



**EXAMINATION REPORT  
OF  
MONARCH NATIONAL INSURANCE COMPANY**

**NAIC Company Code: 15715**

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

**BY THE  
FLORIDA  
OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL .....</b>	<b>-</b>
<b>SCOPE OF EXAMINATION.....</b>	<b>1</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS .....</b>	<b>1</b>
CURRENT EXAMINATION FINDINGS .....	1
PREVIOUS EXAMINATION FINDINGS .....	2
<b>COMPANY HISTORY.....</b>	<b>2</b>
GENERAL .....	2
DIVIDENDS .....	2
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	2
SURPLUS NOTES .....	2
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS .....	2
<b>MANAGEMENT AND CONTROL.....</b>	<b>3</b>
CORPORATE GOVERNANCE .....	3
HOLDING COMPANY SYSTEM .....	5
INCOME TAX ALLOCATION AGREEMENT .....	5
MANAGEMENT AGREEMENT .....	5
COST SHARING AGREEMENT .....	6
MANAGING GENERAL AGENCY AND CLAIMS ADMINISTRATION AGREEMENT.....	6
INVESTMENT MANAGEMENT SERVICES AGREEMENT .....	6
<b>SIMPLIFIED ORGANIZATIONAL CHART .....</b>	<b>8</b>
<b>ACCOUNTS AND RECORDS .....</b>	<b>9</b>
CORPORATE RECORDS REVIEW.....	9
CONFLICT OF INTEREST.....	9
CUSTODIAL AGREEMENT .....	9
INDEPENDENT AUDITOR AGREEMENT .....	9
<b>TERRITORY AND PLAN OF OPERATIONS.....</b>	<b>10</b>
TREATMENT OF POLICYHOLDERS .....	10
<b>REINSURANCE.....</b>	<b>10</b>
REINSURANCE ASSUMED.....	10
REINSURANCE CEDED.....	10
<b>INFORMATION TECHNOLOGY REPORT .....</b>	<b>10</b>
<b>STATUTORY DEPOSITS .....</b>	<b>11</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>12</b>
ASSETS .....	13
LIABILITIES, SURPLUS AND OTHER FUNDS .....	14
STATEMENT OF INCOME .....	15
RECONCILIATION OF CAPITAL AND SURPLUS.....	16
<b>COMMENTS ON FINANCIAL STATEMENT ITEMS .....</b>	<b>17</b>
LIABILITIES .....	17

CAPITAL AND SURPLUS .....	17
<b>CONCLUSION.....</b>	<b>18</b>

December 28, 2017

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

**Monarch National Insurance Company**  
14050 NW 14<sup>th</sup> Street, Suite 180  
Sunrise, Florida 33323

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 August 29, 2017 to August 31, 2017. The fieldwork commenced on August 29, 2017 and concluded as of December 28, 2017. The Company's last full scope examination by representatives of the Office covered the period of March 19, 2015 through December 31, 2015.

The examination was a single 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 separately communicated to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Examination Findings**

There were no material findings or exceptions noted during the examination as of December 31, 2016.

### **Previous Examination Findings**

There were no findings, exceptions, or corrective action to be taken by the Company for the examination as of December 31, 2015.

## **COMPANY HISTORY**

### **General**

The Company was incorporated in Florida on February 6, 2015 and commenced business on March 19, 2015.

The Company was authorized to transact insurance coverage in Florida on March 19, 2015 and is currently authorized to write Homeowners Multi-Peril coverage, as of December 31, 2016.

### **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	300,000
Number of shares issued and outstanding	300,000
Total common capital stock	\$3,000,000
Par value per share	\$10.00

### **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:

<b>Directors</b>		
<b>Name</b>	<b>City, State</b>	<b>Principal Occupation, Company Name</b>
Michael Herbert Braun	Plantation, Florida	Chief Executive Officer, Federated National Holding Company
Donald George Braun, Jr.	Palm City, Florida	Vice President of Accounting and Financial Reporting, Federated National Holding Company
Ydania Concepcion	Miami, Florida	Statutory Controller, Federated National Holding Company
Erick Anthony Fernandez	Coral Gables, Florida	Treasurer, Federated National Holding Company
James Gordon Jennings, III	Plantation, Florida	Vice President of Risk Management, Federated National Holding Company

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

<b>Senior Officers</b>		
<b>Name</b>	<b>City, State</b>	<b>Title</b>
Michael Herbert Braun	Plantation, Florida	President

Erick Anthony Fernandez	Coral Gables, Florida	Treasurer
James Gordon Jennings, III	Plantation, Florida	Secretary

