



**EXAMINATION REPORT  
OF**

**SOUTHERN FIDELITY INSURANCE COMPANY**

**NAIC Company Code: 10136**

**Tallahassee, Florida  
as of  
December 31, 2018**

## TABLE OF CONTENTS

<b>TABLE OF CONTENTS</b> .....	<b>1</b>
<b>LETTER OF TRANSMITTAL</b> .....	<b>1</b>
<b>SCOPE OF EXAMINATION</b> .....	<b>2</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>2</b>
CURRENT EXAMINATION FINDINGS .....	2
PREVIOUS EXAMINATION FINDINGS .....	2
<b>COMPANY HISTORY</b> .....	<b>3</b>
GENERAL .....	3
DIVIDENDS .....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS .....	3
SURPLUS NOTES .....	3
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS .....	3
<b>MANAGEMENT AND CONTROL</b> .....	<b>4</b>
CORPORATE GOVERNANCE .....	4
HOLDING COMPANY SYSTEM .....	6
TAX ALLOCATION AGREEMENT .....	7
MANAGING GENERAL AGENT AGREEMENT .....	7
SERVICE AGREEMENT .....	7
<b>ACCOUNTS AND RECORDS</b> .....	<b>7</b>
CUSTODIAL AGREEMENTS .....	7
INDEPENDENT AUDITOR AGREEMENT .....	8
CORPORATE RECORDS REVIEW .....	8
<b>TERRITORY AND PLAN OF OPERATIONS</b> .....	<b>8</b>
<b>REINSURANCE</b> .....	<b>8</b>
REINSURANCE ASSUMED .....	8
REINSURANCE CEDED .....	8
<b>INFORMATION TECHNOLOGY REPORT</b> .....	<b>9</b>
<b>STATUTORY DEPOSITS</b> .....	<b>9</b>
<b>FINANCIAL STATEMENTS</b> .....	<b>9</b>
ASSETS .....	10
LIABILITIES, SURPLUS AND OTHER FUNDS .....	11
STATEMENT OF INCOME .....	12
CASH FLOW STATEMENT .....	13
RECONCILIATION OF CAPITAL AND SURPLUS .....	14
<b>COMMENTS ON FINANCIAL STATEMENT ITEMS</b> .....	<b>15</b>
LIABILITIES .....	15
CAPITAL AND SURPLUS .....	15
<b>SUBSEQUENT EVENTS</b> .....	<b>16</b>
<b>SUMMARY OF RECOMMENDATIONS</b> .....	<b>16</b>
<b>CONCLUSION</b> .....	<b>17</b>

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

**Southern Fidelity Insurance Company  
2750 Chancellorsville Drive  
Tallahassee, Florida 32312**

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

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2014 through December 31, 2018 for Southern Fidelity Insurance Company. The examination commenced with planning at the Florida Office of Insurance Regulation (“Office”) on July 29, 2019 through August 1, 2019. The fieldwork commenced on September 9, 2019, and concluded as of March 31, 2020. The last full scope examination of SFIC by representatives of the Office covered the period of January 1, 2009 through December 31, 2013.

The examination was a single 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.

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.

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 separately communicated to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Examination Findings**

There were no significant findings of fact or material changes in the financial statements.

### **Previous Examination Findings**

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2013.

## COMPANY HISTORY

### General

SFIC was incorporated in Florida on March 15, 2005, and commenced business on April 7, 2005.

In 2006, the Company raised \$50,000,000 in capital in connection with (i) the issuance of a \$25 million surplus note and (ii) \$25 million in capital contributions from the parent company investors.

SFIC was a party to Consent Order # 159623-14-CO filed September 2, 2014 which approved the removal of approximately 30,000 selected residential policies by SFIC from Citizens Property Insurance Corporation (Citizens). The Consent Order contained stipulations by the Office, including a requirement to provide substantially equivalent coverage for all removed policies. SFIC assumed the Citizens policies on or about November 18, 2014

### Dividends

There were no dividends declared or paid to the stockholders during or subsequent to the examination period.

