



**EXAMINATION REPORT
OF
FLORIDA SPECIALTY INSURANCE COMPANY**

NAIC Company Code: 17248

**Sarasota, Florida
as of
December 31, 2016**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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February 21, 2018

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

Dear Commissioner:

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, 2016, of the financial condition and corporate affairs of

Florida Specialty Insurance Company
1 S School Avenue, Suite 900
Sarasota, Florida 34237-6014

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, 2016, through December 31, 2016, and commenced with planning at the Florida Office of Insurance Regulation ("Office") on September 5, 2017, to September 7, 2017. The fieldwork commenced on September 5, 2017, and concluded as of February 21, 2018. The Company's last full scope examination by representatives of the Office covered the period of January 1, 2011, through December 31, 2015.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the examination be 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 Statements of Statutory Accounting Principles ("SSAP").

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 (for example, subjective conclusions or proprietary information), are not included within the examination report but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements, noted during the examination as of December 31, 2016.

Corporate Records

In accordance with Section 628.271(1)(b), Florida Statutes, every domestic insurer shall keep therein complete records of its assets, transactions, and affairs, specifically including corporate records. The Company was unable to provide its Nebraska certificate of authority effective December 31, 2016 and a copy of its stock certificates and stock registers.

Custodial Agreement

The Company's custodial agreement with Fifth Third Bank did not include provisions (d), (g – l), (n), and (o) of Rule 69O-143.042(2), Florida Administrative Code.

Reinsurance Ceded

The letter of credit from assuming companies associated with the ceded reinsurance program did not contain all the provisions required by Rule 69O-144.005(6), Florida Administrative Code. Missing provisions from letter of credit include (6)(a)(1) and (6)(d)(1-2).

Previous Examination Findings

The following is an update on other significant regulatory information disclosed in the previous examination:

Reinsurance Reporting

The reinsurers Renaissance Reinsurance Ltd, DaVinci Reinsurance Ltd, Hannover Rueck SE, and Partner Reinsurance Co Ltd, were reported as Authorized Insurers on the 2015 Annual Statement. However, they should have been reported as Certified Insurers in compliance with Rule 69O-144.007, Florida Administrative Code.

Resolution: The Company properly reported reinsurers in the annual statement during this examination period.

Stock Registry

The 2015 Schedule Y, reported Debra Beyman as forty-eight and nine tenths percent (48.9%) owner of FSH. However, a review of the stock registry and certificates found no shares recorded for Mrs. Beyman and instead lists Reliance Capital Group, LLC as owning forty-nine and six tenths percent (49.6%) of the shares.

Resolution: The Company properly reported Schedule Y in the annual statement during this examination period.

COMPANY HISTORY

General

The Company, formerly known as Safeway Property Insurance Company, was incorporated in Nebraska on June 10, 1987, and re-domesticated to Illinois on December 17, 2009. On August 13, 2015, Safeway Property Insurance Company was sold to FSH, renamed Florida Specialty Insurance Company and re-domesticated to Florida on July 30, 2015.

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, 2016, the Company's capitalization was as follows:

Number of authorized common capital shares	3,000,000
Number of shares issued and outstanding	2,000,000
Total common capital stock	\$2,000,000
Par value per share	\$1.00

Surplus Notes

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

Acquisitions, Mergers, Disposals, Dissolutions

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

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. The Directors serving as of December 31, 2016, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
William Broderick Loden	Longboat Key, Florida	President and Chief Operating Officer, Florida Specialty Insurance Company
Susan Jean Patschak	Lakewood Ranch, Florida	Chief Executive Officer and Secretary, Florida Specialty Insurance Company

Vincent Thomas Rowland, Jr.	East Aurora, New York	Retired
Joseph Joey Sasson (a)	Lakewood, New Jersey	Chief Operating Officer, Reliance Capital Group
David Robert Teiler	Spring Valley, New York	Chief Financial Officer, Reliance Capital Group

(a) Joseph Joey Sasson resigned January 2017 and was replaced by Yaakov Aryeh Beyman, effective March 23, 2017. This was approved by the Office on March 29, 2017