The Company's Board appointed several internal committees. The committees serve under the Board of Directors of Monarch Delaware Holdings, LLC, and act on behalf of the Company. The following were the principal internal board committees and their members as of December 31, 2016:

**Underwriting Risk Committee**

<b>Name</b>	<b>City, State</b>	<b>Title, Company Name</b>
Bruce Fisher Simberg <sup>1</sup>	Boca Raton, Florida	Managing Partner, Conroy Simberg Ganon Krevans & Abel PA
Charles Steven Duncker <sup>1</sup>	Palm Beach, Florida	Retired
Colin Edward King	Harrison, New York	Managing Director, CDJ Global Catalyst LLC

<sup>1</sup> Co-Chairperson

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

**Audit Committee**

<b>Name</b>	<b>City, State</b>	<b>Title, Company Name</b>
Robert Thomas Wolf <sup>1</sup>	Toronto, Canada	Director, Crosswinds Holdings, Inc.
Bruce Fisher Simberg	Boca Raton, Florida	Managing Partner, Conroy Simberg Ganon Krevans & Abel PA
Colin Edward King	Harrison, New York	Managing Director, CDJ Global Catalyst LLC

<sup>1</sup> Chairperson



### Investment Committee

Name	City, State	Title, Company Name
Charles Steven Duncker <sup>1</sup>	Palm Beach, Florida	Retired
Bruce Fisher Simberg <sup>1</sup>	Boca Raton, Florida	Managing Partner, Conroy Simberg Ganon Krevans & Abel PA

<sup>1</sup>Co-Chairperson

### Holding Company System

The Company is a subsidiary of Monarch National Holding Company ("MNHC"), which is one hundred percent (100%) wholly owned by Monarch Delaware Holdings LLC ("MDH"), a Delaware limited liability company. MDH's ownership is divided between Federated National Holding Company ("FNHC") at forty-two and four tenths percent (42.4%), Crosswinds Investor Monarch L.P. at forty-two and four tenths percent (42.4%) and Transatlantic Reinsurance Company at fifteen and two tenths percent (15.2%).

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

### Income Tax Allocation Agreement

The Company entered into an Intercompany Tax Allocation Agreement with MNHC and affiliated companies on March 6, 2015. The method of allocation among the companies is subject to a written agreement, approved by the Board of Directors. The allocation is based on a separate return calculation with current credit for net losses. Intercompany tax balances are settled annually after the filing of the consolidated federal income tax return. The Company paid a total of \$0 under the agreement during 2016.

### Management Agreement

The Company entered into a Management Agreement with MNHC on March 6, 2015 to assist the Company in all aspects of management. The management fee is \$200,000 per year as consideration for the holding company management assistance. This fee is made in monthly

installments of \$16,666.67. Fees incurred under this agreement during 2016 amounted to \$200,000.

### **Cost Sharing Agreement**

The Company entered into a Cost Sharing Agreement with MNHC on March 6, 2015. This agreement anticipates that, from time to time, either party may pay expenses on behalf of the other such as, but not limited to payroll and supplies. The Company and MNHC reimburse each other for expenses that are paid by one on behalf of the other within ninety (90) days of the payment being made. During 2016, the Company recorded \$11,178 for disbursements incurred in connection with undertakings for the benefit of MNHC under this agreement.

### **Managing General Agency and Claims Administration Agreement**

The Company entered into a Managing General Agency and Claims Administration Agreement with FedNat Underwriters, Inc. ("FNU"), on March 17, 2015. Under this agreement FNU provides underwriting, accounting, reinsurance placement, and claims administration services to the Company. For services rendered under this agreement, FNU receives four percent (4%) commission of the Company's total written annual premium minus exclusions for its underwriting services. In addition, a per policy administrative fee of \$25 is charged for every policy underwritten, during 2016. The Company paid \$551,461 in commissions for underwriting services. FNU received \$179,850 in policy fees.

FNU also provides claims administrative services to the Company. The Company pays FNU three and six-tenths percent (3.6%) of total earned premiums for claims services rendered. Fees incurred for claims and administrative services during 2016 amounted to \$215,108.

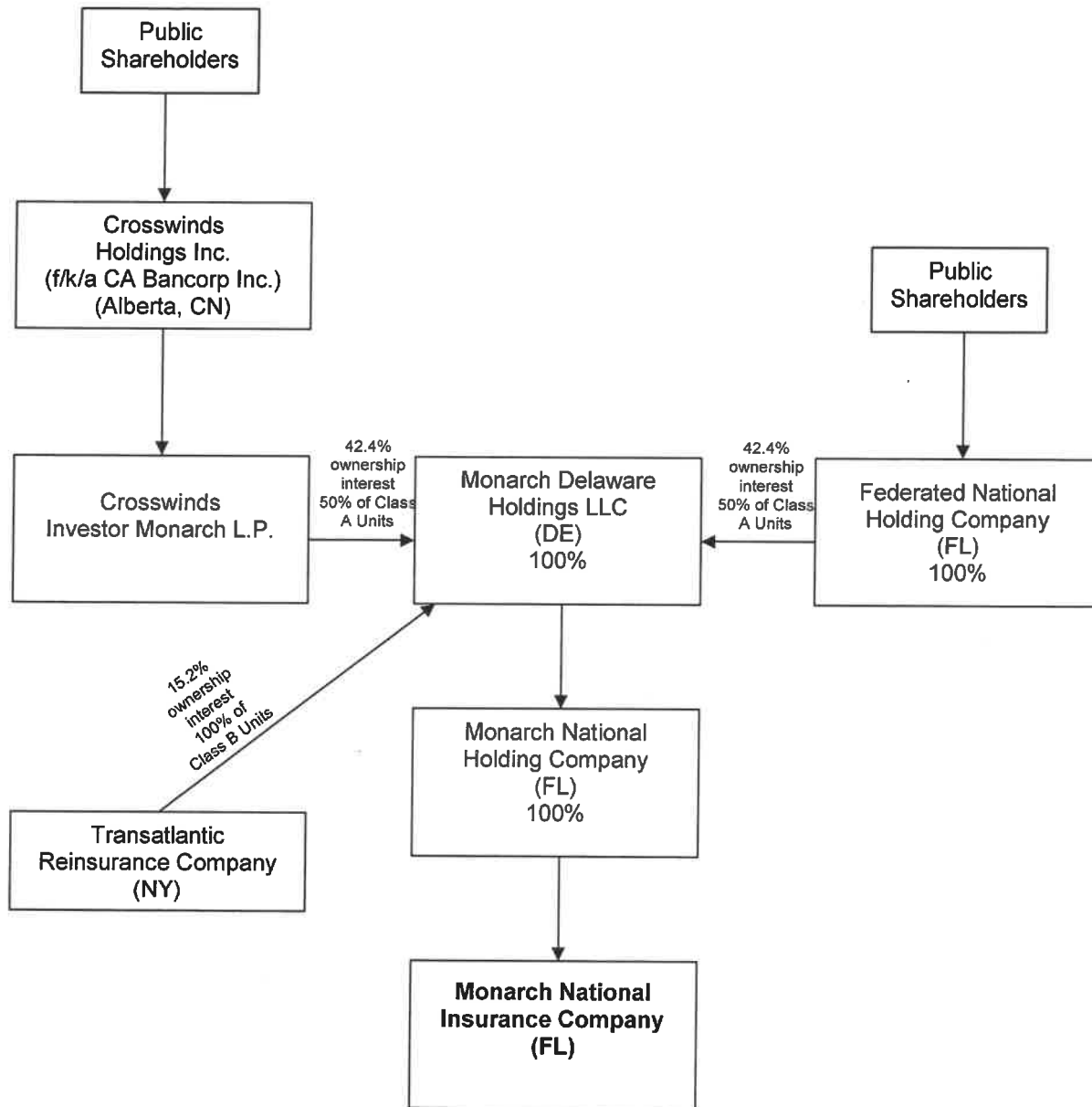
### **Investment Management Services Agreement**

The Company entered into an Investment Management Services Agreement with MNHC and affiliated companies on March 17, 2015. Under the agreement, the Company and affiliates will retain Crosswinds AUM, LLC to: 1) identify, evaluate and negotiate the structure of the investments; 2) close and monitor the investments; 3) determine the assets that are purchased, retained, or sold, 4) perform due diligence on prospective investments; and 5) provide such other

investment advisory, research and related services as needed. Fees incurred during 2016 amounted to \$210,034.

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

**Monarch National Insurance Company  
Simplified Organizational Chart  
December 31, 2016**



## **ACCOUNTS AND RECORDS**

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

### **Corporate Records Review**

The recorded minutes of the Shareholders, 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.

### **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 executed a custodial agreement with Manufacturers & Traders Trust Company on March 30, 2015. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

An independent CPA, Ernst & Young LLP, 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 firm, as required by Rule 69O-137.002, Florida Administrative Code.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance on March 19, 2015 only in the State of Florida for Homeowners Multiple Peril coverage as of December 31, 2016.

### **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**

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

### **Reinsurance Ceded**

The Company's catastrophe reinsurance program consisted of the Florida Hurricane Catastrophe Fund ("FHCF") and private market excess of loss treaties. All private layers had prepaid automatic reinstatement protection, which afforded the Company additional coverage.

## **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:

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	Cash	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL SPECIAL 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 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.



**Monarch National Insurance Company**

**Assets**

**December 31, 2016**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$25,078,992		\$25,078,992
Stocks:			
Common stocks	151,700		151,700
Cash, cash equivalents and short-term investments	13,476,123		13,476,123
Premiums and considerations:			
Uncollected premium	793,886		793,886
Deferred premium	980,126		980,126
Investment income due & accrued	175,948		175,948
Net deferred tax asset	528,409		528,409
Receivable from parents, subsidiaries and affiliates	172,673		172,673
Totals	<u>\$41,357,857</u>	<u>\$0</u>	<u>\$41,357,857</u>

**Monarch National Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2016**

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,230,131		\$1,230,131
Loss adjustment expenses	429,287		429,287
Commissions payable	274,465		274,465
Other expenses	61,279		61,279
Taxes, licenses and fees	268,825		268,825
Current federal income taxes	228,260		228,260
Unearned premiums	7,335,966		7,335,966
Advance premium	135,134		135,134
Ceded reinsurance premiums payable	<u>863,383</u>		<u>863,383</u>
<b>Total Liabilities</b>	<b>\$10,826,730</b>	<b>\$0</b>	<b>\$10,826,730</b>
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	28,000,000		28,000,000
Unassigned funds (surplus)	<u>(468,871)</u>		<u>(468,871)</u>
Surplus as regards policyholders	<u>\$30,531,129</u>	<u>\$0</u>	<u>\$30,531,129</u>
<b>Totals</b>	<b><u>\$41,357,859</u></b>	<b><u>\$0</u></b>	<b><u>\$41,357,859</u></b>

**Monarch National Insurance Company**  
**Statement of Income**  
**December 31, 2016**

**Underwriting Income**

Premiums earned		\$4,851,004
	<b>Deductions:</b>	
Losses incurred		\$2,106,685
Loss expenses incurred		764,642
Other underwriting expenses incurred		3,065,960
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$5,937,287</u>
Net underwriting gain or (loss)		(\$1,086,283)

**Investment Income**

Net investment income earned		\$294,923
Net realized capital gains or (losses)		167,669
Net investment gain or (loss)		<u>\$462,592</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		137,948
Aggregate write-ins for miscellaneous income		0
Total other income		<u>\$137,948</u>
Net income (loss) before dividends to policyholders and before federal & foreign income taxes		(\$485,743)
Dividends to policyholders		0
Net Income (loss), after dividends to policyholders, but before federal & foreign income taxes		(\$485,743)
Federal & foreign income taxes		<u>228,261</u>
Net Income (Loss)		<u><u>(\$714,004)</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$30,813,294
Net Income (Loss)		(\$714,004)
Net unrealized capital gains or losses		5,900
Change in net deferred income tax		423,445
Change in nonadmitted assets		2,494
Change in surplus as regards policyholders for the year		<u>(\$282,165)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$30,531,129</u></u>

**Monarch National 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/Surplus Change During Examination Period**

Surplus at December 31, 2015, per Examination			\$30,813,294
	<u>Increase</u>	<u>Decrease</u>	
Net income (loss)		\$ 714,004	\$ (714,004)
Change in net unrealized capital gains	\$5,900		\$5,900
Change in net deferred income tax	\$423,445		\$423,445
Change in nonadmitted assets	\$2,494		\$2,494
Net increase (or decrease)			<u>(\$282,165)</u>
Surplus at December 31, 2016, per Examination			<u><u>\$30,531,129</u></u>

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

Scott P. Weinstein, 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 \$30,531,129, exceeded the minimum of \$15,000,000 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 **Monarch National Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

Per annual financial statements, the Company's surplus as regards policyholders was \$30,531,129, which exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Philip D. Engelhart, CPA, AIAF, CFE, Examiner-in-Charge, of EWM Group, PC, also participated in the examination. Member(s) of the Office who participated in the examination include Connie Hare, AFE, CFE (Fraud), Financial Examiner/Analyst Supervisor, Examination Manager and Casey Hengstebeck, Reinsurance/Financial Specialist, 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