AFFILIATED FEE ANALYSIS EXECUTIVE SUMMARY

****INFORMATION CONTAINED HEREIN IS CONSIDERED CONFIDENTIAL AND/OR TRADE SECRET PURSUANT TO SECTIONS 624.4212 AND 624.4213, FLORIDA STATUTES****

TO: Virginia Christy
Director, Property and Casualty Financial Oversight

FROM: Jan Moenck

DATE: March 31, 2022

SUBJECT: Affiliated Fee Analysis Executive Summary

I. Background

The Florida Office of Insurance Regulation ("FLOIR" or "the Office") engaged Risk & Regulatory Consulting, LLC to complete an analysis of fees paid to Florida domestic property insurer affiliates. This analysis was completed in a series of four (4) phases. Individual reports for each phase are included as **Appendixes** to this summary. The analysis considered a three-year period (2017-2019) in order to avoid an unusual result based on the results of a single year. The initial phase was conducted before the insurers' 2020 Annual Statements were required to be filed with FLOIR, and subsequent phases used the same time period for comparative purposes.

In total, fifty-seven (57) companies, either individually or as a part of a group of insurers, were selected for review. Four (4) of the companies selected were not reviewed due to due to recent acquisition transactions and/or insufficient data (the insusurer began operations in 2019). Three (3) of the remaining fifty-three (53) companies were liquidated in 2021 or 2022. Forty-one (41) of the fifty-three (53) companies utilize a Managing General Agent (MGA) or Attorney-in-Fact (AIF) to administer policy and claim operations.

While Florida does not have specific statutory guidance defining "fair and reasonable" for the purpose of affiliated agreements and transactions, we considered the following guidance in evaluting the affiliated fees and transactions:

- Administrative Rule 69O-143.047, Florida Administrative Code, which sets certain standards regarding material transactions between an insurer and its affiliates.

- Administrative Rule 69O-143.047, Florida Administrative Code, which requires that all management agreements, service contracts, tax allocation agreements, cost-sharing arrangements and any material transactions which the Office determines may adversely affect the interests of the insurer's policyholders be submitted to the Office for review.
- The National Association of Insurance Commissioners Statutory Statement of Accounting Principles, No. 25 Affiliates and Other Related Parties.
- Guidance regarding the "fair and reasonable" standard in the NAIC *Financial Analysis Handbook*.

The individual reports contained as **Appendixes** contain more detail in terms of specific considerations made in evaluating whether agreements and transactions were considered "fair and reasonable".

II. Summary

While some insurers doing business in Florida perform most or all of the functions necessary for the operation of an insurance company utilizing their own employees, a significant number of insurers contract one or more of the those functions to affiliated entities or to a third party. The contracted functions may incude any of the following: accounting, actuarial, management of investments, information technology administration, policy issuance and administration, underwriting, reinsurance intermediary services, claims investigation and settlement.

Florida domestic insurers have used a variety of methods of determining compensation for affiliated and non-affiliated agreements including the following:

- Percentage of written premium;
- Percentage of earned premium;
- Precentage of written or earned based on losses incurred;
- Hourly rate of compensation based on specific tasks;
- Yearly or quarterly fee payment schedules;
- Scheduled bonus payments;
- Commissions;
- Commissions based on multiple criteria;
- Any combination of one or more of the methods listed above, and in some cases, a forgiveness of fees due under the terms of an agreement.

The list above is not exhaustive of all compensation arrangements. In considering whether the fees paid by an insurer are in fact "fair and reasonable" it would be logical to focus on the types of services provided to an insurer in order to compare the fees paid. However, in many cases an affiliate may provide multiple types of services with only a single contractual method to compute compensation. Insurers that contract with affiliates for services typically have an agreement directly with an affiliate. However, a number of affiliates further subcontract the services to other affiliates of the insurer adding further complexity to understanding whether the compensation for the services is "fair and reasonable". Further complicating an understanding of the reasonableness of fees paid to affiliates, is the practice of some affiliates of "forgiving" or "waiving" fees due from an insurer.

In order to form a basis for comparison, the following elements, common to all insurers in the sample were utilized:

- The amount of gross written premiums
- The total amount of fees paid to affiliates
- The percentage of fees paid to affiliates of gross written premiums
- The number of policies in force at the end of each calendar year
- The net income of the insurers
- The net income of affiliates
- Capital contributions
- Forgiveness or waiver of fees owed to affiliates
- Dividends

The analysis was performed at a high level utilizing financial statements and other related documents on file with or requested by the Office. Some of the insurers reviewed in this analysis had agreements in place with affiliates that provided for fees based on an allocation of actual costs.

In addition to considering the above elements, we also analyzed the underwriting and loss expenses reported in the annual statements for all years under review. The results of that analysis were consistent with the above and further support the conclusion for the insurers with fees determined to be "not fair and reasonable".

A number of the documents utilized were filed with the Office by an insurer as a "Trade Secret". As such, information regarding any of the individual companies discussed in the Appendixes to this report may not be released without approval of the Director.

III. Conclusions

The chart below provides a summary for the fifty-three (53) insurers reviewed.

Those insurers reported a total of approximately $61 million in net income over the 2017-2019 time period. Insurer net income is skewed by an outlier insurer's $493 million net income. Without that one insurer the aggregate net loss for the insurers reviewed would have been $(432) million. The affiliates providing services to those insurers recorded approximately $14 billion in net income. Similarly, there were two outliers in affiliated provider category and the total net income would have been reduced to $1.8 billion if two national insurers were excluded.

Financial information for some affiliates that provided services to the insurers in the sample was not available or provided at the time this analysis was conducted. As a result, the net income of the affiliates may be understated. In some cases, the net income of an affiliate included debt service expense for capital contributions that were provided to an insurer.

Totals All Sample Insurance Company / Affiliates	Insurance Company Net Income				Affiliates Net Income			
	2017	2018	2019	Total	2017	2018	2019	Total
All Sample Companies	25,021,077	(37,092,793)	73,928,507	61,856,791				
All Sample Companies Affiliates					3,313,724,022	7,394,482,911	4,062,630,038	14,770,836,971
All Capital Contributions / Fee Forgiveness / Surplus Notes	355,458,673	446,913,976	357,808,134	1,160,180,783				
All Dividends	193,743,000	215,539,268	270,678,898	679,961,166				
Surplus Note Payments to Parent / Affiliates	*(1,360,000)*	*(10,360,000)*	*(36,360,000)*	*(48,080,000)*				

The information available also shows that affiliates of the insurers in the sample waived fees due under affiliated agreements in the amount of $208 million, made capital contributions in the amount of approximately $951 million. During the 2017-2019 time period, $680 million in dividends were paid by insurers and $48 million was paid on surplus notes, which reduced the capital of twenty-nine (29) insurers by a total of $728 million. The financial results, including the need for capital contributions or the forgiveness of fees, differed significantly among insurers.

Overall, the analysis results can be broken down into two general categories; 1) Thirty-five (35) single state / regional insurers; and 2) Eighteen (18) insurers which are members of, or have an affiliation with, a national service or insurance group. These two categories can be further broken down into "fair and reasonable" and "not-fair and reasonable" fee structures. Nineteen (19) of the single state / regional insurer fees were deemed "not-fair and reasonable" and five (5) others underdetermined based on complete information not being provided. Only one (1) of the national insurer fees were deemed "not-fair and reasonable" and eleven (11) others underdetermined based on complete information not being provided.

The majority of the single state / regional insurers appear to use MGAs as a revenue stream for the holding company based on the positive net income of the holding company despite $208 million in fee forgiveness and $485 in capital contributions during the review period. The national companies use a combination of MGAs and affiliated cost sharing agreements to administer operations with no fee forgiveness and $156 million in capital contributions. Compensation for all MGA agreements reviewed ranged from 20% to 34% of premium. Total affiliated fees, including MGA, claims, commissions, and investment management, ranged from less than 1% to 63% of premium.

IV. Recommendations

Based on the review performed and general observations, recommendations relating to the Companies reviewed are as follows:

1) The Analyst should update the analysis to include information from the 2020 and 2021 Annual Statements and determine if any additional trends or concerns are noted, or if regulatory action is required. The analysis should then be maintained and updated at least annually.

2) A number of MGA agreements are ten (10) or more years old and do not contain adequate language to address data security, access, ownership, and control, especially in the event of regulatory proceedings. The Office should consider requiring all MGA agreements be reviewed and updated as needed to address data provisions.

3) A number of MGA agreements are ten (10) or more years old and have premium based compensation parameters exceeding 25%. The Office should consider requiring insurers to review, amend or replace affiliated MGA and other agreements and / or provide documentation and financial projections that demonstrate that the proposed fees in the agreements are fair and reasonable to the insurer.

4) Ten (10) companies reviewed had $208 million in MGA fees forgiven and received $60 million in capital contributions during the three-year period. MGA profit, after fee forgiveness, was $130 million during the same three-year period. While the MGA model is common in Florida to attract capital, MGA fee structures could be used to circumvent insurer dividend requirements. The Office should consider requiring insurers to review, amend or replace affiliated MGA and other agreements and / or provide documentation and financial projections or other corrective measures that demonstrate that the proposed fees in the agreements are fair and reasonable.