In accordance with the Company's Bylaws, the Board of Directors ("Board") appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
William Broderick Loden	Longboat Key, Florida	President and Chief Operating Officer
Susan Jean Patschak	Lakewood Ranch, Florida	Chief Executive Officer and Secretary
Craig Michael Thomas	Sarasota, Florida	Chief Financial Officer

The Company's Board appointed an internal committee. The following was the principal internal board committee and its members as of December 31, 2016:

Audit Committee

Name	City, State	Title, Company Name
David Robert Teiler ¹	Spring Valley, New York	Chief Financial Officer, Reliance Capital Group
Vincent Thomas Rowland, Jr.	East Aurora, New York	Retired
Joseph Joey Sasson	Lakewood, New Jersey	Chief Operating Officer, Reliance Capital Group

¹ Chairperson

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

Holding Company System

Control of the Company was maintained by its parent, FSH, a Delaware corporation, which owned one hundred percent (100%) of the stock issued by the Company. In turn, Debra Beyman owns forty-eight and nine tenths percent (48.9%) of FSH. Other investors own FSH's remaining fifty-one and one tenths percent (51.1%).

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

Managing Agency Agreement

The Company entered into an exclusive Managing Agency Agreement with Florida Specialty Managing General Agency, LLC ("FSMGA") effective September 10, 2015. The continuous agreement compensated FSMGA twenty-five and seventy-five hundredths percent (25.75%) of the Company's Direct Written Premiums plus a \$25 per policy fee for services. The MGA and its subcontractors agreed to provide comprehensive management and administration of the Company's insurance operations which included underwriting, premium collection, reinsurance placement, claims management, data management and regulatory support. During 2016, total fees incurred under this agreement were \$7,558,117. At December 31, 2016, the amounts receivable under this agreement were \$2,941,322. Amounts are settled on a monthly basis.

Subsequent Event: Effective December 31, 2016, FSMGA agreed to waive \$1,500,000 of its commission for 2016 calendar year. This transaction was approved by the Office on February 27, 2017.

Tax Allocation Agreement

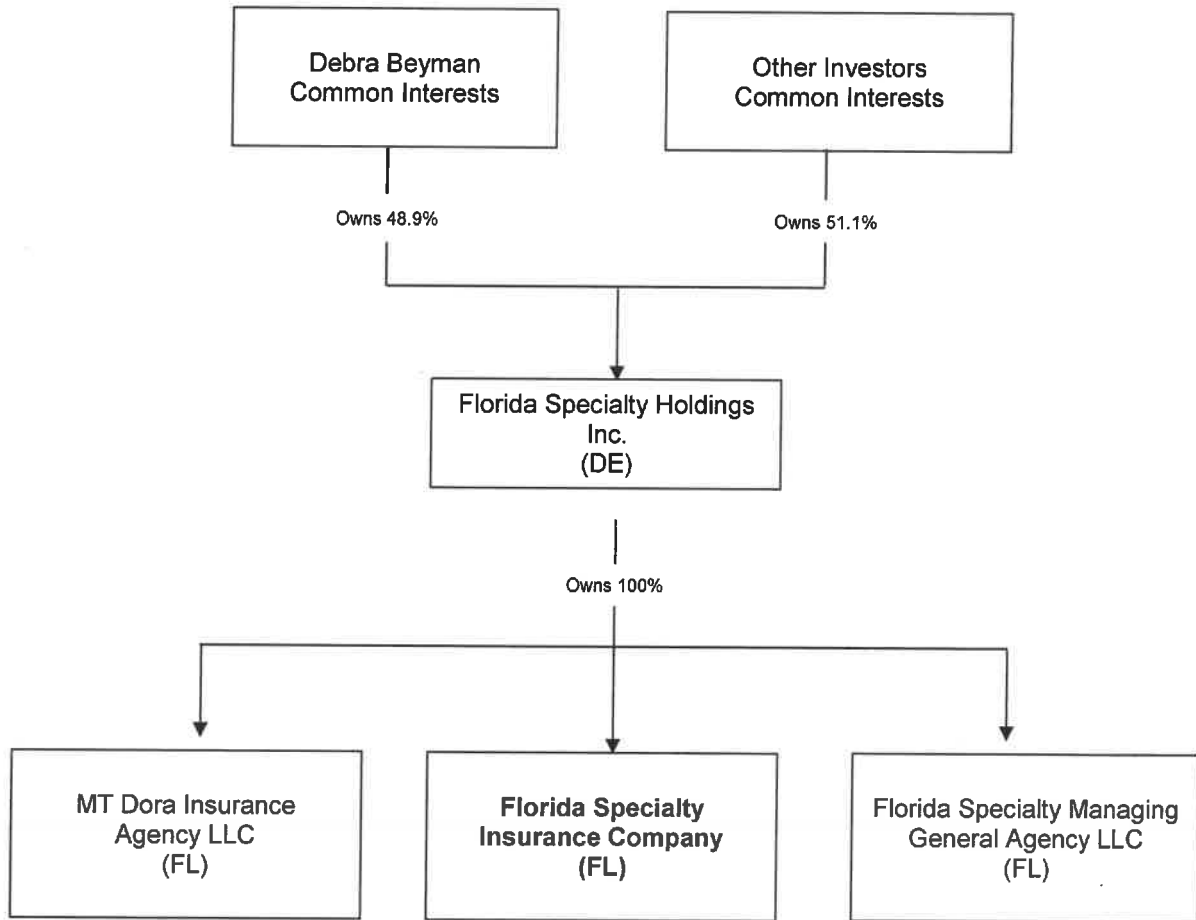
The Company, FSH and FSMGA entered into a Tax Allocation Agreement effective for tax years ended after July 15, 2015. The method of allocation among the companies is based upon a separate return calculation. The Company reported \$0 in federal income tax expense for 2016, and has unused net operating loss carryforwards of \$7,381,221, at December 31, 2016.

