



**EXAMINATION REPORT
OF
ST. JOHNS INSURANCE COMPANY, INC.**

NAIC Company Code: 11844

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

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	1
CURRENT EXAMINATION FINDINGS	1
PREVIOUS EXAMINATION FINDINGS	2
COMPANY HISTORY	2
GENERAL	2
DIVIDENDS	2
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	2
SURPLUS NOTES	2
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS	3
MANAGEMENT AND CONTROL	3
CORPORATE GOVERNANCE	3
HOLDING COMPANY SYSTEM.....	5
TAX SHARING AGREEMENT.....	5
COST SHARING AGREEMENT	5
MANAGING GENERAL AGENCY AND CLAIMS ADMINISTRATION AGREEMENT.....	5
SIMPLIFIED ORGANIZATIONAL CHART	7
ACCOUNTS AND RECORDS	8
CUSTODIAL AGREEMENT	8
INDEPENDENT AUDITOR AGREEMENT	8
CORPORATE RECORDS REVIEW.....	8
CONFLICT OF INTEREST.....	8
TERRITORY AND PLAN OF OPERATIONS	9
TREATMENT OF POLICYHOLDERS	9
REINSURANCE	9
REINSURANCE ASSUMED.....	9
REINSURANCE CEDED	9
INFORMATION TECHNOLOGY REPORT	10
STATUTORY DEPOSITS	11
FINANCIAL STATEMENTS	12
ASSETS.....	13
LIABILITIES, SURPLUS AND OTHER FUNDS	14
STATEMENT OF INCOME	15
RECONCILIATION OF CAPITAL AND SURPLUS.....	16
COMMENTS ON FINANCIAL STATEMENT ITEMS	17
LIABILITIES	17
CAPITAL AND SURPLUS	17
CONCLUSION	18

October 20, 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

St. Johns Insurance Company, Inc.
6675 Westwood Blvd., Suite 360
Orlando, Florida 32821

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, 2012 through December 31, 2016 and commenced with planning at the Florida Office of Insurance Regulation ("Office") on April 18, 2017 to April 19, 2017. The fieldwork commenced on April 18, 2017 and concluded as of October 20, 2017. The Company's last full scope examination by representatives of the Office covered the period of January 1, 2007 through December 31, 2011.

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 separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The findings noted during this examination period have been resolved by the Company subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

Previous Examination Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2011.

COMPANY HISTORY

General

St. Johns Insurance Company, Inc. ("Company") was incorporated on November 25, 2003 and received its certificate of authority from the Office on December 4, 2003. The Company commenced business and forms and rates were approved on December 24, 2003.

St. Johns Financial Holding Company, Inc. ("SJFHC") is the Company's parent and owns one hundred percent (100%) of the capital stock of the Company and the Company's MGA, St. Johns MGA, Inc. ("SJMGA"). SJFHC contributed \$12.5 million to the Company in its formation in 2003. Since 2011, SJFHC has contributed approximately \$9.94 million to the Company.

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	35,000
Number of shares issued and outstanding	15,000
Total common capital stock	\$1,500,000
Par value per share	\$100.00

Surplus Notes

On July 31, 2006, the Company obtained a \$20,000,000 surplus note from the State Board of Administration of Florida ("SBA"). The SBA surplus note bears interest at 10-year U.S. Treasury Note and adjusts quarterly. The note matures twenty (20) years from the date of funding.

Acquisitions, Mergers, Disposals, Dissolutions

On March 9, 2016, the existing ownership of SJFHC sold nine and nine tenths percent (9.9%) of their outstanding common stock to Fundamental Insurance Investments, Ltd. ("FII"). As a result of the acquisition, the ownership of SJFHC is as follows: St. James, seventy-two and eight hundredths percent (72.08%), Seibels, eighteen and two hundredths percent (18.02%), and FII, nine and nine tenths percent (9.9%).

MANAGEMENT AND CONTROL

Corporate Governance

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, 2016 are shown on the following page.

Directors

Name	City, State	Principal Occupation, Company Name
Reese Irwin Bowen	Orlando, Florida	President, St. Johns Insurance Company, Inc.
Greg Scott Hendrick	Wilton, Connecticut	President, Property & Casualty, XL Group, plc
Robert Patrick Lucas ⁽¹⁾	Windermere, Florida	President, St. James Insurance Group, Inc.
James Joseph McCahill	Windermere, Florida	Director, St. James Insurance Group, Inc.
Bryan Douglas Rivers	Lexington, South Carolina	Chief Financial Officer, The Seibels Bruce Group, Inc.

⁽¹⁾ Chairperson

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
Reese Irwin Bowen	Orlando, Florida	President
Edward David Falzarano	Longwood, Florida	Secretary & Treasurer
Jesse James Schalk	Orlando, Florida	Chief Financial Officer
Russell Beck	Longwood, Florida	Executive Vice President

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2016.

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

Audit Committee

Name	City, State	Title, Company Name
Robert Patrick Lucas ⁽¹⁾	Windermere, Florida	President, St. James Insurance Group, Inc.
Reese Irwin Bowen	Orlando, Florida	President, St. Johns Insurance Company, Inc.
Bryan Douglas Rivers	Lexington, South Carolina	Chief Financial Officer, The Seibels Bruce Group, Inc.

⁽¹⁾ Chairperson

ERM Committee

Name	City, State	Title, Company Name
Robert Patrick Lucas ⁽¹⁾	Windermere, Florida	President, St. James Insurance Group, Inc.
Reese Irwin Bowen	Orlando, Florida	President, St. Johns Insurance Company, Inc.

Bryan Douglas Rivers

Lexington,
South Carolina

Chief Financial Officer,
The Seibels Bruce Group, Inc.

⁽¹⁾ Chairperson

Holding Company System

The latest Holding Company Registration Statement was filed on April 3, 2017, as required by Section 628.801, Florida Statutes, and Rule 690-143.046, Florida Administration Code.

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

Tax Sharing Agreement

The Company, along with its parent, SJFHC, & SJMGA entered into a Tax Sharing Agreement effective December 1, 2003. On December 31, 2016, the method of allocation was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with SJFHC. Within ninety (90) days of the remittance by SJFHC of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

Cost Sharing Agreement

The Company entered into a Cost Sharing Agreement with St. James and SJMGA on November 12, 2010. The agreement calls for reimbursement of the cost of services and expenses incurred by one party on behalf of the other. Costs are determined each month and are remitted within fifteen (15) days of the end of the month. Fees incurred under this agreement during 2016 amounted to \$3,321,808. The amount was settled with St. James by February 1, 2017.

Managing General Agency and Claims Administration Agreement

The Company entered into a managing general agent and claims administration agreement with its affiliate, SJMGA, effective September 1, 2003. SJMGA represented the Company in producing and handling policies in the authorized lines of business. The agreement provided that SJMGA had authority to provide services which included, but were not limited to; accept applications, issue and service policies, collect premiums, and cancel policies, as well as investigate, evaluate, handle, adjust and settle claims. SJMGA charged a \$25 per policy fee. The agreement continues

in force for a term of ten (10) years and the MGA will have the option to renew for successive five (5) year periods, unless otherwise terminated within the guidelines of the agreement.

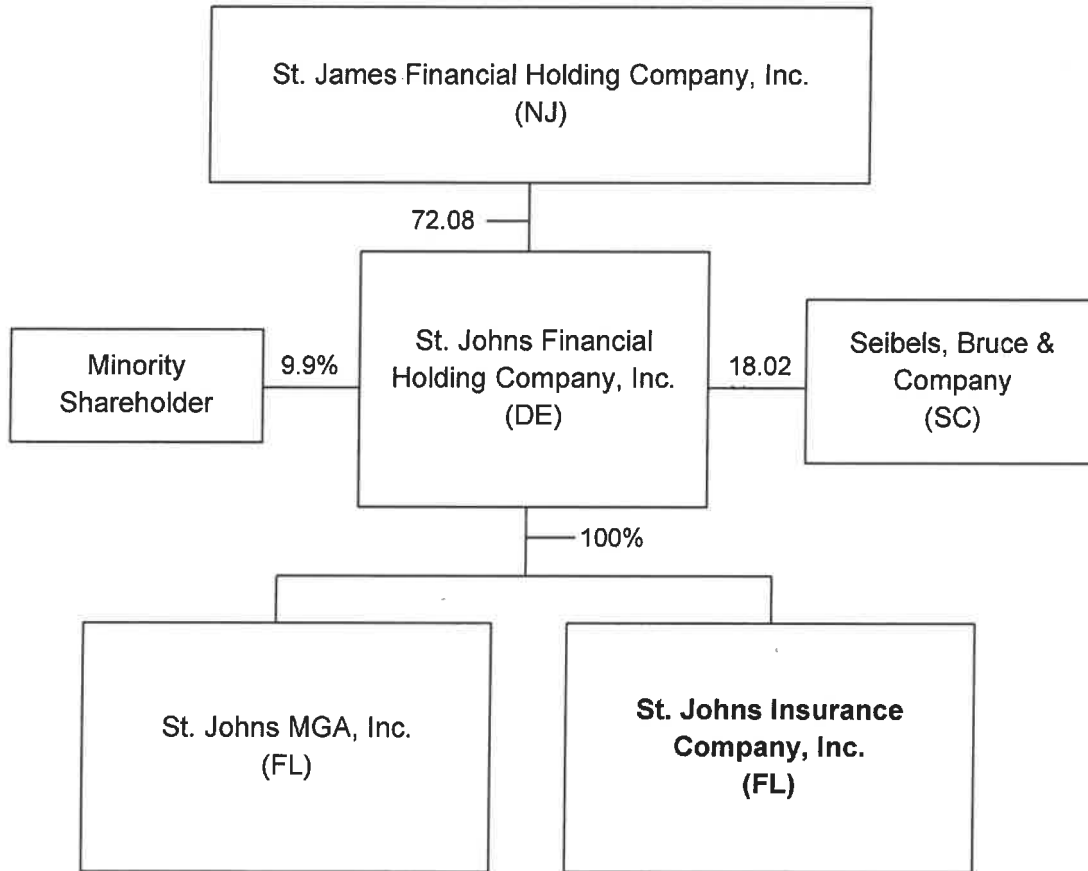
This agreement was replaced with a substantially similar agreement between the same parties that was dated May 5, 2009. The agreement was amended and approved by the Office in 2011 and 2013 to reduce MGA commissions. The last amendment to the restated MGA agreement was made on May 20, 2014. On January 1, 2016, the agreement was amended to reduce commissions to seventeen percent (17%) plus agents' commissions, with no expiration, and to define additional costs reimbursable by the Company. Fees incurred under this agreement during 2016 amounted to \$72,102,670.

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

On March 9, 2016, existing ownership of SJFHC sold nine and nine tenths percent (9.9%) of their outstanding common stock to FII. As a result of the acquisition, the ownership of SJFHC is as follows; St. James, seventy-two and eight hundredths percent (72.08%), Seibels, eighteen and two hundredths percent (18.02%), and FII, nine and nine tenths percent (9.9%). It was noted that Schedule Y of the 2016 Annual Statement did not report these percentages accurately.

Subsequent Event: The Company filed a corrected Schedule Y with their Quarterly Financial Statement as of June 30, 2017.

**St. Johns Insurance Company, Inc.
Simplified Organizational Chart
December 31, 2016**



Schedule Y represents the corrected version as of June 30, 2017.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

Company maintained a custodial agreement with Branch Banking & Trust Company executed on March 10, 2006. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, Dixon Hughes Goodman LLP, audited the Company's statutory basis financial statements annually for the years 2012, 2013, 2014, 2015, and 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.

Corporate Records Review

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 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.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in Florida and South Carolina.

On December 4, 2003, the Company was authorized to transact insurance in Florida, and is currently authorized for the following coverage(s) as of December 31, 2016:

Fire	Inland Marine
Allied Lines	Other Liability
Homeowners 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

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

Reinsurance Ceded

The Company ceded risk on a quota share and excess of loss basis. The Company has placed its ceded program, including catastrophe exposures in excess of a 1 in 100-year hurricane event, effective June 1, 2016. The Company's program employs several risk transfer treaties, which are coordinated to provide the maximum benefit to the company while maintaining the appropriate operating ratios. The program includes quota share, per risk excess of loss, excess of loss, and

the Florida Hurricane Catastrophe Fund ("FHCF") treaties. All reinsurers included in the program are authorized (rated A- or better) or fully collateralized.

INFORMATION TECHNOLOGY REPORT

John Sinkiewicz, CISA, GCFA, CIEH, GREM, CHFI, IT Specialist, of The NOVO Consulting Group, 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	Cash Dep Trust Fund	\$ 300,000	\$ 300,000
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>
SC	US Treas Note	\$ 150,000	\$ 149,579
TOTAL OTHER DEPOSITS		<u>\$ 150,000</u>	<u>\$ 149,579</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 450,000</u>	<u>\$ 449,579</u>

FINANCIAL STATEMENTS

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

St. Johns Insurance Company, Inc.

Assets

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Bonds	\$90,403,085		\$90,403,085
Cash, cash equivalents and short-term Investments	10,048,553		10,048,553
Investment income due & accrued	609,739		609,739
Premiums and considerations: Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,270,247		8,270,247
Reinsurance: Amounts recoverable from reinsurers	9,585,378		9,585,378
Current federal and foreign income tax and interest thereon	2,602,767		2,602,767
Net deferred tax asset	2,804,400		2,804,400
Electronic data processing equipment and software	27,036		27,036
Aggregate write-ins for other-than-invested assets	417,176		417,176
Totals	\$124,768,381	\$0	\$124,768,381

St. Johns Insurance Company, Inc.
Liabilities, Surplus and Other Funds
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Losses	\$12,697,315		\$12,697,315
Loss adjustment expenses	2,603,386		2,603,386
Other expenses	372,768		372,768
Taxes, licenses and fees	634,682		634,682
Unearned premium	39,027,392		39,027,392
Ceded reinsurance premiums payable	6,137,273		6,137,273
Payable to parent, subsidiaries and affiliates	9,880,368		9,880,368
Aggregate write-ins for liabilities	<u>1,890,707</u>		<u>1,890,707</u>
Total Liabilities	\$73,243,891	\$0	\$73,243,891
Common capital stock	\$1,500,000		\$1,500,000
Surplus notes	11,470,588		\$11,470,588
Gross paid in and contributed surplus	92,215,000		\$92,215,000
Unassigned funds (surplus)	<u>(53,661,098)</u>		<u>(53,661,098)</u>
Surplus as regards policyholders	<u>\$51,524,490</u>	<u>\$0</u>	<u>\$51,524,490</u>
Total liabilities, surplus and other funds	<u>\$124,768,381</u>	<u>\$0</u>	<u>\$124,768,381</u>

St. Johns Insurance Company
Statement of Income
December 31, 2016

Underwriting Income

Premiums earned		\$34,832,567
	Deductions:	
Losses incurred		\$34,050,538
Loss adjustment expenses incurred		6,536,631
Other underwriting expenses incurred		3,024,778
Total underwriting deductions		\$43,611,947
Net underwriting gain or (loss)		(\$8,779,380)

Investment Income

Net investment income earned		\$1,315,275
Net realized capital gains or (losses)		378,397
Net investment gain or (loss)		\$1,693,672

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$35,350)
Total other income		(\$35,350)
Net income before dividends to policyholders and before federal & foreign income taxes		(\$7,121,058)
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$7,121,058)
Federal & foreign income taxes		(2,732,719)
Net Income		(\$4,388,339)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$50,219,542
Net Income		(\$4,388,339)
Change in net deferred income tax		(150,800)
Change in non-admitted assets		11,959
Change in provision for reinsurance		8,600
Change in surplus notes		(1,176,471)
Surplus adjustments: Paid in		7,000,000
Change in surplus as regards policyholders for the year		\$1,304,949
Surplus as regards policyholders, December 31 current year		\$51,524,491

St. Johns Insurance Company, Inc.
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, 2011, per Examination			\$45,787,418
	<u>Increase</u>	<u>Decrease</u>	
Net income	\$ 1,822,900		\$1,822,900
Change in net deferred income tax		(\$321,300)	(\$321,300)
Change in nonadmitted assets	\$ 177,826		\$177,826
Change in surplus notes		(\$5,882,350)	(\$5,882,350)
Surplus adjustment: Paid in	\$ 9,940,000		\$9,940,000
Rounding		(\$4)	(\$4)
Net increase (or decrease)			<u>\$5,737,072</u>
Surplus at December 31, 2016, per Examination			<u>\$51,524,490</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Arthur Randolph, FCAS, MAAA, CPCU, ARM, Are, Principal and Consulting Actuary, of Pinnacle Actuarial Resources, Inc., 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, Solomon Frazier, FSA, ACAS, MAAA, of Taylor-Walker Consulting, LLC, 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 \$51,524,490, exceeded the minimum of \$10,000,000 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 **St. Johns Insurance Company, Inc.** 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 \$51,524,490, which exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Lori Ruggiero, CFE, CIE, MCM, Examiner-in-Charge, Jeff Good, CFE, CIE, MCM, Participating Examiner, and John Sinkiewicz, CISA, GCFA, CIEH, GREM, CHFI, IT Specialist of The NOVO Consulting Group, LLC, also participated in the examination. Members of the Office who participated in the examination include Kyra Brown, MBA, APIR, Financial Examiner/Analyst Supervisor, Examination Manager and Wytonia Weston, MBA, Financial Examiner/Analyst II, Participating Examiner. Additionally, Brent Sallay, FCAS, MAAA and Solomon Frazier, FSA, ACAS, MAAA, of Taylor-Walker Consulting, LLC are recognized for their participation in the examination.

Respectfully submitted,



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