5) Several insurers failed to provide complete information needed to fully assess the reasonableness of MGA and other affiliated agreements. The Office should consider obtaining the missing information or conducting limited scope examinations to review the reporting of insurers, transactions with affiliates, and expenses associated with payments to those affiliates.

6) It was difficult to follow amounts paid to affiliates in the Schedule Y Part 2 of several of the insurers which were part of a holding company group with affiliates domiciled in other states. It is recommended that these intercompany transactions be reviewed in conjunction with the next coordinated financial examination so all affiliates can be reviewed at the same time to better understand the flow of funds between affiliates.

7) Ten (10) insurers received $208 million in debt forgiveness and twenty-eight (28) received capital contributions totaling $951 million during the three-year period under review. Several of these infusions were done to replenish lost capital and prevent regulatory intervention. Given the reliance on infusions, the Office should consider whether the provisions of Rule 69O-141.002(2)(q), Florida Administrative Code regarding criteria for determining unsound condition, or which render the continuance of business hazardous to the public or insureds, should be applied to insurers with these financial results.

8) During the review, several inconsistencies were identified between the amounts reported as expenses paid to affiliates on the companies Underwriting and Investment Exhibit page 11, Notes to Financial Statements Note 10.B., Schedule Y Part 2, and audit reports. Additionally, some related parties were not listed on Schedule Y Part 1 as an affiliate. If the analyst finds material inconsistencies in the review of the 2021 Annual Statements, the Office should consider requesting companies provide explanations for the inconsistencies and/or to resolve an inaccurate reporting. This should be expanded to be part of the overall analysis review of all companies going forward.

9) Based on the operational results of two (2) companies and their affiliates, the Office should consider meeting with the Company to discuss the long-term viability of the current business plan and potentially require a new business plan. The Office may also wish to consider enhanced monitoring of the companies.

Additional Recommendations, not specific to the companies reviewed, include:

1) Amendments to Sections 627.7451 and 626.7452, Florida Statutes, effective July 2022 removed certain contractual and examination exclusions for affialted MGAs. Based on this change, the Office should consider requiring all MGA agreements be filed or refiled for review and approval concurrently with the effective date of the amendments.

2) Amendments to Section 627.7452, Florida Statutes provide that an MGA may be examined as if it were the insurer even if the MGA solely represents a single domestic insurer. For those companies with significant MGA fees, the Office should consider including the MGA in the scope of the next financial examination of the insurer.

3) Amendments to Section 624.424, Florida Statutes expands the Office's ability to obtain "any information the office deems necessary" regarding affiliated fee transactions. For those companies with significant MGA fees, the Office should consider utilizing this statutory authority to obtain information certain insurers previously declined to provide and / or including the MGA in the scope of the next financial examination of the insurer.

4) In conjunction with changes being made to the Insurance Holding Company Model Act and Regulation, when reviewing new or amended agreements, the Office should ensure the agreements address the following provisions, among others:

   - All records and data of the insurer held by an affiliate are and remain the property of the insurer, are subject to control of the insurer, are identifiable, and are segregated or readily capable of segregation, at no additional cost to the insurer, from all other persons' records and data.

   - At the request of the insurer, the affiliate shall provide that the receiver can obtain a complete set of all records of any type that pertain to the insurer's business; obtain access to the operating systems on which the data is maintained; obtain the software that runs those systems either through assumption of licensing agreements or otherwise; and restrict the use of the data by the affiliate if it is not operating the insurer's business.

   - Ownership and timely access to assets and records held by an MGA should be explicitly set forth in contract, and shall not conflict with Chapter 631 Part 1, Florida Statutes.

Attachments

Phase 1 Report
Phase 2 Report
Phase 3 Report
Phase 4 Report

AFFILIATED FEE ANALYSIS MEMORANDUM

TO: Virginia Christy
Director, Property and Casualty Financial Oversight

FROM: Wayne Johnson

DATE: March 31, 2021

SUBJECT: Affiliated Fee Analysis

I. Overview

While some insurers doing business in Florida perform most or all of the functions necessary to the operation of an insurance company utilizing their own employees, a significant number of insurers contract one or more of the those functions to affiliated entities or to a third party. The contracted functions may incude any of the following: accounting, actuarial, management of investments, information technology administration, policy issuance and administration, underwriting, reinsurance intermediary services, claims investigation and settlement. The National Association of Insurance Commissioners Statutory Statement of Accounting Principles No. 25 reads in part:

1. Related party transactions are subject to abuse because reporting entities may be induced to enter into transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its policyholders. As such, related party transactions require specialized accounting rules and increased regulatory scrutiny.