Cost Sharing Agreement

The Company entered into a Cost Sharing Agreement with FSH and FSMGA, on February 9, 2016. Each party has certain employees who perform technical, administrative, financial, regulatory and other services on behalf of one or more of the other parties, and the agreement enables them to reimburse each other for the services performed. During 2016, the Company had no expenses under this agreement.

Schedule Y of the Company's 2016 annual statement provided a list of all related companies of the holding company group. An organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page.

**Florida Specialty Insurance Company
Organizational Chart
December 31, 2016**



Note (1) – No person or entity owns 10% or more of the outstanding voting securities of Florida Specialty Holdings, Inc.

ACCOUNTS AND RECORDS

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

Corporate Records Review

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

In accordance with Section 628.271(1)(b), Florida Statutes, every domestic insurer shall keep therein complete records of its assets, transactions, and affairs, specifically including corporate records. The Company was unable to provide its Nebraska certificate of authority effective December 31, 2016, a copy of its stock certificates and stock registers and the original letter of credit for certain reinsurers.

Conflict of Interest

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company entered into a Custodial Agreement with Fifth Third Bank on August 12, 2015. The agreement did not comply with Rule 69O-143.042, Florida Administrative Code, due to the fact that it did not include all of the provisions outlined in the rule.

Program Management Agreement

FSMGA entered into a Program Management Agreement with MacNeill Group, Inc. ("MacNeill") effective September 1, 2015, whereby MacNeill provides policy administration services, including

underwriting and premium collection. Monthly charges are calculated based on a combination of monthly in-force gross written premium and policy counts. The charges are billed based upon a percentage of gross written premium and a per policy fee. During 2016, FSMGA paid \$1,053,564 under this agreement.

General Agency Agreement

FSMGA entered into a General Agency Agreement with First Gate MGA, LLC effective August 10, 2015, to market and write business for the Company. During 2016, FSMGA paid \$872,712 under this agreement.

Transition Services Agreement

The Company, along with FSMGA, entered into a transition services agreement with Safeway Property Insurance Company Financial Corporation (“SPIC Financial Corporation”) effective August 12, 2015, which outlined services provided for policies during the transition period of the acquisition.

Reinsurance Intermediary Agreement

Effective August 12, 2015, the Company, FSH and its affiliates entered into a Reinsurance Intermediary Agreement with 1763 Enterprises (and its subsidiary, JLT Re). This agreement provided exclusive intermediary rights to JLT Re in return for financing for FSH’s acquisition of Safeway Property Insurance Company.

Independent Auditor Agreement

An independent CPA, Thomas Howell Ferguson, PA, audited the Company’s statutory basis financial statements for 2016, in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Arizona

Florida

Nebraska

The Company was authorized to transact insurance in Florida on October 20, 1997, and is currently authorized for the following coverages as of December 31, 2016:

Fire

Allied Lines

Homeowners Multiple Peril

Mobile Home Physical Damage

Inland Marine

Other Liability

Mobile Home Multiple Peril

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)(3)(a), 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)(j), 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.

Reinsurance Assumed

Effective June 1, 2016, the Company entered into a quota share reinsurance agreement with Mount Beacon Insurance Company ("MBIC"). Under the agreement, the Company assumed one hundred percent (100%) of MBIC's premium and ultimate losses, net of reinsurance recoveries from the Florida Hurricane Catastrophe Fund ("FHCF"). The Company paid MBIC a ceding commission of \$3,870,570 during 2016.

Reinsurance Ceded

The Company maintains a catastrophe ceded risk through excess of loss reinsurance program to minimize its exposure to losses from significant events that may have an adverse impact on its liquidity and results of operations. The agreements are for a one (1) year term and incorporate the mandatory coverage required by and placed with the Florida Hurricane Catastrophe Fund (FHCF). In addition to the FHCF coverage, the Company purchases private reinsurance, alongside, and above the FHCF layer.

In addition to the catastrophe treaty, the Company has quota share coverage in place.

A review of the letter of credit from the assuming companies associated with the ceded reinsurance, identified the following deficiencies:

- A letter of credit stating it was "clean, irrevocable, and unconditional" could not be provided for American Standard Insurance Company of Wisconsin or Amlin AG in accordance with Rule 69O-144.005(6)(a)(1), Florida Administrative Code.
- An "evergreen clause" that prevents the expiration of the letter of credit with no less than sixty (60) days-notice prior to the expiration, in accordance with Rule 69O-144.005(6)(d)(1-2), Florida Administrative Code, was missing from Amlin AG and XL Re Ltd. letter of credit.

INFORMATION TECHNOLOGY REPORT

Joanna J. Latham, CPA, CFE, AES, CISA, CRISC, of Jennan Enterprises, 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, and with various state officials as required or permitted by law:

State	Description		Par Value	Market Value
FL	USBNDS	2.0%	\$ 350,000	\$ 352,835
TOTAL FLORIDA DEPOSITS			<u>\$ 350,000</u>	<u>\$ 352,835</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during 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 Office, are reflected on the following pages.

Florida Specialty Insurance Company

Assets

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Bonds	\$24,582,465		\$24,582,465
Cash, cash equivalents and short-term investments	18,531,664		18,531,664
Investment income due and accrued	153,081		153,081
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	4,807,801		4,807,801
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,482,797		1,482,797
Reinsurance:			
Amounts recoverable from reinsurers	633,949		633,949
Other amounts receivable under reinsurance contracts	1,260,218		1,260,218
Net deferred tax asset	2,646,594		2,646,594
Receivables from parent, subsidiaries and affiliates	<u>2,941,322</u>		<u>2,941,322</u>
TOTAL	<u><u>\$57,039,890</u></u>		<u><u>\$57,039,890</u></u>

Florida Specialty Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,812,030		\$2,812,030
Reinsurance payable on paid losses and loss adjustment expenses	4,161,573		4,161,573
Loss adjustment expenses	101,691		101,691
Commissions payable, contingent commissions and other similar charges	202,105		202,105
Other expenses	623,213		623,213
Taxes, licenses and fees	60,658		60,658
Unearned premiums	12,945,319		12,945,319
Advance premium	900,890		900,890
Ceded reinsurance premiums payable	14,913,440		14,913,440
Payable to parent, subsidiaries and affiliates	28,421		28,421
Total Liabilities	\$36,749,340	\$0	\$36,749,340
Common capital stock	\$2,000,000		\$2,000,000
Gross paid in and contributed surplus	9,755,028		9,755,028
Unassigned funds (surplus)	8,535,523		8,535,523
Surplus as regards policyholders	\$20,290,551	\$0	\$20,290,551
TOTAL	\$57,039,890	\$0	\$57,039,890

