



**EXAMINATION REPORT
OF**

FEDNAT INSURANCE COMPANY

NAIC Company Code: 10790

**Sunrise, Florida
as of
December 31, 2019**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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March 8, 2021

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

Dear Commissioner:

Pursuant to your instructions, in compliance with § 624.316, Fla. Stat. (2020), Fla. Admin. Code R. 69O-138.005, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (the "NAIC"), we have conducted an examination, as of December 31, 2019, of the financial condition and corporate affairs of:

FedNat Insurance Company
14050 N.W. 14th Street, Suite 180
Sunrise, Florida 33323-2851

hereinafter referred to as "the Company" or "FNIC". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2016 through December 31, 2019, and planning commenced with the Florida Office of Insurance Regulation (the "Office") on July 15, 2020. The fieldwork commenced on July 30, 2020 and concluded as of March 8, 2021. The Company's last full scope exam by representatives of the Office covered the period of January 1, 2011 through December 31, 2015.

The examination was a coordinated multi-state examination conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (the "*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. The lead state for this exam was the State of Florida, with the State of Louisiana participating.

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 the NAIC Statements of Statutory Accounting Principles ("SSAP").

This examination report includes information obtained from the examination of the records, accounts, files, and documents of, or relative to, the Company and other information as permitted by § 624.319, Fla. Stat. (2020). 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 significant findings of fact, including material adverse findings; significant non-compliance findings, such as non-compliance with state law(s), SSAPs, annual financial statement instructions, etc.; or material changes in the financial statements:

Reserve Adjustment

The reserves reported at year December 31, 2019 were determined to be insufficient by the examination actuary representing the Office to settle all outstanding claims as of December 31, 2019. See “SUMMARY OF RECOMMENDATIONS” section of the report.

Previous Examination Findings

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

NAIC Annual Statement Instructions

The Company’s 2015 Annual Statement included incorrect information on Schedule P – Parts 5 and 6. In addition, the reserves described in the Actuarial Opinion Summaries (“AOSs”), as representing the actuary’s estimates, did not tie to the results summarized in the 2015 Actuarial Report. As such, the Company was not in compliance with the NAIC Annual Statement instructions.

Resolution: The Company revised and refiled the 2016 annual statements.

Securities

The Company’s Schedule D – Part 1, Schedule DA – Part 1, and Schedule E – Part 3, with respect to the code column disclosure, incorrectly reported three securities. All securities are required to be reported in accordance with the Securities Valuation Office (“SVO”) Manual.

Resolution: The Company revised and refiled the 2016 annual statements.

COMPANY HISTORY

General

The Company, licensed on March 1, 1984 as Federated National Insurance Company, is a Florida-domiciled property and casualty insurance company. The Company is a wholly owned subsidiary of FedNat Holding Company (“the Parent” or “FNHC”), which is publicly traded on the NASDAQ under the symbol “FNHC”.

As of May 29, 2018, the Office approved the name change of Federated National Insurance Company to FedNat Insurance Company.

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2019, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$ 3,000,000
Par value per share	\$ 3.00

For the year ended 2016, the Company recorded a receivable for a surplus infusion from its Parent totaling \$25,000,000, in the form of cash and other securities, which was approved by the Office.

For the year ended 2017, the Company recorded a receivable for a surplus infusion from its Parent totaling \$30,000,000, in the form of cash and other securities, which was approved by the Office. The Company also recorded a receivable for a capital contribution from its Parent totaling \$11,894,239, from the assignment of its 42.4% ownership rights of Monarch Delaware, which was approved by the Office.

Surplus Notes

The Company did not have or issue any surplus notes during the period under examination.

Acquisitions, Mergers, Disposals, Dissolutions

The Company engaged in a series of transactions that led to it owning Monarch National Insurance Company ("MNIC"), a Florida domiciled insurer.

FNHC and Crosswinds Investor Monarch LP ("Crosswinds Investor"), a wholly-owned subsidiary of Crosswinds Holdings Inc. ("Crosswinds Holdings"), a private equity firm and asset manager, each invested \$14.0 million for a 42.4% membership interest (each holding 50.0% of the voting interests in Monarch Delaware Holdings LLC ("Monarch Delaware")). Transatlantic Reinsurance Company ("TransRe"), an international property and casualty reinsurance company, invested \$5.0 million for a 15.2% non-voting membership interest in Monarch Delaware. TransRe also provided a loan represented by a six-year promissory note in the principal amount of \$5.0 million bearing annual interest of 6.0% payable by Monarch National Holding Company ("Monarch Holding"), the direct parent of Monarch National Insurance Company ("MNIC") and wholly-owned subsidiary of Monarch .

On November 27, 2017, FNHC entered into a Purchase and Sale Agreement ("Purchase Agreement") with Crosswinds Investor and TransRe with respect to the acquisition of all the membership interest in Monarch Delaware. On December 28, 2017, FNHC assigned its rights in the Purchase Agreement to the Company.

On February 21, 2018, the Company purchased Crosswinds Investor's 42.4% Class A membership interest and 50.0% voting interest in Monarch Delaware for \$12.3 million, and TransRe's 15.2% non-voting membership interest in Monarch Delaware for \$4.4 million. The Company also repaid the outstanding principal balance and interest due on the \$5.0 million promissory note to TransRe. Following the closing, Monarch Delaware and Monarch Holdings were merged into MNIC. With the completion of these transactions, the Company owns 100% of MNIC.

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, 2019, are as follows:

Directors		
Name	City, State	Title; Company Name
Michael Herbert Braun	Plantation, Florida	President & Chief Executive Officer; FedNat Insurance Company
Erick Anthony Fernandez	Coral Gables, Florida	Chief Accounting Officer; FedNat Insurance Company
Brian Stanley Gardner	Sunrise, Florida	Director, SEC Reporting; FedNat Insurance Company
James Gordon Jennings, III	Plantation, Florida	Vice President, Risk Management; FedNat Insurance Company
Ronald Arthur Jordan	Parkland, Florida	Chief Financial Officer; FedNat Insurance Company

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

Senior Officers		
Name	City, State	Title; Company Name
Michael Herbert Braun	Plantation, Florida	President; FedNat Insurance Company
Erick Anthony Fernandez	Coral Gables, Florida	Treasurer; FedNat Insurance Company
James Gordon Jennings, III	Plantation, Florida	Secretary; FedNat Insurance Company

The Company's Board appointed several internal committees. The following are the principal internal Board committees and their members, as of December 31, 2019. The first person listed for each committee is the chairperson.

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

Audit Committee		
Name	City, State	Title; Company Name
Jenifer Goforth Kimbrough	Birmingham, Alabama	Managing Director & CFO; Oakworth Capital Bank
David Warner Michelson	Twinsburg, Ohio	Director; Protective Insurance Corporation
David Karl Patterson	Plantation, Florida	Retired
Richard William Wilcox, Jr.	Lancaster, South Carolina	Retired
Roberta Nell Young	Boca Raton, Florida	Manager; JCY Accounting Services, Inc.

Investment Committee		
Name	City, State	Title; Company Name
William Gorman Stewart	Stevenson, Maryland	Executive Service; State of Maryland
Bruce Fisher Simberg	Boca Raton, Florida	Managing Partner; Conroy Simberg P.A.
Roberta Nell Young	Boca Raton, Florida	Manager; JCY Accounting Services, Inc.

Business Strategy Committee

Name	City, State	Title; Company Name
Michael Herbert Braun	Plantation, Florida	President & Chief Executive Officer; FedNat Insurance Company
David Warner Michelson	Twinsburg, Ohio	Director; Protective Insurance Corporation
David Karl Patterson	Plantation, Florida	Retired
Thomas Alexander Rogers	Rosemont, Pennsylvania	Retired
Bruce Fisher Simberg	Boca Raton, Florida	Managing Partner; Conroy Simberg P.A.
Richard William Wilcox, Jr.	Lancaster, South Carolina	Retired

Compensation Committee

Name	City, State	Title; Company Name
Jenifer Goforth Kimbrough	Birmingham, Alabama	Managing Director & CFO; Oakworth Capital Bank
David Warner Michelson	Twinsburg, Ohio	Director; Protective Insurance Corporation
David Karl Patterson	Plantation, Florida	Retired
Thomas Alexander Rogers	Rosemont, Pennsylvania	Retired
Bruce Fisher Simberg	Boca Raton, Florida	Managing Partner; Conroy Simberg P.A.
Richard William Wilcox, Jr.	Lancaster, South Carolina	Retired

Nominating Committee		
Name	City, State	Title; Company Name
Jenifer Goforth Kimbrough	Birmingham, Alabama	Managing Director & CFO; Oakworth Capital Bank
David Warner Michelson	Twinsburg, Ohio	Director; Protective Insurance Corporation
David Karl Patterson	Plantation, Florida	Retired
Thomas Alexander Rogers	Rosemont, Pennsylvania	Retired
Bruce Fisher Simberg	Boca Raton, Florida	Managing Partner; Conroy Simberg P.A.
William Gorman Stewart	Stevenson, Maryland	Executive Service; State of Maryland
Roberta Nell Young	Boca Raton, Florida	Manager; JCY Accounting Services, Inc.
Richard William Wilcox, Jr.	Lancaster, South Carolina	Retired

Holding Company System

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

Cost Sharing Agreement

The Company entered into a cost sharing arrangement with FNHC and other affiliated companies, FedNat (“FNU”), Century Risk Insurance Services, Inc. (“CRS”); and Insure-Link, Inc. (“Insure-Link”). The agreements cover operating related costs, such as payroll, rent, professional services, and other costs. The most significant or material of these transactions is FNU allocating payroll and other expenses to FNIC. The costs are combined and allocated based on management’s best estimate of direct costs incurred to carry out the entities’ business.

During the years ended December 31, 2019 and 2018, the Company recorded \$40,101,875 and \$48,984,131 for disbursements incurred in connection with undertakings for the benefit of FNU, respectively. During the years ended December 31, 2019 and 2018, the Company recorded \$3,730,906 and \$3,959,991 for disbursements incurred in connection with undertakings for the benefit of FNHC, respectively. During the years ended December 31, 2019 and 2018, the Company recorded \$0 and \$90,196 for disbursements incurred in connection with undertakings for the benefit of CRS, respectively. During the years ended December 31, 2019 and 2018, the Company recorded \$366,907 and \$461,441 for disbursements incurred in connection with undertakings for the benefit of Insure-Link, respectively.

Income Tax Allocation Agreement

The Company entered into a written income tax allocation agreement with FNHC, which was approved by the Company's Board of Directors. The tax allocation is based on separate return calculation with current credit for net losses. Intercompany tax balances are settled annually after the consolidated federal income tax return is filed.

The Company had a receivable in the amount of \$3,262,057 related to the year ended December 31, 2019 and recovered taxes through intercompany settlements for a total of \$2,518,561 related to the year ended December 31, 2018.

Management Agreement

Effective March 1, 2005, the Company entered into a management agreement with FNHC. For the years ended December 31, 2019 and 2018, the Company paid FNHC a total of \$1,200,000 for management fees each year related to this agreement.

Managing General Agent Agreement

The Company entered into a Managing General Agent and Claims Administration Agreement (the "MGA Agreement") with FNU, pursuant to which FNU provides underwriting, accounting, reinsurance placement, and claims administration services to the Company. For its services under the MGA Agreement, FNU receives 4% of the Company's total written annual premium, excluding acquisition expenses payable to agents, for FNU's managing general agent services; 3.6% of the Company's total earned annual premium for FNU's claims administration services; and a per policy administrative fee of \$25 for each policy underwritten for the Company.

For the years ended December 31, 2019 and 2018, the total adjusting fees paid by the Company totaled \$30,495,872 and \$37,136,873, respectively.

During the years ended December 31, 2019 and 2018, the Company incurred commission expenses to FNU of \$11,658,774 and \$3,892,852 relating to this agreement, respectively. The Company's affiliated managing general agency agreed to reduce fees otherwise payable under the parties' managing general agency agreement by \$6.0 million in 2019, as compared to \$14.5 million in 2018. The reduction of these fees was approved by the Office. These costs are included in commission and brokerage expense in the accompanying financial statements.

Additionally, FNU charges the Company's policyholders a \$25 fee per policy written, new or renewed, on Florida Homeowner line business. For the years ended December 31, 2019 and 2018, FNU charged the Company \$5,986,175 and \$6,476,300, respectively.

ACCOUNTS AND RECORDS

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

Third-Party Agreements

The Company and non-affiliates had the undermentioned material agreements.

Custodial Agreement

The Company maintained a custodial agreement with Manufacturers & Traders Trust Company ("M&T Bank"), executed on December 30, 2011.

Independent Auditor Agreement

An independent CPA, Ernst & Young LLP, audited the Company's statutory basis financial statements annually for the all of the years under examination.

Appointed Actuary Agreement

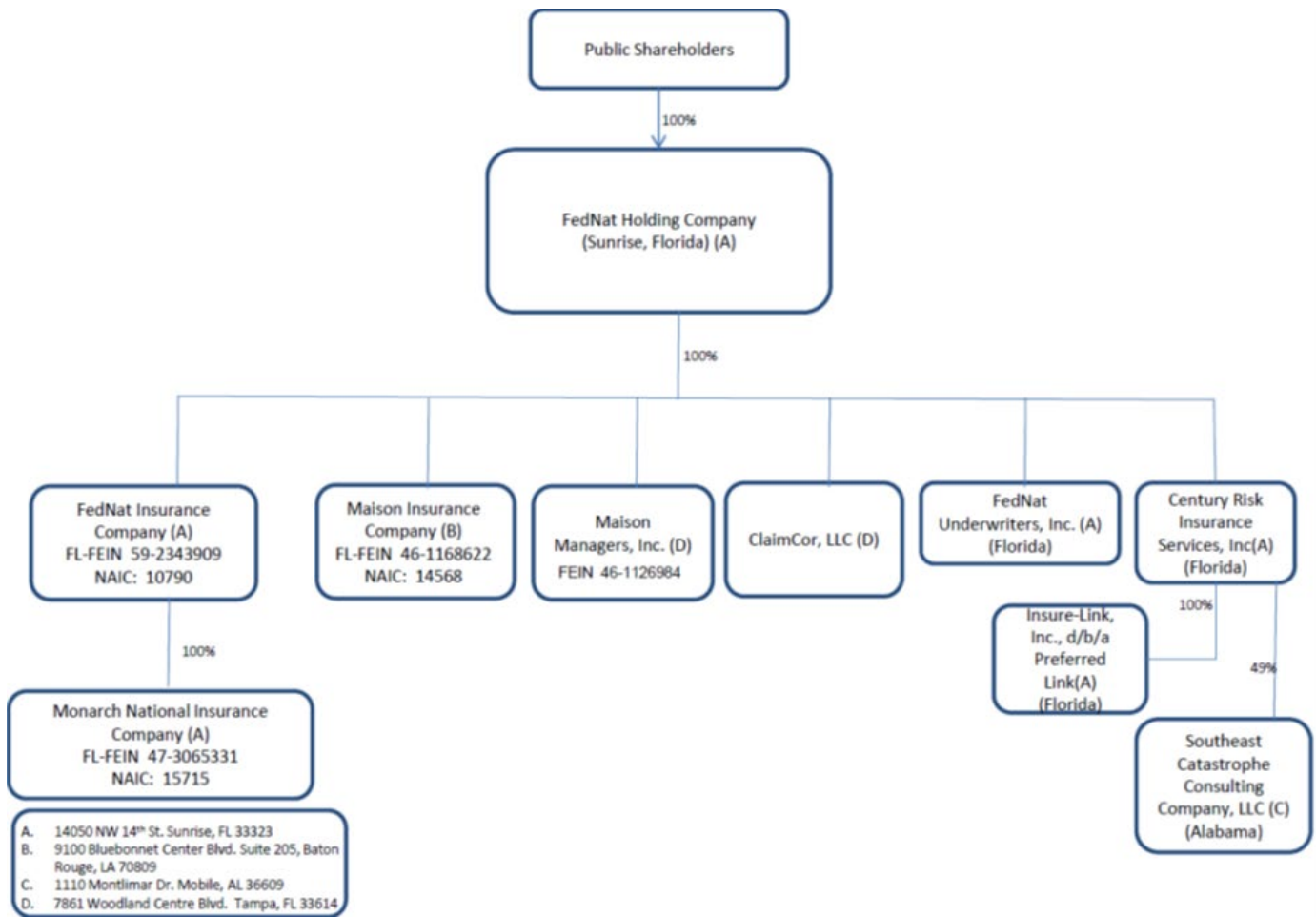
KPMG LLP, prepared a Statement of Actuarial Opinion, relating to the Company's reserves and related actuarial items for all of the years under examination.

Corporate Records Review

The recorded minutes of the Shareholders, Board of Directors (the "Board"), Audit Committee, Business Strategy Committee, Compensation Committee, Investment Committee, and Nominating Committee were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, including the authorization of investments, as required by Section 625.304, Florida Statutes.

An organizational chart as of December 31, 2019, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2019 annual statement provided a list of all related companies of the holding company group.

**FedNat Insurance Company
Organizational Chart
as of December 31, 2019**



TERRITORY AND PLAN OF OPERATIONS

The Company is a multi-line writer, however, primarily writes residential property (homeowners') insurance and federal flood with the National Flood Insurance Program. The Company distributes its products through a network of independent agents and direct marketing technologies. Business is administered through its affiliated Managing General Agency ("MGA"), FedNat Underwriters, Inc. ("FNU").

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

Alabama	Louisiana	South Carolina
Florida	Mississippi	Texas
Georgia	Nevada ⁽¹⁾	

⁽¹⁾ Surplus Lines

The Company was authorized to transact insurance in Florida on March 1, 1984, and is currently authorized for the following lines of business as of December 31, 2019:

Allied Lines	Commercial Multiple Peril
Boiler and Machinery	Homeowners' Multiple Peril
Burglary and Theft	Private Passenger Auto Liability
Fire	Private Passenger Auto Physical Damage
Other Liability	Glass

On January 18, 2018, the Company notified the Office of its intent to discontinue writing in the private passenger auto line of insurance in all states where the Company issues such policies, including Alabama, Florida, Georgia, and Texas. On March 22, 2018, the Company notified the Office of its intent to run off all of its commercial general liability policies in Florida.

REINSURANCE

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

Reinsurance Assumed

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

Reinsurance Ceded

Excess of Loss

The Company's 2019–2020 reinsurance programs is estimated to cost \$175.4 million. This amount included approximately \$136 million for the private reinsurance for the FNHC's exposure, including prepaid automatic premium reinstatement protection, along with approximately \$39.4 million payable to the Florida Hurricane Catastrophe Fund ("FHCF"). The combination of private and FHCF reinsurance treaties afforded FNHC approximately \$1.9 billion of aggregate coverage with a maximum single event coverage totaling approximately \$1.3 billion, exclusive of retentions. The Company maintained its FHCF participation at 75% for the 2019 hurricane season. The Company's single event pre-tax retention for a catastrophic event in Florida was \$20.0 million.

The Company's private market excess of loss treaties, covering both Florida and non-Florida exposures, became effective July 1, 2019, and all private layers have prepaid automatic reinstatement protection, which afforded the Company additional coverage for subsequent events. These private market excess of loss treaties structure coverage into layers, with a cascading feature such that substantially all layers attach after \$20.0 million in losses for the Company. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Additionally, any unused layer protection drops down for subsequent events until it is exhausted. The overall reinsurance programs were with reinsurers that had an A.M. Best or Standard & Poor's rating of "A-" or better or had fully collateralized their maximum potential obligations in dedicated trusts.

The Company's non-Florida excess of loss reinsurance treaty afforded the Company an additional \$18 million of coverage for a second event, which applied to hurricane losses only. The result is a non-Florida retention of \$20 million for the Company for the first event and \$2 million for the second event, although these retentions were reduced to \$10 million and \$1 million after taking into account the profit-sharing agreement that the Company had with the non-affiliated managing general underwriter that writes the Company's non-Florida property business. The Company's non-Florida reinsurance program cost for the above specific coverage approximates \$1.8 million for this private reinsurance.

The cost and amounts of reinsurance were based on management's analysis of exposure to catastrophic risk. The data was subjected to exposure level analysis at various dates during the period ending December 31, 2019. This analysis of the Company's exposure level in relation to the total exposures to the FHCF and excess of loss treaties may produce changes in retentions, limits and reinsurance premiums because of increases or decreases in the Company's exposure level.

Quota-Share Reinsurance Programs

The Company's reinsurance program also included quota-share treaties. The Company's quota-share reinsurance program for 2019–2020 was a new treaty on the Company's Florida homeowner book of business, which became effective on July 1, 2019, on an in-force, new and renewal basis, excluding named storms and was set at 10%. In addition, this quota-share allowed the Company the flexibility to prospectively increase or decrease the cession percentage up to three times during the term of the agreement.

The Company's private passenger automobile quota-share treaties were typically programs that became effective at different points in the year and covered auto policies across several states. The automobile quota-share treaties ceded approximately 75% of all written premiums entered into by the Company, subject to certain limitations including, but not limited to premium and other caps.

Certain reinsurance agreements required the Company to secure the credit, regulatory, and business risk. Fully funded trust agreements securing these risks totaled \$12,798,561, as of December 31, 2019. In addition, the Company received other secured collateral in the form of clean, unconditional, and irrevocable letters of credit totaling \$56,845,020, as of December 31, 2019.

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets; statutory Statement of Liabilities, Surplus, and Other Funds; statutory Statement of Income; statutory Statement of Cash Flow; and statutory Analysis of Changes in Surplus for the year ended December 31, 2019. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2019. (Note: Failure of the columns to sum to the totals reflected in this Report is due to rounding.)

FedNat Insurance Company
Assets
as of December 31, 2019

	Per Company
Bonds	\$ 406,051,666
Stocks:	
Preferred stocks	3,059,025
Common stocks	33,446,303
Cash, cash equivalents, and short-term investments	50,447,371
Subtotal, cash and invested assets	493,004,365
Investment income due and accrued	2,545,918
Premiums and considerations:	
Uncollected premiums and agents' balances, in the course of collection	2,770,251
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	34,146,307
Reinsurance:	
Amounts recoverable from reinsurers	42,423,240
Other amounts receivable under reinsurance contracts	12,104,554
Net deferred tax asset	9,077,906
Receivables from parent, subsidiaries, and affiliates	1,668,849
Aggregate write-ins for other-than-invested assets	1,647,884
Total assets	<u>\$ 599,389,274</u>

FedNat Insurance Company
Liabilities, Surplus, and Other Funds
as of December 31, 2019

	Per Company
Losses	\$ 119,070,944
Reinsurance payable on paid losses and loss adjustment expense	60,797
Loss adjustment expenses	37,391,636
Commissions payable, contingent commissions, and other similar charges	4,091,030
Other expenses (excluding taxes, licenses, and fees)	232,604
Taxes, licenses, and fees (excluding federal and foreign income taxes)	3,459,358
Current federal and foreign income taxes	413,911
Unearned premiums	197,131,102
Advance premium	10,450,343
Ceded reinsurance premiums payable (net of ceding commissions)	80,487,147
Funds held by Company under reinsurance treaties	144,471
Provision for reinsurance	231,845
Payable to parent, subsidiaries, and affiliates	4,100,090
Total liabilities	457,265,278
Common capital stock	3,000,000
Gross paid-in and contributed surplus	165,755,346
Unassigned funds (surplus)	(26,971,908)
Surplus, as regards policyholders	141,783,438
Total liabilities, surplus, and other funds	<u>\$ 599,048,716</u>

FedNat Insurance Company
Statement of Income
for the year ended December 31, 2019

	Per Company
Underwriting Income	
Premiums earned	\$ 362,376,965
Underwriting Expenses:	
Losses incurred	237,884,333
Loss adjustment expenses incurred	48,112,896
Other underwriting expenses incurred	115,195,892
Total underwriting deductions	401,193,121
Net underwriting gain (loss)	(38,816,156)
Investment Income	
Net investment income earned	12,991,237
Net realized capital gains (losses), less capital gains tax	2,755,962
Net investment gain (loss)	15,747,199
Other Income	
Finance and service charges not included in premiums	1,606,132
Aggregate write-ins for miscellaneous income	26,669
Total other income	1,632,801
Net income, before federal and foreign income taxes	(21,436,156)
Federal and foreign income taxes incurred	(3,262,057)
Net income	\$ (18,174,099)
Capital and Surplus Account	
Surplus, as regards policyholders, December 31, 2018	\$ 161,708,601
Net income (loss)	(18,174,099)
Change in net unrealized capital gains (losses), less capital gains tax	(2,458,026)
Change in net deferred income tax	1,075,502
Change in non-admitted assets	(200,888)

Change in provision for reinsurance	(167,653)
Change in surplus, as regards policyholders for the year	(19,925,164)
Surplus, as regards policyholders, December 31, 2019	<u>\$ 141,783,437</u>

FedNat Insurance Company
Reconciliation of Capital and Surplus
December 31, 2019

Capital/Surplus Change during Examination Period

Capital and surplus, December 31, 2015, per Examination	\$ 145,135,163
Net income (loss)	(58,113,510)
Change in net unrealized capital gain (loss)	(16,938,409)
Change in net deferred income tax	5,095,196
Change in non-admitted assets	(57,396)
Change in provision for reinsurance	(231,845)
Change in paid-in surplus	66,894,239
Net increase (decrease)	(3,351,725)
Capital and surplus, December 31, 2019, per Examination	\$ 141,783,438

Analysis of Changes in Surplus

Surplus at December 31, 2019, per Annual Financial Statement	\$ 141,783,438
	<u>Increase</u> <u>Decrease</u>
Reserve Deficiency	32,580,987
Net increase (or decrease)	(32,580,987)
Surplus at December 31, 2019, per Examination	\$ 109,202,451

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Scott P. Weinstein, FCAS, MAAA, Principal, KPMG LLP, appointed by the Board, rendered an opinion that the amounts carried on the balance sheet as of December 31, 2019, made a reasonable provision, in the aggregate, for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

The Office consulting actuary, Michael C. Dubin, FCAS, FSA, MAAA, FCA, Baker Tilly US, LLP, reviewed the loss and loss adjustment expense work papers provided by the Company and he was not in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$141,783,438, and the examination adjusted surplus amount of \$109,202,451, exceeded the minimum of \$36,448,114 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Adverse Weather Events

The 2020 Atlantic hurricane season has been exceptionally active, exceeding previous records for the number of named storms in a season. While the average number of named storms for one hurricane season is usually 12–13, as of the conclusion of fieldwork, the 2020 season has seen 30 named storms. Additionally, the National Oceanic and Atmospheric Administration has reported that although the Atlantic hurricane season ended on November 30, 2020, additional storms may continue to develop.

On November 4, 2020, the Holding Company, FNHC, released the financial results of the Holding Company and its subsidiaries, as of September 30, 2020. FNHC reported financial impacts due to a number of severe weather events. Specifically, FNHC reported a net loss of \$20.7 million; adjusted operating loss of \$21.5 million; and \$44.9 million of claims, net of recoveries, pre-tax, from catastrophe losses, including Hurricanes Laura and Sally.

Additionally, FNHC reported impacts from Hurricanes Delta and Zeta, including a preliminary estimate of \$27 million of catastrophe losses, net of recoveries, including reinsurance, pre-tax, on a combined basis for these storms.

Coronavirus Disease 2019 (COVID-19) Pandemic

In March 2020, the World Health Organization recognized the coronavirus (COVID-19) outbreak as a pandemic. While the complete effects of COVID-19 on the economy and financial markets are still unknown, the Office recognizes that it could have a significant impact on all domestic insurers, including the Company. The Company has been able to adapt to a work-from-home environment and discerns the state of affairs. The Office will continue to closely monitor this situation and share information with the Company as appropriate regarding these developments.

SUMMARY OF RECOMMENDATIONS

Reserve Adjustment

The current examination actuarial reserve review indicated that certain assumptions and methodologies observed in the FNIC actuarial report resulted in claims reserves of an amount likely to be inadequate to settle all outstanding claims as of December 31, 2019. An analysis was performed that included a change in actuarial assumptions and methodologies. This analysis resulted in an indicated reserve adjustment for the December 31, 2019 reserves of approximately \$32.6 million net of reinsurance and \$296.3 million gross of reinsurance.

The Company reported similar adverse development concerning its 2019 loss reserves on a net basis. Per Notes to Financial Statements Number 25 of the Company's December 31, 2020 statutory annual statement, the Company experienced \$32.4 million in net adverse development concerning the reserves it had booked as of December 31, 2019.

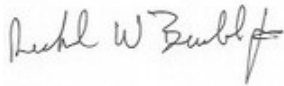
CONCLUSION

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, 2019, consistent with the insurance laws of the State of Florida.

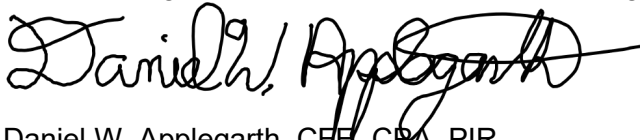
In addition to the undersigned, the following also participated in the examination:

Jeffrey Rockwell, MBA	Exam Manager	Office
Christopher Brown, APIR	Participating Examiner	Office
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