



**EXAMINATION REPORT  
OF**

**MONARCH NATIONAL  
INSURANCE COMPANY**

**NAIC Company Code: 15715**

**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, 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 (the "NAIC"), we have conducted an examination, as of December 31, 2019, of the financial condition and corporate affairs of:

**Monarch National Insurance Company**  
14050 N.W. 14<sup>th</sup> Street, Suite 180  
Sunrise, Florida 33323-2851

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

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2017 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, 2016 through December 31, 2016.

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**

There were no significant findings as a result of this examination.

### **Previous Examination Findings**

There were no findings, exceptions, or corrective action to be taken by the Company for the examination as of December 31, 2016.

## COMPANY HISTORY

### General

The Company was incorporated on February 6, 2015 and obtained its Certificate of Authority from the Office on March 19, 2015 to write homeowners' insurance in the State of Florida. The Company is wholly-owned by FedNat Insurance Company (the "Parent", "FNIC"), a Florida-domiciled insurer, which, in turn, is wholly-owned by FedNat Holding Company ("FNHC"), a Florida-domiciled corporation which is publicly traded on the NASDAQ under the symbol "FNHC".

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

For the year ended 2019, the Company recorded a receivable for a surplus infusion from its Parent totaling \$5,000,000, in the form of cash and other securities, 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 became a wholly owned subsidiary of FNIC through the series of transactions described below:

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 MNIC and wholly owned subsidiary of Monarch Delaware .

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 of the membership interest in Monarch Delaware. On December 28, 2017, FNHC assigned its rights in the Purchase Agreement to FNIC.

On February 21, 2018, FNIC 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. FNIC 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, FNIC owns 100% of the Company.

## **MANAGEMENT AND CONTROL**

### **Corporate Governance**

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes (2020). Directors serving as of December 31, 2019, are as follows:

<b>Name</b>	<b>Directors City, State</b>	<b>Title; Company Name</b>
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**

<b>Name</b>	<b>City, State</b>	<b>Title; Company Name</b>
Michael Herbert Braun	Plantation, Florida	President; Monarch National Insurance Company
Erick Anthony Fernandez	Coral Gables, Florida	Treasurer; Monarch National Insurance Company
James Gordon Jennings, III	Plantation, Florida	Secretary; Monarch National 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**

<b>Name</b>	<b>City, State</b>	<b>Title; Company Name</b>
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**

<b>Name</b>	<b>City, State</b>	<b>Title; Company Name</b>
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.

**Business Strategy Committee**

<b>Name</b>	<b>City, State</b>	<b>Title; Company Name</b>
Michael Herbert Braun	Plantation, Florida	President & Chief Executive Officer; Monarch National 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**

<b>Name</b>	<b>City, State</b>	<b>Title; Company Name</b>
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



<b>Nominating Committee</b>		
<b>Name</b>	<b>City, State</b>	<b>Title; Company Name</b>
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 FNIC. The agreement covers operating related costs, such as payroll, rent, professional services, and other costs. The costs are combined and allocated based on Management's best estimate of direct costs incurred to carry out the entities' business. Management believes that this methodology provides the most equitable allocation of costs between all the companies.

#### **Income Tax Allocation Agreement**

The Company entered into a written income tax allocation 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.

For the year ended December 31, 2019, the Company received a refund of \$39,525 related to 2019 taxes. For the year ended December 31, 2018, the Company did not pay any taxes.

### **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 Company's MGA fees to FNU were reduced by \$0.8 million and \$0.4 million, respectively. These reductions in fees were approved by the Office.

For the year ended December 31, 2018, the Company paid commissions to FNU of \$12,835. For the year ended December 31, 2018, the Company paid \$517,132 for claims administration services. For the year ended December 31, 2019 and 2018, FNU charged the Company \$154,075 and \$217,400 respectively for policy fees.

## **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 March 30, 2015March 30, 2015.

#### **Independent Auditor Agreement**

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

#### **Appointed Actuary Agreement**

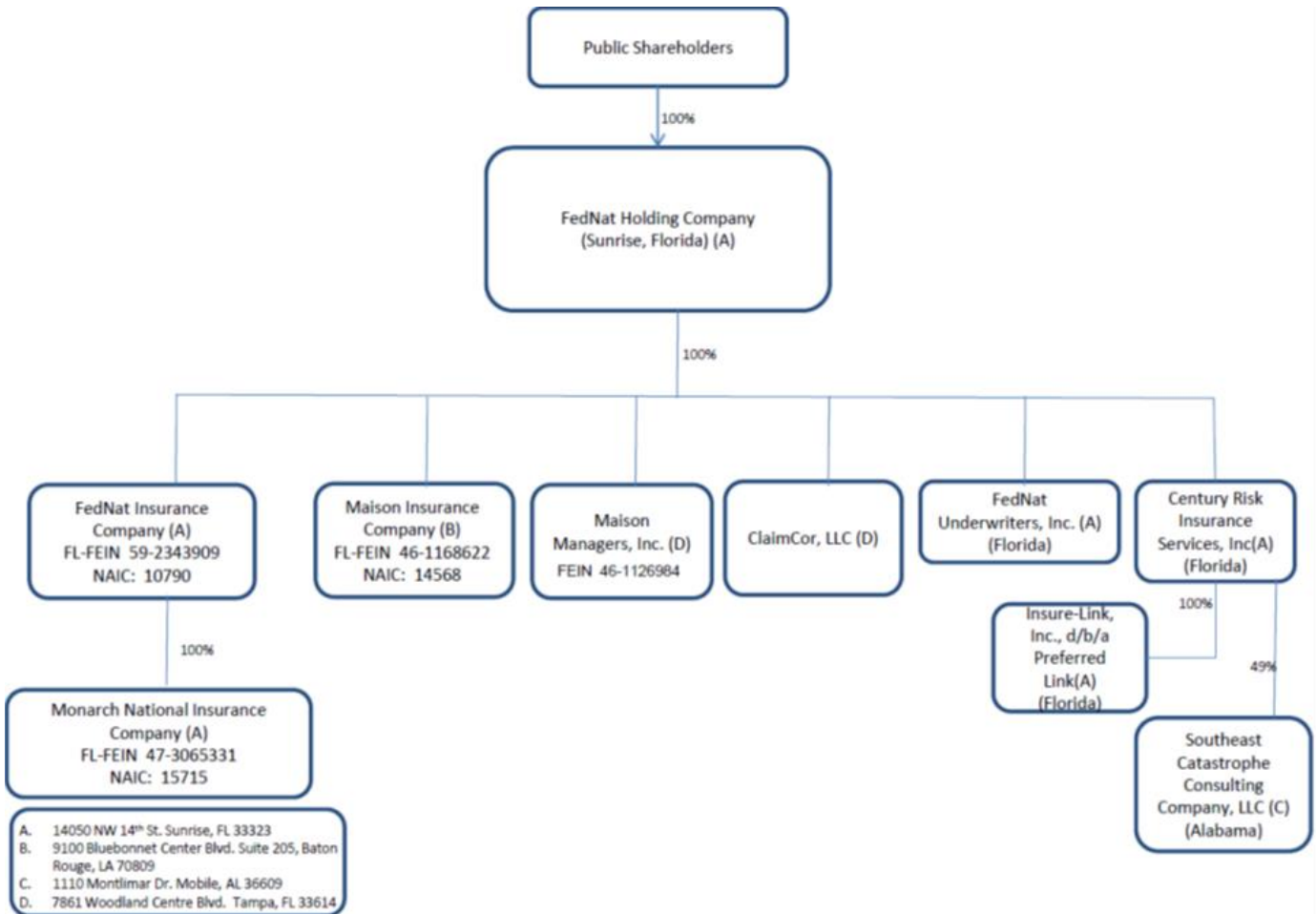
A qualified actuarial firm, KPMG LLP, prepared a Statement of Actuarial Opinion, relating to the Company's reserves and related actuarial items for all the years under examination.

### **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.

**Monarch National Insurance Company  
Organizational Chart  
as of December 31, 2019**



## **TERRITORY AND PLAN OF OPERATIONS**

The Company is authorized to write in the Homeowners' Multi-Peril line of business on March 19, 2015 and began writing during the second quarter of 2015. The Company is currently only licensed in the State of Florida. The Company has been approved by the Office to expand into Alabama, Mississippi, and Louisiana but as of the date of this report had not done so. All the Company's business is produced by its affiliated Managing General Agency ("MGA"), FedNat Underwriters, Inc.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, 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**

The Company's 2019–2020 reinsurance programs was estimated to cost \$3.5 million. This amount included approximately \$2.3 million for the private reinsurance for the FNHC's exposure, including prepaid automatic premium reinstatement protection, along with approximately \$1.2 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 is \$2.0 million.

The Company's private market excess of loss treaties, covering Florida exposures, became effective July 1, 2019, and all private layers have prepaid automatic reinstatement protection, which affords 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 \$2.0 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 exhausted.

The overall reinsurance programs are 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 cost and amounts of reinsurance are based on management's current analysis of exposure to catastrophic risk. The data will be 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.

## **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.)

**Monarch National Insurance Company**  
**Assets**  
**as of December 31, 2019**

	<b>Per Company</b>
Bonds	\$ 27,960,221
Cash, cash equivalents, and short-term investments	(418,172)
Subtotal, cash and invested assets	27,524,048
Investment income due and accrued	260,667
Premiums and considerations:	
Uncollected premiums and agents' balances, in the course of collection	1,234,643
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	435,081
Reinsurance:	
Amounts recoverable from reinsurers	1,392,898
Receivables from parent, subsidiaries, and affiliates	69,406
Total assets	<u>\$ 30,934,744</u>



**Monarch National Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**as of December 31, 2019**

	<b>Per Company</b>
Losses	\$ 6,014,112
Loss adjustment expenses	1,563,503
Commissions payable, contingent commissions, and other similar charges	92,295
Other expenses (excluding taxes, licenses, and fees)	145,189
Taxes, licenses, and fees (excluding federal and foreign income taxes)	(21,049)
Current federal and foreign income taxes	341,211
Unearned premiums	3,009,717
Advance premium	169,671
Ceded reinsurance premiums payable (net of ceding commissions)	1,162,028
Provision for reinsurance	59,668
Payable to parent, subsidiaries, and affiliates	181,647
Total liabilities	12,717,991
Common capital stock	3,000,000
Gross paid-in and contributed surplus	33,000,000
Unassigned funds (surplus)	(17,783,247)
Surplus, as regards policyholders	18,216,753
Total liabilities, surplus, and other funds	\$ 30,934,744

**Monarch National Insurance Company**  
**Statement of Income**  
for the year ended December 31, 2019

	Per Company
<b>Underwriting Income</b>	
Premiums earned	\$ 7,567,757
Underwriting Expenses:	
Losses incurred	8,647,192
Loss adjustment expenses incurred	1,774,209
Other underwriting expenses incurred	1,822,158
Total underwriting deductions	12,243,559
Net underwriting gain (loss)	(4,675,802)
<b>Investment Income</b>	
Net investment income earned	1,010,208
Net realized capital gains (losses), less capital gains tax	49,081
Net investment gain (loss)	1,059,289
<b>Other Income</b>	
Finance and service charges not included in premiums	41,964
Total other income	41,964
Net income (loss), before federal and foreign income taxes	(3,574,548)
Federal and foreign income taxes incurred	(39,525)
Net income (loss)	\$ (3,535,023)
<b>Capital and Surplus Account</b>	
Surplus, as regards policyholders, December 31, 2018	\$ 16,811,445
Net income (loss)	(3,535,023)
Change in provision for reinsurance	(59,668)
Surplus adjustments:	
Paid-in	5,000,000
Change in surplus, as regards policyholders for the year	1,405,309
Surplus, as regards policyholders, December 31, 2019	\$ 18,216,753

**Monarch National Insurance Company  
Reconciliation of Capital and Surplus  
December 31, 2019**

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

**Capital/Surplus Change during Examination Period**

Capital and surplus, December 31, 2015, per Examination	\$ 30,813,294
Net income (loss)	(17,311,715)
Change in net unrealized capital gain (loss)	16,143
Change in net deferred income tax	(104,964)
Change in non-admitted assets	2,494
Change in provision for reinsurance	(59,668)
Change in paid-in surplus	5,000,000
Aggregate write-ins for gains and losses in surplus	(138,830)
Rounding	(1)
Net increase (decrease)	(12,596,541)
Capital and surplus, December 31, 2019, per Examination	\$ 18,216,753

## 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 in concurrence with this opinion.

#### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$18,216,753 exceeded the minimum of \$15,000,000 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 several 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**

There were no significant or material recommendations resulting from the examination that warranted inclusion in the Report on Examination.

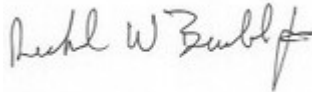
## CONCLUSION

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
Brandon Waters	Participating Examiner	Baker Tilly US, LLP
Michael Dubin, FCAS, FSA, MAAA, FCA	Actuarial Examiner	Baker Tilly US, LLP
Dave Wolf, ACAS, MAAA	Actuarial Examiner	Baker Tilly US, LLP
Jake Powell	Actuarial Examiner	Baker Tilly US, LLP
Phil Schmoyer, CFE, CISA	IT Examiner	Baker Tilly US, LLP
Dennis Schaefer, CISSP, CISA	IT Examiner	Baker Tilly US, LLP
Raaed Junaid	IT Examiner	Baker Tilly US, LLP

Respectfully submitted,



Rick W. Buchwald, CFE, CFE (Fraud), MCM, CIA, AIRC  
Examiner-in-Charge  
Baker Tilly US, LLP  
Representing the Florida Office of Insurance Regulation



Daniel W. Applegarth, CFE, CRA, PIR  
Chief Financial Examiner  
Property & Casualty Financial Oversight  
Florida Office of Insurance Regulation