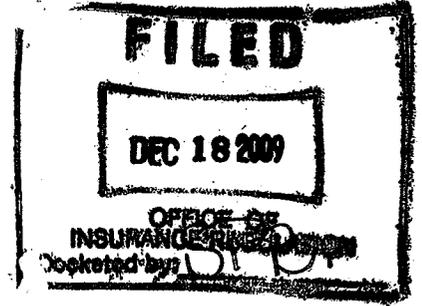




OFFICE OF INSURANCE REGULATION



KEVIN MCCARTY
COMMISSIONER

IN THE MATTER OF:

Case No.: 108030-09-CO

SOUTHERN FIDELITY INSURANCE COMPANY,
a Florida Property and Casualty Insurer

CONSENT ORDER

THIS CAUSE came on for consideration as a result of the proposal by SOUTHERN FIDELITY INSURANCE COMPANY (hereinafter referred to as "SOUTHERN FIDELITY") to remove selected personal residential policies from CITIZENS PROPERTY INSURANCE CORPORATION (hereinafter referred to as "CITIZENS"), which was submitted to the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") for its review on November 23, 2009. After a complete review of the entire record and upon consideration thereof, and otherwise being fully advised in the premises, the OFFICE hereby finds as follows:

1. The OFFICE has jurisdiction over the subject matter of and the parties herein.
2. SOUTHERN FIDELITY is a Florida domiciled property and casualty insurance company authorized to transact insurance in the State of Florida.
3. CITIZENS was established in accordance with the provisions of Section 627.351(6), Florida Statutes, as amended, to provide insurance for residential and commercial property qualified risks under circumstances specified in the Statute.
4. The Legislature of the State of Florida has enacted Section 627.3511, Florida Statutes, to encourage and provide a means for the depopulation of CITIZENS. CITIZENS submitted and the OFFICE adopted by Order No. 94539-08 a plan of depopulation, the terms and

conditions upon which this proposed consent order is predicated. SOUTHERN FIDELITY shall abide by the terms and conditions of the CITIZENS depopulation plan as a condition of issuance of this consent order.

5. On or about November 23, 2009, SOUTHERN FIDELITY submitted a proposal to remove selected personal residential policies from CITIZENS. The plan provides for an assumption of up to twenty thousand (20,000) multiple peril policies from CITIZENS' personal lines account. SOUTHERN FIDELITY plans to assume the CITIZENS policies over a period of time, subject to the approval of the OFFICE.

6. SOUTHERN FIDELITY understands that the selected policies to be removed from CITIZENS on or about February 16, 2010 or at a later date approved by the OFFICE and CITIZENS will not be subject to any incentive or bonus plan pursuant to Section 627.3511, Florida Statutes, unless and until the OFFICE approves such a plan for use by CITIZENS, provided such plan would be retroactive to policies subject to this Consent Order. If the OFFICE approves a bonus plan for use by other take-out companies or for other transactions during the 2010 policy year, the bonus may be paid to SOUTHERN FIDELITY in accordance with that plan and agreements between SOUTHERN FIDELITY and CITIZENS. SOUTHERN FIDELITY shall enter into appropriate agreements with CITIZENS to provide the following:

(a) SOUTHERN FIDELITY, at its own expense, shall give at least thirty (30) days advance notice to affected policyholders. This notice shall inform policyholders of the need to contact SOUTHERN FIDELITY before the removal date if the policyholder desires to stay with CITIZENS.

(b) SOUTHERN FIDELITY shall accumulate any objections, and shall facilitate the return of any policyholder who desires to stay in CITIZENS if that policyholder

expresses the desire to stay in CITIZENS within the thirty (30) day notice period prior to the removal of the policy or within thirty (30) days after the date of the policy removal. Policyholders shall not be required to make additional payments or take any action other than to express the desire to remain with CITIZENS in writing, by electronic mail or by telephone on or before thirty (30) days following the date of their policy removal.

(c) All communications with agents and policyholders regarding any policies to be removed from CITIZENS must be done in accordance with instructions by CITIZENS and the OFFICE. SOUTHERN FIDELITY shall obtain prior approval from the OFFICE of any letters sent to policy holders regarding any policies to be removed from CITIZENS.

7. SOUTHERN FIDELITY acknowledges neither approval by CITIZENS nor entry into this Consent Order by the OFFICE constitutes a guarantee the above referenced policies will ultimately be available to SOUTHERN FIDELITY for removal from CITIZENS, as the availability of policies for removal may vary over time.

8. SOUTHERN FIDELITY shall limit its actual removal of policies from CITIZENS to the number and type of policies authorized by the OFFICE. The OFFICE will base its review on SOUTHERN FIDELITY's reinsurance program, catastrophe modeling and financial statement projections, as well as the impact on policyholders. Such reinsurance program, catastrophe modeling and financial statement profiles shall be based upon SOUTHERN FIDELITY's current in-force book of residential property policies, SOUTHERN FIDELITY's projected voluntary market writings and the actual number of policies available in CITIZENS prior to the anticipated assumption date identified by SOUTHERN FIDELITY as satisfying its filed and approved underwriting guidelines.

9. SOUTHERN FIDELITY has submitted the proposed reinsurance documentation and financial projections for assumption of up to twenty thousand (20,000) multiple peril policies, expected to be assumed on February 16, 2010 or on subsequent dates approved by the OFFICE and CITIZENS. Each additional assumption of CITIZENS policies by SOUTHERN FIDELITY shall be subject to advance written approval by the OFFICE.

10. SOUTHERN FIDELITY's acquisition of adequate reinsurance and maintenance of executed reinsurance agreements is material to the OFFICE's review and analysis of SOUTHERN FIDELITY's proposal to remove selected policies from CITIZENS and to the OFFICE's approval of the proposal.

11. SOUTHERN FIDELITY expressly waives its right to any hearing in this matter, the making of Findings of Fact and Conclusions of Law by the OFFICE and all other and further proceedings herein to which the parties may be entitled by law or by rules of the OFFICE. SOUTHERN FIDELITY agrees not to appeal or otherwise contest this Consent Order in any forum now or in the future, available to it, including the right to any administrative proceeding, circuit or federal court action or any appeal.

12. SOUTHERN FIDELITY represents all explanations and documents made or submitted to the OFFICE as part of its proposal to remove selected policies from CITIZENS, including all attachments and supplements thereto, fully describe all transactions, agreements and understandings relating to the removal of policies from CITIZENS by SOUTHERN FIDELITY. However, all draft documents and non-executed agreements relating to SOUTHERN FIDELITY's plan shall not be deemed approved by this Consent Order until such time as executed agreements or final documents are submitted and approved by the OFFICE.

13. The parties agree this Consent Order will be deemed executed when the agency head or his designee has signed a copy of this Consent Order bearing signature of SOUTHERN FIDELITY or its authorized representative, notwithstanding the fact the copy was transmitted to the OFFICE electronically. SOUTHERN FIDELITY agrees the signature of their representative as affixed to this Consent Order shall be under seal of a Notary Public.

14. Each party to this action shall bear its own costs and attorney fees.

15. The OFFICE and SOUTHERN FIDELITY expressly agree to the terms of this Consent Order as follows:

(a) Upon consideration of SOUTHERN FIDELITY's proposal to remove selected policies from CITIZENS, including any attachments to the proposal, the OFFICE approves the proposal to remove selected policies from CITIZENS, subject to adherence to the terms and conditions of this Consent Order by SOUTHERN FIDELITY.

(b) The OFFICE approves the assumption of up to twenty thousand (20,000) multiple peril policies, all from the personal lines account, for the initial assumption starting on or about February 16, 2010, in accordance with the proposal to remove selected policies from CITIZENS, any agreement(s) between SOUTHERN FIDELITY and CITIZENS, and this Consent Order.

(c) Regarding all reinsurance matters relating to policies removed from CITIZENS, for a period of three (3) years immediately following the date of entry of this Consent Order, SOUTHERN FIDELITY shall:

i. Maintain substantially the same reinsurance coverage as evidenced to the OFFICE in the proposal to remove selected policies from CITIZENS;

ii. Submit to the OFFICE any and all replacement or additional reinsurance agreements or amendments to reinsurance agreements that materially change the reinsurance coverage above. The agreements, amendments or plans shall be submitted to the OFFICE for review and approval sixty (60) days prior to the date of effectuation of any such agreements or amendments;

iii. Notify the OFFICE of any termination of any of its reinsurance agreements. The notification shall be made to the OFFICE in writing sixty (60) days prior to the effective date of any such termination;

iv. Submit in writing to the OFFICE the proposed utilization of any substitute or additional reinsurers for the OFFICE's review and approval sixty (60) days prior to the companies being utilized within SOUTHERN FIDELITY's reinsurance program. SOUTHERN FIDELITY shall further immediately submit to the OFFICE all information as requested which the OFFICE deems necessary for the OFFICE to complete its review; and

v. Cede reinsurance or otherwise contract for reinsurance only with reinsurers who are authorized and/or approved by the OFFICE, or such other reinsurers as may be approved in advance and in writing by the OFFICE. SOUTHERN FIDELITY shall comply with the requirements of Section 624.610, Florida Statutes, with regard to all of its reinsurance arrangements.

(d) For the three (3) years immediately following the date of entry of this Consent Order, SOUTHERN FIDELITY shall file with the OFFICE on an annual basis no later than June 1st of each year, a catastrophe loss model with probable maximum loss estimate amounts from a one hundred-year storm, based upon the exposure information gathered from all of its policies in force as of April 15th of each year which would be affected by a catastrophe.

SOUTHERN FIDELITY shall include in this filing an exposure management plan, which will identify the company's ability to provide satisfactory financial capacity to cover the company's exposure to catastrophic hurricane loss. The plan shall identify the reinsurance coverage and surplus levels being utilized to maintain a satisfactory financial capacity with regard to catastrophe exposure. SOUTHERN FIDELITY shall also include within the plan specific actions intended to limit catastrophic exposures to the company's financial capacity. Based upon the OFFICE's review of the models and plans, SOUTHERN FIDELITY may be required at the OFFICE's sole discretion to take corrective action to cure any overexposure identified by the OFFICE. Such action may also include obtaining additional amounts of reinsurance coverage as directed by the OFFICE or suspend writing of any additional business, including the CITIZENS policies;

(e) Any and all policies removed from CITIZENS by SOUTHERN FIDELITY shall provide coverage substantially equivalent to that afforded by CITIZENS. Any and all policies removed from CITIZENS by SOUTHERN FIDELITY, pursuant to its proposal to remove selected policies from CITIZENS, must be renewable by the policyholder at approved rates and upon the same terms for a period of three (3) consecutive years, unless such policies are canceled by SOUTHERN FIDELITY for a lawful reason other than reduction of hurricane exposure;

(f) At the time SOUTHERN FIDELITY removes any policy of insurance from CITIZENS, SOUTHERN FIDELITY shall either obtain a new policy application from each affected policyholder or maintain in its files a copy of the policyholder's application on file with CITIZENS. If SOUTHERN FIDELITY chooses the latter option, SOUTHERN FIDELITY shall nevertheless be required to obtain a new policy application from each affected policyholder no

later than twenty-four (24) months from the effective date of any policy of insurance removed from CITIZENS. SOUTHERN FIDELITY may not initiate any retrospective increase in rates or the premium or any retrospective decrease in coverage provided under the assumed CITIZENS policy (if applicable) as a result of the information obtained from or through the new policy applications;

(g) For a period of three (3) years immediately following the date of entry of this Consent Order, SOUTHERN FIDELITY shall abide by the proposal to remove selected policies from CITIZENS in all material respects. Further, SOUTHERN FIDELITY shall abide by all terms and provisions of any agreement(s) entered into with CITIZENS;

(h) Regarding required documentation to be maintained by SOUTHERN FIDELITY relating to policies removed from CITIZENS:

i. SOUTHERN FIDELITY is required to track all agents who have declined to participate in the takeout process, as well as the related policy information. This information shall be submitted to CITIZENS by the deadline published in the Citizens Assumption Calendar. CITIZENS will then mail out notices informing the policyholders of the agent's declination. This will allow the affected policyholders the opportunity to address the declination with their agent and possibly receive their agent's approval in time to be included in the current takeout.

ii. SOUTHERN FIDELITY is required to track all agents, as well as the related policy information, who after discussing with the policyholder, decide to participate in the takeout process and submit this information to CITIZENS by the deadline published in the revised 2010 Assumption Calendar.

iii. SOUTHERN FIDELITY is required to keep a record of all agents who decline participation along with an explanation for the declination.

iv. When contacting an agent regarding a potential takeout policy, SOUTHERN FIDELITY is required to provide each agent with the policy form to be used, appointment contract and a copy of SOUTHERN FIDELITY'S most currently available financial statement.

