



**EXAMINATION REPORT  
OF  
HERITAGE PROPERTY & CASUALTY  
INSURANCE COMPANY**

**NAIC Company Code: 14407**

**Clearwater, Florida**

**as of  
December 31, 2018**

**BY THE  
FLORIDA OFFICE OF INSURANCE REGULATION**

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June 5, 2020

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 690-138.005, 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, 2018, of the financial condition and corporate affairs of:

**Heritage Property & Casualty Insurance Company**

2600 McCormick Drive  
Suite 300  
Clearwater, Florida 33759-1071

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

## SCOPE OF EXAMINATION

This examination covered the period January 1, 2016 through December 31, 2018. Fieldwork, which included planning meetings held at the Florida Office of Insurance Regulation (“the Office”) commenced on May 22, 2019, and concluded as of June 5, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2015 through December 31, 2015.

The examination was a multi-state coordinated 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. Representatives of the Hawaii Division of Insurance and Rhode Island Division of Insurance Regulation also participated in the exam.

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 Section 624.319, Florida Statutes. 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 material findings or exceptions noted during the examination as of December 31, 2018.

### Previous Examination Findings

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

1. **Reporting:** The Company did not report an amendment to its Cost Allocation Agreement, executed on April 15, 2015, on the 2015 Holding Company Registration Statement and did not provide the amended Cost Allocation Agreement to the Office for prior review and approval. Therefore, the Company was not in compliance with Consent Order #17438-12-CO, paragraph 22(c).

**Resolution:** The Company did not review the agreement to add an amendment as the domestic regulator had already approved of the conditions. The Company deemed the proposed amendment as an administrative item already addressed by the original Consent order #17438-12-CO, paragraph 22(b)(1).

2. **Fidelity Bond Coverage:** The Company was not specifically named on a 2015-2016 fidelity bond policy as an insured. As such, the Company was not in compliance with Rule 69O-138.001, Florida Administrative Code.

**Resolution:** As of December 31, 2018, a fidelity bond coverage policy applied solely to Heritage Property and Casualty Insurance Company. The policy has a \$4 million exposure limit and \$2 million single loss limit, which is deemed as reasonable and meets NAIC recommended minimum Fidelity coverage.

## COMPANY HISTORY

### General

The Company was incorporated in Florida on August 2, 2012 and commenced business on August 17, 2012.

### Dividends to Shareholders

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

### Capital Stock and Capital Contributions

As of December 31, 2018, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$ 1,000,000
Par value per share	\$ 1.00

The Company received capital contributions of \$20 million and \$15 million in cash from its parent Heritage Insurance Holdings, Inc. ("HIH") on August 14, 2018 and November 1, 2018 respectively.

### Surplus Notes

The Company issued \$17 million in surplus notes to HIH during the period of this examination. With approval of the Office, the Company paid \$1.36 million in interest on the surplus notes to HIH in 2018. Interest is paid quarterly and payment is subject to prior approval by the Office.

### Acquisitions, Mergers, Disposals, and Dissolutions

The Company acquired a block of insurance policies from Florida-based Sawgrass Mutual Insurance Company ("SGM") on September 1, 2017. The Company entered into an agreement with SGM, whereby SGM cancelled all of its insurance policies, and the Company offered replacement policies under the same terms and conditions as the policies issued by SGM. SGM transferred cash and invested assets totaling approximately \$19.5 million for the unearned premiums and loss reserves transferred to the Company along with other policy related accounts

receivables, reinsurance recoverables, premium taxes and claims handling fees for pending claims.

## MANAGEMENT AND CONTROL

### Corporate Governance

The Company's Board of Directors ("Board") serving as of December 31, 2018, are shown below:

<b>Directors</b>			
<b>Name</b>	<b>City</b>	<b>State</b>	<b>Principal Occupation, Company Name</b>
Bruce Thomas Lucas	Tampa	Florida	Chairman and Chief Executive Officer, The Company
Richard Alexander Widdicombe	Tarpon Springs	Florida	President, The Company
Ernesto Jose Garateix	Tampa	Florida	Chief Operating Officer, The Company
Panagiotis Giorgas Apostolou	St. Petersburg	Florida	Owner, Central Parking Services, LLC;  Owner & Real Estate Broker Alexa Realty of Saint Petersburg, Inc.
Irini Barlas	Palm Harbor	Florida	Chief Financial & Operating Officer, Megastar Advisors, LLC;  Director of Accounting & Finance, Barlas & Chambers, LLC
Nicholas George Pappas	Palm Harbor	Florida	President & Owner, FlameStone American Grill
Vijay Shankarro Walvekar	Bloomfield	Michigan	Vice President, Central Home Health Care, Inc.
Shannon Elizabeth Lucas	Tampa	Florida	Risk Management Consultant

Senior Officers elected and serving the Company as of December 31, 2018:

<b>Senior Officers</b>			
<b>Name</b>	<b>City</b>	<b>State</b>	<b>Title</b>
Bruce Thomas Lucas	Tampa	Florida	Chairman and Chief Executive Officer
Richard Alexander Widdicombe	Tarpon Springs	Florida	President
Kirk Howard Lusk	Tampa	Florida	Chief Financial Officer, Treasurer, and Secretary
Ernesto Jose Garateix	Tampa	Florida	Chief Operating Officer
Sharon Ann Binnun	Palm Harbor	Florida	Chief Accounting Officer
Joseph Rene Peiso	Safety Harbor	Florida	Vice President, Compliance

The following were the principal internal board committees and their members as of December 31, 2018, with the chairman listed first for each committee:

<b>Audit Committee</b>			
<b>Name</b>	<b>City</b>	<b>State</b>	<b>Title, Company Name</b>
Irini Barlas	Palm Harbor	Florida	Chief Financial and Operating Officer, Megastar Advisors, LLC;  Director of Accounting and Finance, Barlas & Chambers, LLC
Vijay Shankarro Walvekar	Bloomfield	Michigan	Vice President, Central Home Health Care, Inc.



<b>Investment Committee</b>			
<b>Name</b>	<b>City</b>	<b>State</b>	<b>Title, Company Name</b>
Bruce Thomas Lucas	Tampa	Florida	Chairman and Chief Executive Officer, The Company
Richard Alexander Widdicombe	Tarpon Springs	Florida	President, The Company

### **Holding Company System**

Control of the Company is maintained by its parent, Heritage Insurance Holdings, Inc., a publicly traded company on the New York Stock Exchange. The following agreements were in effect between the Company and its affiliates:

### **Heritage Insurance Cost Allocation Agreement**

The Company entered into a Cost Allocation Agreement with HIH, Heritage MGA, LLC and Heritage Insurance Claims on August 9, 2012. The agreement defines allocable expenses and the allocation methods used to assign the expense among the agreement's participants.

### **Vendor Services Agreement**

The Company entered into a Vendor Services Agreement with its affiliate Contractors' Alliance Network, LLC ("CAN"), on August 8, 2013. CAN exclusively manages the Company's network of approved claims handling vendors. Under the Agreement, CAN provides or arranges for contractors, loss mitigation services, and repair services, such as water mitigation, mold remediation, fire restoration, and management services for the Company. During 2018, the Company paid CAN \$139 million for water remediation, fire restoration, repair and management services.

## **Managing General Agency Agreement**

The Company entered into an exclusive Managing General Agency (“the MGA”) Agreement with its affiliate, Heritage MGA, LLC, December 5, 2012. The MGA provides underwriting, policy administration, claims administration services, and executive management services under the terms of the agreement. The Company paid total fees of \$119 million to the MGA in 2018.

## **Lease Agreement**

The Company is party to a Lease Agreement effective February 28, 2014 with Skye Lane Properties, LLC, HIH’s commercial property manager subsidiary, to occupy space of a building in Clearwater, Florida. The Company leases this space at a lease rate comparable to like space and in recognition of the significant improvements made and planned, in order to make the property attractive to non-affiliated customers and to the HIH’s own business operations. The Company paid \$606,160 under the terms of the lease in 2018.

## **Reinsurance Agreement**

The Company is party to a Reinsurance Contract with its captive reinsurance affiliate, Osprey Re Ltd. (“Osprey”). Effective December 31, 2018, the Company entered into a \$20 million excess of \$0 Underlying Property Catastrophe Excess of Loss Reinsurance Contract with Osprey, which applies to all catastrophic loss occurrences from December 31, 2018 through December 31, 2019. A ceding commission of \$7 million was received for a net payment of \$13 million in ceded premium to Osprey. During the year 2018, the Company received \$20 million in loss and loss adjustment expenses for the coverage from Osprey under the terms of the December 1, 2017 agreement.

## **Loan Agreement**

The Company, on December 13, 2018, loaned \$19.2 million to HIH with a 5% interest rate. The loan was approved by the Office The loan agreement was included as part of Consent Order No. 2337737-18-CO. Interest is due quarterly and the principal amount can be repaid at any time. Interest income and receivable at December 31, 2018 totaled \$48,000.

## **ACCOUNTS AND RECORDS**

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

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Bank of America, NA, executed on October 11, 2012.

### **Independent Auditor Agreement**

An independent certified public accounting firm, Grant Thornton LLP, audited the Company's statutory basis financial statements annually for the years ended December 31, 2017 and 2016.

Effective June 14, 2018, the Audit Committee of the Board of Directors appointed Plante & Moran, PLLC as its new independent certified public accounting firm.

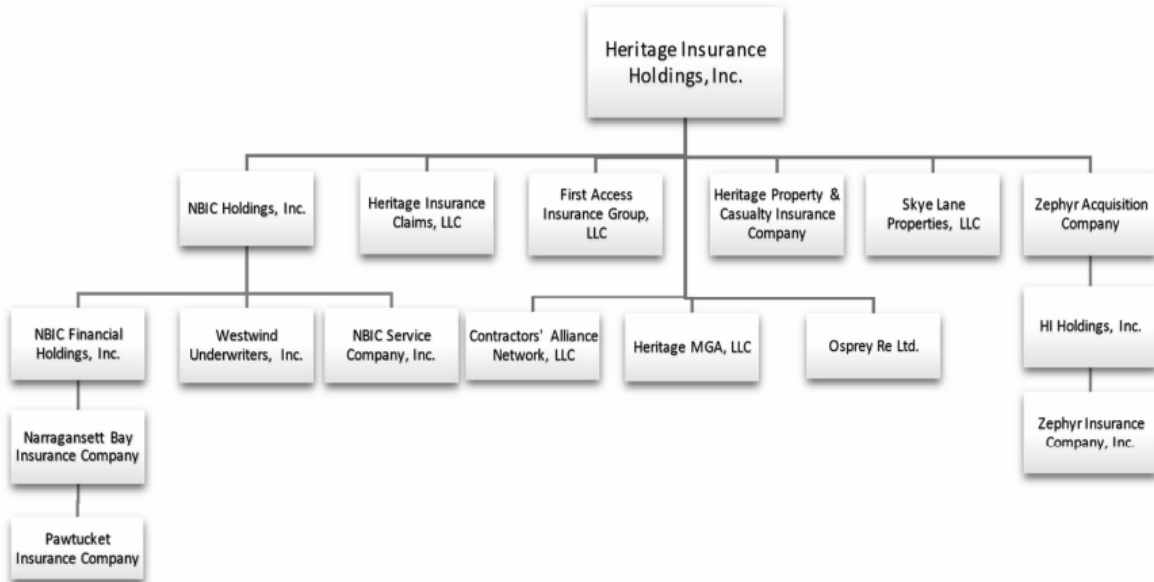
Plante & Moran, PLLC, audited the Company's statutory basis financial statements annually for the years ended December 31, 2018.

### **Corporate Records Review**

The recorded minutes of the Shareholder(s), 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.

An organizational chart as of December 31, 2018, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2018 Annual Statement provided a list of all related companies of the holding company group.

**Heritage Property & Casualty Insurance Company  
Organizational Chart  
December 31, 2018**



## TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states as of December 31, 2018:

Florida	Georgia	North Carolina
South Carolina	Alabama	Mississippi

The Company was authorized to transact insurance in Florida on August 17, 2012, and is currently authorized for the following lines of business as of December 31, 2018:

Fire	Commercial Multi-Peril
Allied Lines	Other Liability
Homeowners Multi-Peril	Mobile Home Multi-Peril

## 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 examination period.

### Reinsurance Ceded

As of December 31, 2018, the Company's ceded reinsurance program consisted of catastrophe excess of loss reinsurance provided by agreements with various commercial reinsurers through reinsurance intermediary Aon Benfield, as well as with their affiliate Osprey Re LTD. (Osprey). The Company also participated in the Florida Hurricane Catastrophe Fund (FHCF). The Company retains aggregate catastrophe losses, from all events, exceeding its reinsurance coverage.

The Company's reinsurance is segmented into layers of coverage to protect for excess property catastrophe losses and loss adjustment expense (LAE). The Company's 2017-2018 reinsurance program incorporates the mandatory coverage required by law to be placed with the FHCF, as well as private reinsurance below, alongside and above the FHCF layer and aggregate reinsurance coverage. The reinsurance program also included purchasing significant third-party catastrophe coverage and sponsor catastrophe bonds issued by Citrus Re.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

### **INFORMATION TECHNOLOGY REPORT**

Phil Schmoyer, CISA, CFE, AES, CSM, Senior Manager, of Baker Tilly Virchow Krause, LLP, 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 and with various state officials as required or permitted by law:

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	Cash	\$ 327,890	\$ 327,890
TOTAL FLORIDA DEPOSITS		<u>\$ 327,890</u>	<u>\$ 327,890</u>
GA	Treasury Plus Money Market	\$ 30,056	\$ 30,056
NC	ST Treasury Obligation Fund	306,954	306,954
SC	Certificate of Deposits	126,633	126,633
TOTAL OTHER DEPOSITS		<u>\$ 463,643</u>	<u>\$ 463,643</u>
TOTAL STATUTORY DEPOSITS		<u>\$ 791,533</u>	<u>\$ 791,533</u>

## **FINANCIAL STATEMENTS**

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Operations; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2018. 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, 2018.



**Heritage Property and Casualty Insurance Company**  
**Assets**  
**December 31, 2018**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$ 345,324,371		\$ 345,324,371
Stocks:			
Common	3,553,040		3,553,040
Preferred	67,811,922		67,811,922
Cash and Short-Term Investments	103,827,350		103,827,350
Other invested assets	1,988,560		1,988,560
Aggregate write-in for invested assets	19,200,000		19,200,000
Agents' Balances:			
Uncollected premium	4,154,595		4,154,595
Deferred premium	23,536,203		23,536,203
Amounts recoverable from reinsurers	30,130,819		30,130,819
Net deferred tax asset	6,362,443		6,362,443
Investment income due and accrued	5,347,867		5,347,867
Current federal and foreign income tax recoverable and interest thereon	30,984,262		30,984,262
Receivable from parents, subsidiaries and affiliates	7,396,500		7,396,500
Aggregate write-in for other than invested assets	984,078		984,078
Rounding	(1)	-	(1)
Totals	<u>\$ 650,602,009</u>	<u>\$ -</u>	<u>\$ 650,602,009</u>

**Heritage Property and Casualty Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2018**

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 143,659,787		\$ 143,659,787
Reinsurance payable on paid losses and loss adjustment expenses	226,000		226,000
Loss adjustment expenses	16,463,611		16,463,611
Borrowed money	19,231,353		19,231,353
Other expenses	650,388		650,388
Taxes, licenses and fees	(1,336,125)		(1,336,125)
Unearned premium	165,681,372		165,681,372
Advance premium	12,211,263		12,211,263
Ceded reinsurance premiums payable	84,162,000		84,162,000
Remittances and items not allocated	24,198,251		24,198,251
Provision for reinsurance	13,000		13,000
Payable to parent, subsidiaries and affiliates	11,595,000		11,595,000
Aggregate write-ins for liabilities	<u>83,758</u>		<u>83,758</u>
Total Liabilities	<u>\$ 476,839,658</u>	<u>\$ -</u>	<u>\$ 476,839,658</u>
Common capital stock	\$ 1,000,000		\$ 1,000,000
Surplus Notes	17,000,000		17,000,000
Gross paid in and contributed surplus	153,101,312		153,101,312
Unassigned funds (surplus)	2,661,039		2,661,039
Surplus as regards policyholders	<u>173,762,351</u>	<u>-</u>	<u>173,762,351</u>
Total liabilities, surplus and other funds	<u>\$ 650,602,009</u>	<u>\$ -</u>	<u>\$ 650,602,009</u>

**Heritage Property and Casualty Insurance Company**  
**Statement of Income**  
**December 31, 2018**

**Underwriting Income**

Premiums earned	\$ 321,545,594
<b>Deductions</b>	
Losses incurred	217,406,120
Loss adjustment expenses incurred	33,125,667
Other underwriting expenses incurred	139,961,058
Aggregate write-ins for underwriting deductions	-
Total underwriting deductions	<u>\$ 390,492,845</u>
Net underwriting gain or (loss)	<u>\$ (68,947,251)</u>

**Investment Income**

Net investment income earned	\$ 9,520,839
Net realized capital gains or (losses)	(324,763)
Net investment gain or (loss)	<u>\$ 9,196,076</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	\$ (52,900)
Finance and service charges not included in premiums	(237)
Aggregate write-ins for miscellaneous income	250,957
Total other income	<u>\$ 197,820</u>
Rounding	\$ (1)
Net income before dividends to policyholders and before federal & foreign income taxes	(59,553,356)
Federal & foreign income taxes	<u>5,445,027</u>
Net Income	<u>\$ (64,998,383)</u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$ 186,045,853
Net Income	(64,998,383)
Net unrealized capital gains or losses	(2,081,716)
Change in net deferred income tax	19,366,200
Change in non-admitted assets	(4,460,019)
Change in provision for reinsurance	2,482,915
Surplus adjustments: Paid in	37,407,500
Change in surplus as regards policyholders for the year	<u>\$ (12,283,503)</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 173,762,351</u>

**Heritage Property & Casualty Insurance Company**  
**Reconciliation of Capital and Surplus**  
**December 31, 2018**

Surplus as regards policyholders December 31, 2015 per Examination		\$ 216,423,321
	<u>Increase</u>	<u>Decrease</u>
Net Income (loss)		\$ 73,893,100
Change in net unrealized capital gain (loss)	\$ 1,817,255	
Change in net deferred income tax		8,503,270
Change in non-admitted assets		4,831,616
Change in provision for reinsurance		13,000
Change in paid in surplus	41,921,562	
Aggregate write-ins for gains and losses in surplus	841,199	
 Total Gains and Losses	 <u>\$ 44,580,016</u>	 <u>\$ 87,240,986</u>
 Net Increase/(Decrease) in surplus as regards policyholders		 <u>(42,660,970)</u>
Surplus as regards policyholders December 31, 2018		<u>\$ 173,762,351</u>

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

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### **Assets**

#### **Bonds**

At December 31, 2018, the Company held \$24.2 million amortized cost book value of 5.875% Convertible Senior Notes ("Notes") due 2037 of HIH. The Notes are securities registered under the Securities Act and were purchased in the open market through a securities dealer in 2017. The Notes are reported as Bonds at amortized cost on the Annual Statement. During 2018, the Company received interest of \$1,241,153 from the Notes. At December 31, 2018 accrued income was \$517,147.

### **Liabilities**

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

Paul Ericksen, FCAS, MAAA, Insurance Services Office Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2018, 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, Michael C. Dubin, FCAS, FSA, MAAA, FCA, Director, Actuarial Services, of Baker Tilly Virchow Krause, 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 \$173,762,351 exceeded the minimum of \$47,683,965 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 **Heritage Property & Casualty Insurance Company** as of December 31, 2018, consistent with the insurance laws of the State of Florida.

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

Marie Stuhlmuller	Examination Manager	Office
Shannen J. Mohr, CPA	Participating Examiner	Baker Tilly Virchow Krause, LLP
Brandon A. F. Waters	Participating Examiner	Baker Tilly Virchow Krause, LLP
Grant Fitzsimmons	Participating Examiner	Baker Tilly Virchow Krause, LLP
Michael Dubin, FCAS, FSA, FCA, MAAA	Actuary	Baker Tilly Virchow Krause, LLP
Phil Schmoyer, CISA, CFE, AES, CSM	IT Specialist	Baker Tilly Virchow Krause, LLP

Respectfully submitted,



John Romano, CFE, CPA, CITP, CIA  
Examiner-in-Charge  
Baker Tilly Virchow Krause, LLP  
Representing the Florida Office of Insurance Regulation



Daniel W. Applegarth, CFE, CPA, PIR  
Chief Financial Examiner  
P&C Financial Oversight  
Florida Office of Insurance Regulation