Florida Specialty Insurance Company
Statement of Income
December 31, 2016

Underwriting Income

Premiums earned		\$23,088,232
	Deductions:	
Losses incurred		\$12,564,189
Loss adjustment expenses incurred		922,739
Other underwriting expenses incurred		17,175,403
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$30,662,331
Net underwriting gain or (loss)		(\$7,574,099)

Investment Income

Net investment income earned		\$373,853
Net realized capital gains or (losses)		966
Net investment gain or (loss)		\$374,820

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$6,567)
Finance and service charges not included in premiums		98,380
Aggregate write-ins for miscellaneous income		0
Total other income		\$91,814

Net income before dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes		(\$7,107,466)
Dividends to policyholders		0
Net Income, after dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes		(\$7,107,466)
Federal & foreign income taxes incurred		0
Net Income		(\$7,107,466)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$26,024,659
Net Income		(\$7,107,466)
Change in net unrealized capital gains or (losses)		(562)
Change in net deferred income tax		2,330,641
Change in non admitted assets		(986,722)
Change in provision for reinsurance		30,000
Change in surplus as regards policyholders for the year		(\$5,734,108)
Surplus as regards policyholders, December 31 current year		\$20,290,551

Florida Specialty Insurance Company
Reconciliation of Capital and Surplus
December 31, 2016

No adjustments were made to surplus as regards policyholders as a result of this examination.

Capital and Surplus at January 1, 2015			\$26,024,659
	<u>Increase</u>	<u>Decrease</u>	
Net Loss		(\$7,107,466)	(\$7,107,466)
Change in net unrealized capital loss		(\$562)	(\$562)
Change in net deferred income tax	\$2,330,641		\$2,330,641
Change in non-admitted assets		(\$986,722)	(\$986,722)
Change in provision for reinsurance	\$30,000		\$30,000
 Net increase (or decrease)			 <u>(\$5,734,109)</u>
 Capital and Surplus at December 31, 2016			 <u>\$20,290,550</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

George M. Levive, FCAS, MAAA, of KPMG, LLP, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016, 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, Gustave A. Krause, FCAS, MAAA, FCA of Actuaries, Inc., reviewed the loss and loss adjustment expense workpapers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$20,290,551, exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Corporate Records

We recommend the Company keep complete records of its assets, transactions, and affairs, specifically including corporate records as noted in Section 628.271(1)(b), Florida Statutes.

Custodian Agreement

We recommend the Company amend the Fifth Third Bank custodian agreement to include provisions (d), (g – l) n and (o), required by Rule 69O-143.042, Florida Administrative Code.

Reinsurance

We recommend the letter of credit from assuming companies associated with the ceded reinsurance program be amended to include provisions (6)(a)(1) and (6)(d)(1-2), required by Rule 69O-144.005(6), Florida Administrative Code.

SUBSEQUENT EVENTS

Effective December 31, 2016, FSMGA amended the Managing Agency Agreement to allow an option to waive fees from the Company. FSMGA agreed to waive \$1,500,000 of its commission for 2016 calendar year. The amendment and transaction was approved by the Office on February 27, 2017.

On August 15, 2017, the Company received approval from the Office for a \$1,830,000 surplus contribution as a SSAP 72 capital contribution.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Specialty Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

Per the examination annual financial statements, the Company's surplus as regards to policyholders was \$20,290,551, which exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Thomas L. Mayberry, CPA, CFE, Examiner-in-Charge, of EWM Group, PC, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, MBA, FCCM, Financial Examiner/Analyst Supervisor, Exam Manager, and Paula Bowyer, APIR, Financial Examiner/Analyst II, Participating Examiner. Jenny L. Jeffers, CISA, AES, CFE (Fraud), and Joanna J. Latham, CPA, CFE, AES, CISA, CRISC, IT Specialists with Jennan Enterprises, LLC, Anthony Pipia, ACAS, MAAA and Gustave Krause, FCAS, MAAA, FCA, Actuarial Specialists with Actuaries, Inc., are recognized for participation in the examination.

Respectfully submitted,



Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation