements with various commercial reinsurers through reinsurance intermediaries AON Benfield and JLT Towers Re. The Company also participated in the Florida Hurricane Catastrophe Fund (FHCF).

The Company's per risk excess reinsurance agreement provided coverage of \$1,500,000 in excess of \$500,000 on each loss, subject to a per loss occurrence limit of \$1,500,000.

The Company had the following catastrophe excess of loss coverage through commercial reinsurers and the FHCF as of December 31, 2014, resulting in coverage of ultimate net losses of \$222,705,060 for the first event;

- First Catastrophe Excess of Loss Reinsurance - \$49,446,292 in private reinsurance coverage with a retention limit of \$3,000,000.
- Second Catastrophe Excess of Loss Reinsurance - \$28,374,521 in private reinsurance coverage with a retention limit \$52,446,292.

- FCHF - \$112,808,133 payout limit with an attachment point of \$47,181,273.
- Third Catastrophe Excess of Loss Reinsurance - \$36,000,000 in private reinsurance coverage with a retention limit of \$80,820,813.

The Company reinsured second and third events with retention of \$2,000,000 each, and fourth event had a retention limit of \$3,000,000.

The Company executed reinsurance premiums protection agreements to reinsure the reinstated premium payment obligations which accrued to the Company under the commercial catastrophe excess of loss agreements. The coverage was limited to 100% of the original contracted reinsurance placement.

For the third and fourth event coverage, the Company reinsured up to \$113,820,813 in coverage for each event.

There were no ceded incurred losses during the year ending December 31, 2014.

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 Tallahassee, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated executed on February 2, 2012 and Branch Banking & Trust Company executed on October 31. The agreements complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, Thomas Howell Ferguson, audited the Company's statutory basis financial statements annually for the year ended 2014 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.

INFORMATION TECHNOLOGY REPORT

Steve Sigler CFE, AES, CISA, MCM, of Examination Resources, LLC, performed a review and 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	Cash	\$ 300,000	\$ 300,000
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If during an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial Statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

Southern Fidelity Property & Casualty, Inc.

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$47,936,554	\$0	\$47,936,554
Cash and Short-Term Investments	41,331,054		41,331,054
Investment income due and accrued	400,731		400,731
Agents' Balances:			
Uncollected premium	305,151		305,151
Deferred premium	4,168,767		4,168,767
Federal and foreign tax recoverable	480,794		480,794
Deferred tax asset	2,459,513		2,459,513
Aggregate write-in for other than invested assets	302,729		302,729
	<hr/>		
Totals	\$97,385,293	\$0	\$97,385,293
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Southern Fidelity Property & Casualty, Inc.

Liabilities, Surplus and Other Funds

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$16,295,688	\$0	\$16,295,688
Loss adjustment expenses	1,953,441		1,953,441
Commissions payable	1,930,847		1,930,847
Other expenses	545,834		545,834
Taxes, licenses and fees	655,648		655,648
Unearned premium	34,272,611		34,272,611
Advanced premium	3,014,734		3,014,734
Ceded reinsurance premiums payable	11,028,226		11,028,226
Amounts withheld or retained by company	22,870		22,870
Provision for reinsurance	17,000		17,000
Aggregate write-ins for liabilities	298,968		298,968
Total Liabilities	\$70,035,867	\$0	\$70,035,867
Common capital stock	\$2,000,000		\$2,000,000
Gross paid in and contributed surplus	18,000,000		18,000,000
Unassigned funds (surplus)	7,349,426		7,349,426
Surplus as regards policyholders	\$27,349,426	\$0	\$27,349,426
Total liabilities, surplus and other funds	\$97,385,293	\$0	\$97,385,293

Southern Fidelity Property & Casualty, Inc.
Statement of Income and Capital and Surplus Account
December 31, 2014

Underwriting Income

Premiums earned		\$69,111,478
	Deductions:	
Losses incurred		\$30,163,781
Loss expenses incurred		5,162,422
Other underwriting expenses incurred		30,694,061
Aggregate write-ins for underwriting deductions		395,145
Total underwriting deductions		\$66,415,409
Net underwriting gain or (loss)		\$2,696,069

Investment Income

Net investment income earned		\$1,610,701
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$1,610,701

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$6,202
Finance and service charges not included in premiums		133,565
Aggregate write-ins for miscellaneous income		0
Total other income		\$139,767
Net income before dividends to policyholders and before federal & foreign income taxes		\$4,446,537
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$4,446,537
Federal & foreign income taxes		1,513,127
Net Income		\$2,933,410

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$24,418,402
Net Income		\$2,933,410
Change in net deferred income tax		(6,275)
Change in non-admitted assets		(23,111)
Change in provision for reinsurance		27,000
Change in surplus as regards policyholders for the year		\$2,931,024
Surplus as regards policyholders, December 31 current year		\$27,349,426

Southern Fidelity Property & Casualty, Inc.
Comparative Analysis of Changes in Surplus
December 31, 2014

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, 2014, per Annual Statement	\$27,349,426
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No Adjustment			
LIABILITIES: No Adjustment			
Net Change in Surplus:			_____
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$27,349,426

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm, Pinnacle Actuarial Resources, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, 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, Solomon Frazier, FSA, ACAS, MAAA of Taylor-Walker Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and he, she or they was or were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$27,349,426, exceeded the minimum of \$7,003,587 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

The Company made rule filings on April 20, 2016 to comply with the Consent Order 162157-14-CO paragraph 12 g. The rule filings were not however made within the 30 days of execution of the Consent Order.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Southern Fidelity Property & Casualty, Inc.** as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$27,349,426 which exceeded the minimum of \$7,003,587 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Joanne Campanelli, CFE, ARC, MCM, Examiner-in-Charge, and Steven Sigler, CFE, AES, CISA, MCM, IT Specialist of Examination Resources, LLC and Solomon Frazier, FSA, ACS, MAAA Actuarial Specialist of Taylor-Walker Consulting, LLC participated in the examination. Members of the Office who participated in the examination include Lonnie Salimone, Financial Examiner/Analyst Supervisor, Examination Manager, Renata Denis, Financial/Examiner Analyst II, and Casey Hengstebeck, Reinsurance/Financial Specialist, Participating Examiners.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation