



**EXAMINATION REPORT
OF**

FLORIDA SPECIALTY INSURANCE COMPANY

NAIC Company Code: 17248

Sarasota, Florida

**as of
December 31, 2015**

**BY THE
FLORIDA OFFICE OF INSURANCE REGULATION**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAMINATION FINDINGS	2
PRIOR EXAMINATION FINDINGS	2
COMPANY HISTORY	2
GENERAL	2
DIVIDENDS	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH REINSURANCE	4
CORPORATE RECORDS	4
CONFLICT OF INTEREST.....	4
MANAGEMENT AND CONTROL	5
MANAGEMENT	5
AFFILIATED COMPANIES	6
ORGANIZATIONAL CHART	7
MANAGING AGENCY AGREEMENT	8
TAX ALLOCATION AGREEMENT.....	8
COST SHARING AGREEMENT	8
TERRITORY AND PLAN OF OPERATIONS	9
TREATMENT OF POLICYHOLDERS	9
REINSURANCE	9
REINSURANCE ASSUMED.....	9
REINSURANCE CEDED.....	9
ACCOUNTS AND RECORDS	10
CUSTODIAL AGREEMENT	10
PROGRAM MANAGEMENT AGREEMENT.....	10
GENERAL AGENCY AGREEMENT	10
TRANSITION SERVICE AGREEMENTS	10
REINSURANCE INTERMEDIARY AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT	11
INFORMATION TECHNOLOGY REPORT	11
STATUTORY DEPOSITS	12
FINANCIAL STATEMENTS	13
ASSETS	14
LIABILITIES, SURPLUS AND OTHER FUNDS	15

STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT	16
RECONCILIATION OF CAPITAL AND SURPLUS.....	17
COMMENTS ON FINANCIAL STATEMENTS.....	18
LIABILITIES	18
CAPITAL AND SURPLUS	18
SUBSEQUENT EVENTS.....	19
SUMMARY OF RECOMMENDATIONS.....	21
REINSURANCE REPORTING	21
STOCK REGISTER	21
CONCLUSION.....	22

April 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, 2015, of the financial condition and corporate affairs of

Florida Specialty Insurance Company
1 S School Ave, Suite 900
Sarasota, FL 34237

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, 2011 through December 31, 2015 and commenced with planning at the Office on February 28, 2017 to March 2, 2017. The fieldwork commenced on March 6, 2017 and concluded as of April 28, 2017. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2006 through December 31, 2010.

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 following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements.

Reinsurance Reporting

The following four (4) reinsurers, Renaissance Reinsurance Ltd, DaVinci Reinsurance Ltd, Hannover Rueck SE, and Partner Reinsurance Co Ltd, were reported as Authorized Insurers on the 2015 Annual Statement. However, they should have been reported as Certified Insurers in compliance with Rule 69O-144.007, Florida Administrative Code.

Stock Register

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

Prior Examination Findings

There were no findings, exceptions, or corrective action to be taken by the Company as a result of the prior examination as of December 31, 2010.

COMPANY HISTORY

General

Safeway Property Insurance Company was incorporated in Nebraska on June 10, 1987 and re-domesticated to Illinois on December 17, 2009. On August 13, 2015, Safeway Property Insurance

Company was sold to Florida Specialty Holdings, Inc. (Holding Company), renamed to Florida Specialty Insurance Company (Company), and re-domesticated to Florida on September 10, 2015.

The Company was authorized to transact insurance coverage in Florida on October 20, 1997 and is currently authorized for the following coverages as of December 31, 2015:

Homeowners Multiple-Peril	Inland Marine
Mobile Home Physical Damage	

Dividends

In 2015, prior to its re-domestication to Florida, the Company had paid a total of \$6,500,000 in dividends.

Capital Stock and Capital Contributions

As of December 31, 2015, the Company's capitalization was as follows:

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

Control of the Company was maintained by its parent, Florida Specialty Holdings, Inc., a Delaware corporation who owned one hundred percent (100%) of the stock issued by the Company, who in turn was forty-eight and nine tenths percent (48.9%) owned by Debra Beyman and fifty-two and two tenths percent (52.2%) by other investors.

However, a review of the stock certificates and register found no shares recorded for Mrs. Beyman and instead listed Reliance Capital Group, LLC as owning forty-nine and six tenths percent (49.6%) of the shares.

Surplus Notes

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

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

The Company was purchased from Safeway Property Insurance Company Financial Corporation by the Holding Company on August 30, 2015 and its name was changed to Florida Specialty Insurance Company, Inc. The Company was re-domesticated to Florida on September 10, 2015.

CORPORATE RECORDS

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.

MANAGEMENT AND CONTROL

Management

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, 2015 are shown below:

Directors

Name	City, State	Principal Occupation, Company Name
William Broderick Loden	Longboat Key, Florida	President and Chief Operating Officer Florida Specialty Insurance Company
Susan Jean Patschak	Lakewood Ranch, Florida	Chief Executive Officer and Secretary Florida Specialty Insurance Company
Vincent Thomas Rowland, Jr. ¹	East Aurora, New York	Retired
Joseph Joey Sasson (a)	Lakewood, New Jersey	Chief Operating Officer Reliance Capital Group
David Robert Teiler	Spring Valley, New York	Chief Financial Officer Reliance Capital Group

¹ Chairperson

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

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

Senior Officers

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

The Company's Board appointed an internal committee. The following was the principal internal board committee and its members as of December 31, 2015:

Audit Committee

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

¹ Chairperson

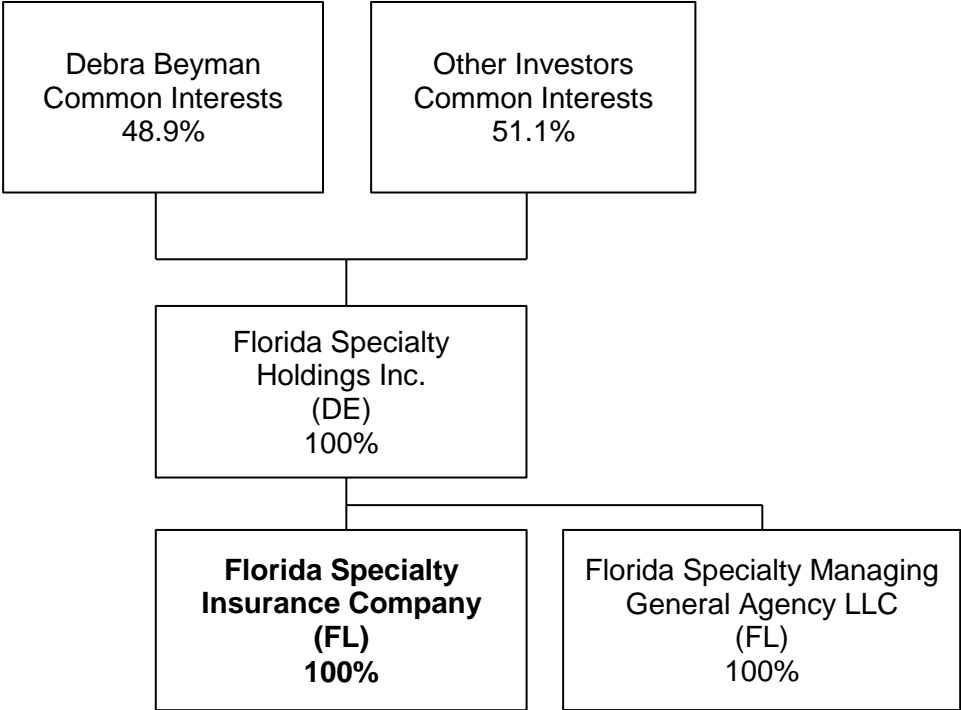
The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

Affiliated Companies

The most recent Holding Company Registration Statement was filed with the Office on March 31, 2017, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An Organizational Chart as of December 31, 2015, reflecting the holding company system, is shown on the following page.

**Florida Specialty Insurance Company
Organizational Chart
December 31, 2015**



The following agreements were in effect between the Company and its affiliates. These agreements were also reviewed and indicated appropriate terms. A summary of transactions and balances is as follows:

Managing Agency Agreement

The Company entered into an exclusive Managing Agency Agreement with Florida Specialty Managing General Agency, LLC. ("MGA") effective September 10, 2015. The continuous agreement compensated the MGA twenty-five and seventy-five hundredths percent (25.75%) of the Company's Direct Written Premiums plus a \$25 per policy fee for services which included management of the Company's insurance operations including premiums, reinsurance placement, claims, data management and regulatory support. At December 31, 2015, the Company reported \$112,859 of inter-company MGA expenses. Amounts due from the MGA of \$1,107,780 were comprised of \$438,957 of expense reimbursements and \$668,823 in estimated January 2016 premiums. The estimated premiums are trued up each month.

Tax Allocation Agreement

The Company, the Holding Company and the MGA entered into a Tax Allocation Agreement effective for tax years ended after July 15, 2015. They filed a consolidated federal income tax return. The method of allocation was on a separate-entity basis. The Company reported \$893,610 in federal income tax expense for 2015. The Company did not have any material federal or foreign income tax loss contingencies for the year ending 2015.

Cost Sharing Agreement

Effective January 1, 2010, the Company entered into a cost sharing agreement with Safeway Insurance Company in exchange for various management services. The amount paid under this agreement in 2015 was \$0. This agreement was terminated upon sale of the Company.

TERRITORY AND PLAN OF OPERATIONS

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

Arizona

Florida

Nebraska

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 per risk basis. The Company's reinsurance program provides protection up to approximately \$125,000,000.

The following four (4) reinsurers, Renaissance Reinsurance Ltd, DaVinci Reinsurance Ltd, Hannover Rueck SE, and Partner Reinsurance Co Ltd, were recorded as Authorized on the 2015 Annual Statement.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a Custodial Agreement with Fifth Third Bank executed on August 12, 2015. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Program Management Agreement

The MGA entered into a Program Management Agreement with MacNeill Group, Inc. (MacNeill) effective September 1, 2015, wherein MacNeill provided policy administration services including underwriting and premium collection. MacNeill was paid an initial startup fee of \$350,000. Monthly charges were calculated based on a combination of monthly in-force gross written premium and policy counts and billed as a percentage of Gross Written Premium and a per policy fee.

General Agency Agreement

The MGA entered into a General Agency Agreement with First Gate MGA, LLC effective August 10, 2015, to market and write business for the Company.

Transition Service Agreements

The MGA and the Company entered into a transition services agreement with Safeway Property Insurance Company Financial Corporation effective August 12, 2015, which outlined services the

seller to provide for policies during the transition period of the acquisition. The Holding Company also entered into a limited software sub-license agreement with SPIC Financial Corporation as licensor effective August 12, 2015.

Reinsurance Intermediary Agreement

The Holding Company, together with its affiliates, subsidiaries and successors, entered into an agreement with 1763 Enterprises (and its subsidiary, JLT Re) effective August 12, 2015, which provided exclusive intermediary rights to JLT Re with guaranteed minimal profits in return for financing for the Holding Company's acquisition of Safeway Property Insurance Company.

Independent Auditor Agreement

An independent CPA, Thomas Howell Ferguson, PA (CPA) audited the Company's statutory basis financial statements annually for the year 2015, in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Tracy Gates, CFE, CISA of Highland Clark, 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:

State	Description	Par Value	Market Value
Florida	U.S. Treasury Bond	\$ 350,000	\$ 352,520
Total Florida deposits		350,000	352,520
Total deposits		<u>\$ 350,000</u>	<u>\$ 352,520</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.

Florida Specialty Insurance Company

Assets

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 19,210,006		\$ 19,210,006
Cash, cash equivalents and short-term investments	15,197,338		15,197,338
	<u>\$ 34,407,344</u>		<u>\$ 34,407,344</u>
Investment income due and accrued	89,308		89,308
Uncollected premiums and agents' balances	367,200		367,200
Deferred premiums and agents' balances	1,468,799		1,468,799
Amounts recoverable from reinsurers	199,337		199,337
Net deferred tax asset	1,253,855		1,253,855
Receivables from parent, subsidiaries and affiliates	1,107,780		1,107,780
Aggregate write-ins for other than invested assets	118,056		118,056
Total assets	<u>\$ 39,011,679</u>		<u>\$ 39,011,679</u>

Florida Specialty Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Liabilities			
Losses	\$ 1,690,380		\$ 1,690,380
Loss adjustment expenses	312,595		312,595
Commissions payable, contingent commissions and other similar charges	187,503		187,503
Other expenses	491,272		491,272
Taxes, licenses and fees	89,217		89,217
Unearned premiums	6,393,328		6,393,328
Advance premium	928,958		928,958
Ceded reinsurance premiums payable	2,662,335		2,662,335
Amounts withheld or retained by company for account of others	16,943		16,943
Provision for reinsurance	30,000		30,000
Payable to parent, subsidiaries and affiliates	175,393		175,393
Aggregate write-ins for liabilities	9,096		9,096
Total liabilities	<u>12,987,020</u>		<u>12,987,020</u>
Surplus and Other Funds			
Common capital stock	2,000,000		2,000,000
Gross paid in and contributed surplus	9,755,028		9,755,028
Unassigned funds (surplus)	14,269,631		14,269,631
Total surplus and other funds	<u>26,024,659</u>		<u>26,024,659</u>
Total liabilities, surplus and other funds	<u>\$ 39,011,679</u>		<u>\$ 39,011,679</u>

Florida Specialty Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2015

Underwriting Income

Premiums Earned		\$ 15,577,473
	Deductions:	
Losses incurred		\$ 5,686,442
Loss adjustment expense incurred		577,110
Other underwriting expense incurred		7,497,037
Total underwriting deductions		<u>\$ 13,760,589</u>
Net underwriting gain or (loss)		\$ 1,816,884

Investment Income

Net investment income earned		\$ 397,157
Net realized capital gains or (losses)		69
Net investment gain (loss)		<u>\$ 397,226</u>

Other Income

Net gain or (loss) from agent's or premium balances charged off		\$ (5,306)
Finance and service charges not included in premiums		99,869
Total Other Income		<u>\$ 94,563</u>

Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		\$ 2,308,673
Dividends to policyholders		-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		<u>\$ 2,308,673</u>
Federal and foreign income taxes incurred		<u>893,610</u>
Net Income		<u><u>\$ 1,415,063</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$ 32,214,881
Net Income		\$ 1,415,063
Change in net unrealized capital gains or (losses) less capital gains tax of \$226		652
Change in net unrealized foreign exchange capital gain (loss)		(1,056,712)
Change in nonadmitted assets		(19,225)
Change in provision for reinsurance		(30,000)
Dividends to stockholders		(6,500,000)
Change in surplus as regards policyholders for the year		<u>\$ (6,190,222)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$ 26,024,659</u></u>

Florida Specialty Insurance Company
Reconciliation of Capital and Surplus
December 31, 2015

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

Surplus as regards policyholders			
December 31, 2010 per Examination			\$22,336,537
	Gain in Surplus	Loss in Surplus	
Net Income (loss)	\$10,023,085		
Change in net unrealized capital gain (loss)	\$6,248		
Change in net deferred income tax	\$204,928		
Change in non-admitted assets		\$34,329	
Change in provision for reinsurance		\$11,810	
Dividends to stockholders		\$6,500,000	
Total Gains and Losses	<u>\$10,234,261</u>	<u>\$6,546,139</u>	
Net Increase/(Decrease) in surplus as regards policyholders			<u>\$3,688,122</u>
Surplus as regards policyholders			
December 31, 2015 per Examination			<u>\$26,024,659</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm, KPMG, LLP, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, 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 examination actuary, Michael Solomon, FCAS, MAAA, CERA, of The Actuarial Advantage, 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 \$26,024,659, exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

The following are significant events that occurred subsequent to the examination as-of date which demonstrate the continued formation of the Company and changes relative to its governance and operational and strategy:

- Effective February 9, 2016, the Company entered into a cost sharing agreement with the Holding Company and the MGA covering all directly and indirectly allocable costs.
- Effective February 17, 2016, Craig Thomas was appointed CFO. He was previously contracted to cover for Joshua Kimmel in his absence. Once it was established that Mr. Kimmel wasn't returning, Mr. Thomas was formally hired.
- Effective May 1, 2016, the Company relocated to its current statutory home office in Sarasota, Florida.
- Effective May 27, 2016, the Company was authorized for the following coverages:

Fire

Allied Lines

Other Liability

Mobile Home Physical Damage

- Effective July 15, 2016, the MGA entered into a Claims Administration Agreement with Insurance Servicing and Adjusting Company (ISAC).
- Effective August 2016, Nicholas T. Briggs resigned as the Holding Company Chief Financial Officer and was replaced by Craig M. Thomas.
- Effective September 2016, the Company obtained an "A" rating with Demotech after leaving AM Best.
- Effective January 1, 2017, the Company changed investment advisers from ClearArc to Advisors Asset Management.

- Effective January 1, 2017, Yaakov A. Beyman was appointed to the board replacing Joseph J. Sasson.
- Effective February 13, 2017, the Office approved Mount Beacon Insurance Company's Accelerated Plan of Run-Off. Within this plan, the Company received Mount Beacon Insurance Company's book of business and the transfer of its policies.

SUMMARY OF RECOMMENDATIONS

Reinsurance reporting

We recommend that reinsurer's authorization status be correctly reported on the Schedule F.

Stock Register

We recommend that the Company ensure that the Schedule Y and stock certificates and register are in accordance as to ownership of the Company.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Specialty Insurance Company** as of December 31, 2015, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards to policyholders was \$26,024,659, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Tracy Gates, CFE, CISA, Examiner-in-Charge/IT Specialist, Travis Harrison, CPA (Michigan), Sam Hebert and Lori Greene, Participating Examiners, of Highland Clark, LLC, also participated in the examination. Jeffrey Rockwell, MBA, Financial Examiner/Analyst Supervisor, Examination Manager, of the Office participated in the examination. Additionally, Michael Solomon, FCAS, MAAA, CERA, of The Actuarial Advantage, Inc. is recognized for participation in the examination.

Respectfully submitted,

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