### Capital Stock and Capital Contributions

As of December 31, 2018, the Company was capitalized as follows:

Number of authorized common capital shares	20,000
Number of shares issued and outstanding	16,000
Total common capital stock	\$1,600,000
Par value per share	\$100.00

### Surplus Notes

On September 12, 2006, pursuant to approval by the Office, the Company participated in the Insurance Capital Build-Up Incentive Program offered by the State of Florida. Under this program, the Company issued a \$25 million surplus note payable to the State Board of Administration. The note is payable over 20 years and accrues interest at the 10-year U.S. Treasury Bond rate. The note was amended on July 1, 2011 to eliminate the 2-1 minimum net written premium to policyholders' surplus requirement in exchange for a five-year acceleration of the payment period. Payments of principal and interest on the note require approval by the Office. At December 31, 2018, the unpaid principal on the note totaled \$5,514,705.

### Acquisitions, Mergers, Disposals, Dissolutions

Effective May 1, 2017, SFIC acquired one-third of the common capital stock of NCTI. The acquisition was accounted for under the statutory purchase method. The remaining ownership interest in NCTI was owned one-third by Southern Fidelity Property & Casualty, Inc. ("SFPC"),

and one-third by Capitol Preferred Insurance Company (“CPIC”). Both companies are affiliates through common ownership.

## 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, 2018, are shown below:

<b>Directors</b>		
Name	City, State	Principal Occupation, Company Name
James Anthony Graganella	Tallahassee, Florida	President, CEO and Director Southern Fidelity Insurance Company
Justin Hayles Edenfield <sup>(3)</sup>	Tallahassee, Florida	CFO, Treasurer and Director Southern Fidelity Insurance Company
Byron Hamelin Wells	Tallahassee, Florida	Vice President and Director Southern Fidelity Insurance Company
Catherin Mashburn Amos	Cumming, GA	Partner, Slate Properties, LLC
William Cox Sr.	Mexico Beach, FL	Mortician Cox Funeral Home
John Adams Dowdy, Jr.	Bainbridge, GA	Certified Public Accountant, Dowdy & Whittaker, CPAs
Charles Howard Keaton	Savannah, GA	Retired
Keith Edward Martin	St. Johns, Florida	Retired
Ralph Powell, Jr. <sup>(3)</sup>	Brinson, GA	Retired
Henry Coleman Satterfield III	Tallahassee, FL	Retired
Charles William Whittaker <sup>(1)</sup>	Donalsonville, GA	Certified Public Accountant Partner, Dowdy & Whittaker CPAs
Timothy Lee Smith <sup>(2)</sup>	Bainbridge, GA	Partner, Tim Smith & Associates and Bainbridge, Georgia Financial Services

<sup>(1)</sup> Chairman

<sup>(2)</sup> Additional Director effective February 20, 2019.

<sup>(3)</sup> Resigned effective January 14, 2019.

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

<b>Senior Officers</b>		
Name	City, State	Title
James Anthony Graganella	Tallahassee, Florida	President, CEO and Director Southern Fidelity Insurance Company
Justin Hayles Edenfield	Tallahassee, Florida	CFO, Treasurer and Director Southern Fidelity Insurance Company
Kristie Beavers Mock	Tallahassee, Florida	Secretary and Director Southern Fidelity Insurance Company
Byron Hamelin Wells	Tallahassee, Florida	Vice President and Director Southern Fidelity Insurance Company

The Board of Directors elected an Audit Committee as required by Section 624.424(8)(c), Florida Statutes.

<b>Audit Committee</b>		
Name	City, State	Title, Company Name
John Adams Dowdy, Jr. <sup>(1)(2)</sup>	Bainbridge, Georgia	Partner, Dowdy & Whittaker CPA's
Keith Edward Martin <sup>(3)</sup>	St. Johns, Florida	Director, Retired
Charles William Whittaker <sup>(2)</sup>	Donalsonville, GA	Director, Partner, Dowdy & Whittaker CPA's
Catherine Mashburn Amos	Cumming, GA	Partner, Slate Properties, LLC

<sup>(1)</sup> Chairman

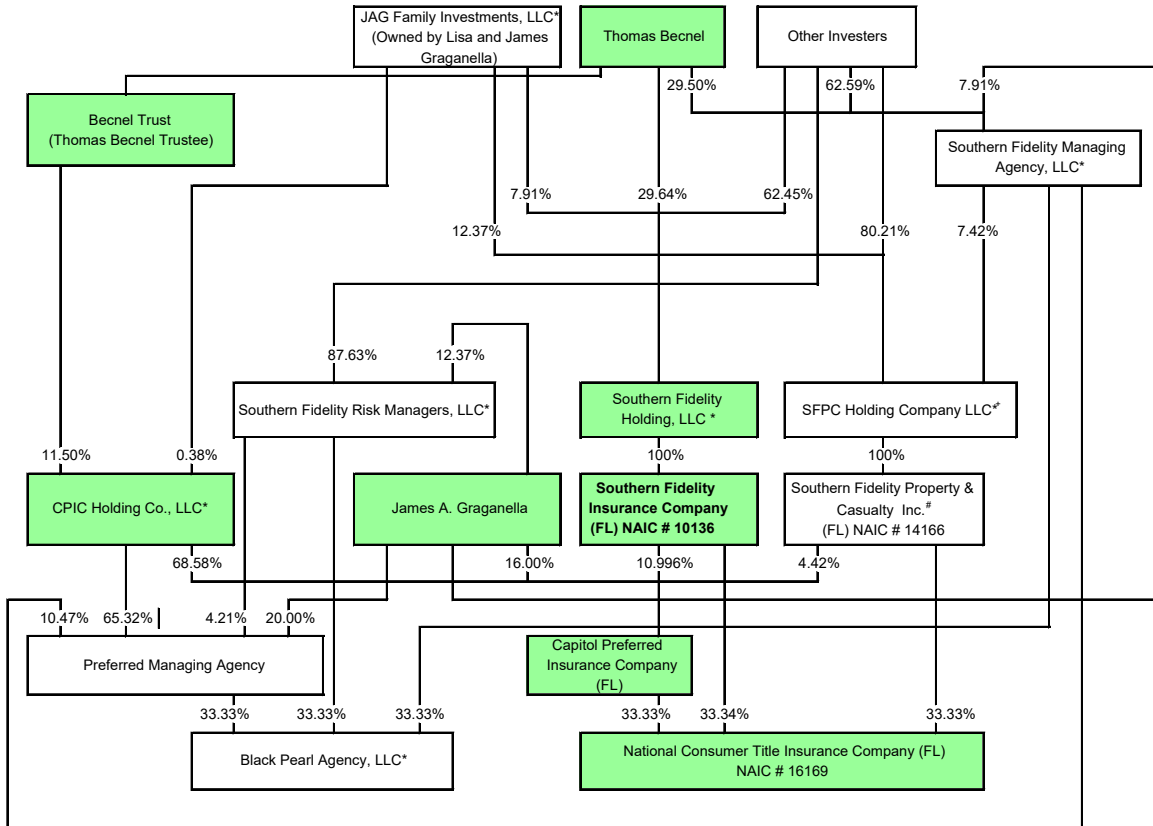
<sup>(2)</sup> Resigned effective January 14, 2019; replaced by Ralph Powell, Jr. and Catherine Mashburn Amos

<sup>(3)</sup> Chairman effective January 14, 2019

## Holding Company System

The most recent holding company registration statement Form B and C was filed with the State of Florida on March 27, 2019.

Schedule Y of the Company's 2018 annual statement provides a list of all related companies of the holding company group. An organizational chart as of December 31, 2018, reflecting the holding company system, is as follows:



\* Mr. James A Graganella is responsible for managing these LLCs

+ SFPC Holding Company LLC became inactive on March 1, 2019

# Southern Fidelity Property & Casualty, Inc. was merged into Capitol Preferred Insurance Company on February 28, 2019



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

### **Tax Allocation Agreement**

Pursuant to a Tax Allocation Agreement dated June 30, 2005, the Company is included in the consolidated tax returns of its parent, Southern Fidelity Holding, LLC. Taxes are allocated based on separate return calculations with credits for losses.

### **Managing General Agent Agreement**

Effective April 5, 2005, the Company entered into a Managing General Agent Agreement (“Agreement”), with Southern Fidelity Managing Agency, LLC (“SFMA”). SFMA contracted with Preferred Managing Agency, Inc., also an affiliate, to provide underwriting, claims, marketing and administrative services for the Company. It also assists with reinsurance negotiations without the authority to bind the Company. The Agreement provides for a \$25 per policy fee and service fees at 31 percent of earned premiums, as defined in the Agreement. During the examination period, management reduced such fees on a one-time basis through amendments to the Agreement based on the operating results of the Company. Management fees paid according to the terms of the Agreement totaled \$34,916,976 in 2018.

### **Service Agreement**

Effective September 18, 2017, the Company entered into a Service Agreement with Black Pearl Agency, LLC for claims management and adjusting services. Fees paid to the Black Pearl Agency, LLC, according to the terms of the service agreement totaled \$1,110,493 for 2018.

## **ACCOUNTS AND RECORDS**

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

The Company was provided services under the following agreements with non-affiliates:

### **Custodial Agreements**

The Company maintained custodial agreements with

- Branch Banking & Trust (BBT) as amended October 19, 2012;
- SunTrust Bank, as amended December 20, 2017
- Regions Bank, executed May 23, 2017;
- Merrill Lynch, Pierce, Fenner & Smith Incorporated, executed August 16, 2011.

The agreements were in compliance with Rule 690-143.042, Florida Administrative Code.

## **Independent Auditor Agreement**

An independent CPA, Thomas Howell Ferguson, P.A. Tallahassee, Florida, audited the Company's statutory basis financial statements annually for the 2014 through 2018 calendar years in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA firm as required by Rule 69O-137.002, of the Florida Administrative Code.

## **Corporate Records Review**

The recorded minutes of the Shareholder, Board of Directors 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, including the authorization of investments, as required by Section 625.304, Florida Statutes.

## **TERRITORY AND PLAN OF OPERATIONS**

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

Florida	Louisiana
South Carolina	Mississippi

and was authorized to write the lines of business listed below as of December 31, 2018:

Fire	Homeowners Multi-Peril
Allied Lines	Commercial Multi-Peril

The Company participates in the National Flood Insurance Program. One hundred percent of the risk of loss is assumed by the Federal Government and the Company receives a fee to cover policy administration costs.

## **REINSURANCE**

### **Reinsurance Assumed**

The Company assumed no reinsurance during the examination period,

### **Reinsurance Ceded**

The Company's ceded risk on a quota share, per risk excess of loss, catastrophe excess of loss, and reinstatement premium protection to authorized and unauthorized reinsurers as well as to authorized mandatory pools. Recoverables from unauthorized reinsurers were secured by

irrevocable letters of credit totaling \$5,867,000. The Company also participated in the Florida Hurricane Catastrophe Fund. The reinsurance agreements in effect at December 31, 2018 were filed with the Office pursuant to 624.610 Florida Statutes.

### INFORMATION TECHNOLOGY REPORT

Robert Panah, CISA, and Sarah Bridendall, CISA, of Assurity Resources, Inc., performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

### STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with the various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Certificate of Deposit, 0.05% Wells Fargo Bank N.A.	\$ 300,000	\$ 300,000
	<b>Total Florida Statutory Deposits</b>	\$ 300,000	\$ 300,000
LA	Certificate of Deposit 0.35% LA Capitol Federal Credit Union	\$ 101,069	\$ 101,069
SC	Certificate of Deposit U.S. Bank, N.A.	\$ 1,613,000	\$ 1,613,000
	<b>Total Special Deposits</b>	\$ 1,714,069	\$ 1,714,069
	<b>Total Statutory and Special Deposits</b>	\$ 2,014,069	\$ 2,014,069

### 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. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

**Southern Fidelity Insurance Company**  
**Assets**  
**December 31, 2018**

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$134,185,526		\$134,185,526
Stocks:			
Common stocks	5,239,021		5,239,021
Real Estate:			
Properties occupied by Company	2,665,816		2,665,816
Properties held for the production of income	10,956,288		10,956,288
Cash, cash equivalents and short-term investments	18,081,292		18,081,292
Interest and dividend income due and accrued	1,068,380		1,068,380
Agents' Balances:			
Uncollected premiums and agents' balances in the course of collection	1,159,684		1,159,684
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,752,542		8,752,542
Amounts recoverable from reinsurers	7,087,289		7,087,289
Current federal and foreign income recoverable and interest thereon	1,118,023		1,118,023
Net deferred tax asset	2,996,396		2,996,396
Receivables from parent, and affiliates	2,997,204		2,997,204
Aggregate write-ins for other than invested assets	2,950,035		2,950,035
Totals	<u>\$199,257,496</u>	<u>\$0</u>	<u>\$199,257,496</u>

**Southern Fidelity Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2018**

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Losses	\$28,489,345	\$0	\$28,489,345
Loss adjustment expenses	3,745,531		3,745,531
Other expenses	376,432		376,432
Taxes, licenses and fees	2,952,406		2,952,406
Unearned premiums	59,322,267		59,322,267
Advance premium	3,390,541		3,390,541
Ceded reinsurance premiums payable	22,391,869		22,391,869
Funds held by company under reinsurance treaties	417,719		417,719
Amounts withheld or retained by company for account of others	139,108		139,108
Payable to parent, subsidiaries and affiliates	102,150		102,150
Assessment due to Florida Hurricane Cat Fund and Citizens Property Insurance Corporation	294,247		294,247
<b>Total Liabilities</b>	<u>\$121,621,615</u>	<u>\$0</u>	<u>\$121,621,615</u>
Common capital stock	\$1,600,000		\$1,600,000
Surplus notes	5,514,705		5,514,705
Gross paid in and contributed surplus	30,900,000		30,900,000
Unassigned funds (surplus)	39,621,176		39,621,176
Surplus as regards policyholders	<u>\$77,635,881</u>	<u>\$0</u>	<u>\$77,635,881</u>
<b>Totals</b>	<u>\$199,257,496</u>	<u>\$0</u>	<u>\$199,257,496</u>

**Southern Fidelity Insurance Company, Inc.**  
**Statement of Income**  
**December 31, 2018**

**Underwriting Income**

Premiums earned	\$107,870,934
	<b>Deductions:</b>
Losses incurred	\$65,147,585
Loss expenses incurred	6,578,848
Other underwriting expenses incurred	42,633,843
Total underwriting deductions	<u>\$114,360,276</u>
Net underwriting gain or (loss)	<u>(\$6,489,342)</u>

**Investment Income**

Net investment income earned	\$3,254,477
Net realized capital gains or (losses)	<u>0</u>
Net investment gain or (loss)	<u>\$3,254,477</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	(\$146,050)
Finance and service charges not included in premiums	<u>593,024</u>
Total other income	<u>\$446,974</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$2,787,891)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$2,787,891)
Federal & foreign income taxes	<u>(883,503)</u>
Net Income	<u>(\$1,904,388)</u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$82,067,415
Net Income	(\$1,904,388)
Change in net unrealized capital gains or losses	(355,300)
Change in net deferred tax asset	156,530
Change in nonadmitted assets	(122,493)
Change in surplus notes	<u>(2,205,883)</u>
Change in surplus as regards policyholders for the year	<u>(\$4,431,534)</u>
Surplus as regards policyholders, December 31 current year	<u>\$77,635,881</u>

**Southern Fidelity Insurance Company, Inc.**  
**Cash Flow Statement**  
**December 31, 2018**

**Cash from Operations**

Premium collected net of reinsurance	\$114,633,405
Net investment income	3,484,773
Miscellaneous income	446,974
Total	<u>\$118,565,152</u>

Benefit and loss related payments	\$61,348,805
Commissions, expenses paid and aggregate write-ins for deductions	50,713,044
Federal and foreign income taxes paid	52,837
Total	<u>\$112,114,686</u>
Net cash from operations	<u>\$6,450,466</u>

**Cash from Investments**

Proceeds from investments sold, matured or repaid: Bonds	\$1,613,000
Cost of investments acquired: Real estate	278,625
Net cash from investments	<u>\$1,334,375</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided: Surplus notes, capital notes	(\$2,205,883)
Other cash applied	(\$2,282,589)
Net cash from financing and miscellaneous sources	<u>(\$4,488,472)</u>

**Reconciliation of Cash, Cash Equivalents  
and Short-term Investments**

Net change in cash , cash equivalents and short-term investments	\$3,296,369
Cash, cash equivalents and short-term Investments - Beginning of Year	<u>14,784,923</u>
Cash, cash equivalents and short-term Investments - End of Year	<u><u>\$18,081,292</u></u>

**Southern Fidelity Insurance Company  
Reconciliation of Capital and Surplus  
December 31, 2018**

Surplus as regards policyholders		
December 31, 2013, per Examination		<u>\$72,105,801</u>
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net Income (loss)	\$16,689,077	
Change in net unrealized capital gain (loss)		\$437,288
Change in net deferred income tax		\$868,814
Change in non-admitted assets		\$233,483
Change in provision for reinsurance	\$10,000	
Change in surplus notes		\$11,029,412
Aggregate write-ins for gains and losses in surplus	<u>\$1,400,000</u>	
Total Gains and Losses	<u>\$18,099,077</u>	<u>\$12,568,997</u>
Net Increase/(Decrease) in surplus as regards policyholders		<u>\$5,530,080</u>
Surplus as regards policyholders,		
December 31, 2018 per Examination		<u><b>\$77,635,881</b></u>

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



## COMMENTS ON FINANCIAL STATEMENT ITEMS

### Liabilities

#### Losses and Loss Adjustment Expenses

Arthur R. Randolph, II, associated with Pinnacle Actuarial Services, Inc., originally appointed by the Board on September 23, 2013, 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 examination consulting actuary, Wesley R. Campbell, FCAS, FSA, MAAA, associated with Apex Actuarial Solutions, LLC, reviewed the loss and loss adjustment reserves of the Company. There were no adjustments as a result of this review.

#### Capital and Surplus

The amount of capital and surplus reported by the Company of \$77,635,881, exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes. Wouldn't they be subject to the 10% of liabilities rule so is \$10m the correct number?

**SUBSEQUENT EVENTS**

None

**SUMMARY OF RECOMMENDATIONS**

None

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Southern Fidelity Insurance Company** as of December 31, 2018, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, Robert Panah, CFE, CISA, MCM, FLMI, President, Assurity Resources, Inc., Sarah L. Bridendall, CFE, CISA, CIE, ALMI, AMCM, ACS, CICSR, AIRC, CCP, MHP, HCAFA, FAHM, of Assurity Resources, Inc., Examiner-in-Charge, Lewis D. Bivona, Jr., CPA, AFE, Participating Examiner, of Assurity Resources, Inc., and Wesley R. Campbell, FCAS, FSA, MAAA, of Apex Actuarial Solutions, LLC, the examination actuary, participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, Examination Manager, Florida Office of Insurance Regulation, and Christopher R. Brown, APIR, Florida Office of Insurance Regulation, are recognized for participation in the examination.

Respectfully submitted,



Sarah L. Bridendall, CFE, CISA, CIE, ALMI, AMCM,  
ACS, CICSR, AIRC, CCP, MHP, HCAFA, FAHM  
Examiner-in-Charge  
Assurity Resources, Inc.  
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