(i) SOUTHERN FIDELITY is required to comply with the following requirements when soliciting an agent's permission to participate in the assumption process:

i. SOUTHERN FIDELITY must utilize email and at least one other method for contact (i.e. call, fax or regular mail);

ii. SOUTHERN FIDELITY must send out a direct solicitation to the agent of record and copy the agency principal;

iii. SOUTHERN FIDELITY must provide all agents a minimum of fourteen (14) days to review the solicitation. This will allow agents adequate time to research the company and make an informed decision;

iv. SOUTHERN FIDELITY must provide a copy of the appointment contract. SOUTHERN FIDELITY may opt to provide the agent a link to its website containing the required information;

v. SOUTHERN FIDELITY must provide a copy of the policy form. SOUTHERN FIDELITY may opt to provide the agent a link to its website containing the required information;

vi. SOUTHERN FIDELITY must provide a chart identifying any differences in coverage from CITIZENS, which will help both the agent and the policyholder in making an informed decision;

vii. SOUTHERN FIDELITY must provide a list of policies specific to the agent that it would like to assume;

viii. SOUTHERN FIDELITY must provide a contact number of qualified staff to answer agent's questions;

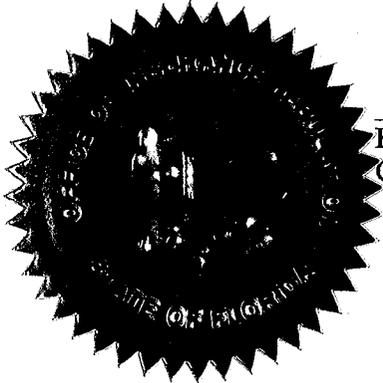
ix. SOUTHERN FIDELITY must provide an overview of its strategy for handling claims (cat and non-cat);

(j) Should the OFFICE determine SOUTHERN FIDELITY has failed to materially comply with terms of this Consent Order, the proposal to remove selected policies from CITIZENS, including any attachments and amendments thereto as submitted to the OFFICE, or the terms of any agreement(s) with CITIZENS, SOUTHERN FIDELITY shall, upon receipt of notice of such material non-compliance, have sixty (60) days to cure its material non-compliance. In the event SOUTHERN FIDELITY fails to cure any such material non-compliance within the sixty (60) day period, SOUTHERN FIDELITY expressly agrees the OFFICE may enter an order directing it to immediately cease writing personal lines residential property coverage or other lines of insurance within the State of Florida, or imposing such other sanctions authorized by statute, rule or restrictions, as may be deemed appropriate by the OFFICE.

WHEREFORE, the proposal by SOUTHERN FIDELITY to remove up to twenty thousand (20,000) multiple peril policies from CITIZENS, with the initial assumption starting on or about February 16, 2010, subject to the terms and conditions of this Consent Order, is hereby APPROVED.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 18TH day of DECEMBER, 2009.





Kevin M. McCarty, Commissioner
Office of Insurance Regulation

By execution hereof, SOUTHERN FIDELITY INSURANCE COMPANY consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions therein. The undersigned represents that he has the authority to bind SOUTHERN FIDELITY INSURANCE COMPANY to the terms and conditions of this Consent Order.

SOUTHERN FIDELITY INSURANCE COMPANY

By: *James Groganella*

Print Name: James Groganella

Title: President + CEO

Date: 12/14/09

Corporate Seal

STATE OF Florida

COUNTY OF Leon

The foregoing instrument was acknowledged before me this 14 day of December 2009,

by James Groganella as President + CEO
(name of person) (type of authority, e.g. officer, trustee, attorney in fact)

for Southern Fidelity Ins. Co.
(company name)

Kristie Mock
(Signature of the Notary)



Personally Known OR Produced Identification

Type of Identification Produced _____

My Commission Expires: _____

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