The purpose of this analysis was to undertake a comprehensive review of the fees paid in material related party transactions by a sample of insurers writing homeowners policies in the State of Florida. Administrative Rule 69O-143.047, Florida Administrative Code, sets certain standards regarding material transactions between an insurer and its affiliates and reads in part:

"(1) Material transactions by registered insurers with their affiliates shall be subject to the following standards:
(a) The terms shall be fair and reasonable;
(b) Charges or fees for services performed shall be reasonable;
(c) Expenses incurred and payment received shall be allocated to the insurer in conformity with customary insurance accounting practices consistently applied;
(d) The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the precise nature and details of the

transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties;"

Administrative Rule 69O-143.047, Florida Administrative Code, also requires that all management agreements, service contracts, tax allocation agreements, cost-sharing arrangements and any material transactions which the Office determines may adversely affect the interests of the insurer's policyholders be submitted to the Office for review. Agreements with related parties are not required to utiliize any specific form or any standard method for determining compensation to a related party. Florida domestic insurers have used a variety of methods of determining compensation for affiliated and non-affiliated agreements including the following:

- Percentage of written premium;
- Percentage of earned premium;
- Precentage of written or earned based on losses incurred;
- Hourly rate of compensation based on specific tasks;
- Yearly or quarterly fee payment schedules;
- Scheduled bonus payments;
- Commissions;
- Commissions based on multiple criteria;
- Any combination of one or more of the methods listed above, and in some cases, a forgiveness of fees due under the terms of an agreement.

The list above is not exhaustive of all compensation arrangements. In considering whether the fees paid by an insurer are in fact "fair and reasonable" it would be logical to focus on the types of services provided to an insurer in order to compare the fees paid. However, in many cases an affiliate may provide multiple types of services with only a single contractual method to compute compensation. Insurers that contract with affiliates for services typically have an agreement directly with an affiliate. However, a number of affiliates further subcontract the services to other affiliates of the insurer adding further complexity to understanding whether the compensation for the services is "fair and reasonable".

The NAIC provides some further guidance regarding the "fair and reasonable" standard in its Financial Analysis Handbook. That guidance is focused on the use of a market rate, or the allocation of the actual costs of the services provided as methodologies for determining whether fees paid by an insurer meet the "fair and reasonable" standard.

This memorandum summarizes the initial results of the Office's analysis of the reasonableness of the fees paid by certain insurers writing homeowners policies in the State of Florida during calendar years

2017, 2018 and 2019. In order to form a basis for comparison, the following elements, common to all insurers in the sample were utilized:

- The amount of gross written premiums
- The total amount of fees paid to affiliates
- The percentage of fees paid to affiliates of gross written premiums
- The number of policies in force at the end of each calendar year
- The net income of the insurers
- The net income of affiliates
- Capital contributions
- Forgiveness of fees owed to affiliates
- Dividends

The analysis was performed at a high level utilizing financial statements and other related documents on file with or requested by the Office. None of the insurers reviewed in this analysis had agreements in place with affiliates that provided for fees based on an allocation of actual costs. For purposes of this analysis and report, initial conclusions and recommendations regarding the fairness and reasonableness of fees paid to affiliates were based on the following thresholds:

- Fees for affiliated agreements paid by an insurer or insurers may be fair and reasonable on an individual basis, however, when considered with all other fees paid by an insurer or insurers to affiliates may not be fair and reasonable;
- Fees initially determined to be fair and reasonable by the Office based on the information provided by an insurer or insurers, over time may no longer be fair and reasonable based on additional or revised affiliated agreements, or changes in the market;
- The calculation of the net income of affiliated entities for analyzing whether affiliated fees are fair and reasonable should be determined excluding fees earned from non-affiliated entities;
- If the combined net income of the affiliated entities derived from the fees paid by the insurer or insurers is less than the greater of $2 million per year or 10% of the combined net income of the insurers, those fees are presumed to be fair and reasonable;
- If the combined net income of the affiliated entities derived from the fees paid by the insurers in the group is more than the greater of $2 million per year or 10% of the combined net income of the insurers, but less than 15% of the combined net income of the insurers, additional information is required in order to determine if the fees are fair and reasonable;

- If the combined net income of the affiliated entities derived from the fees paid by the insurers in the group is more than the greater of $2 million per year or 15% of the combined net income of the insurers, those fees are presumed not to be fair and reasonable;

A number of the documents utilized were filed with the Office by an insurer as a "Trade Secret". As such, information regarding any of the individual companies discussed in this report may not be released without approval of the Director.

II. Summary

The analysis presented in **Section III** of this report provides details regarding sixteen (16) Florida domestic insurers either individually or as a part of a group of insurers. The analysis considered a three year period (2017-2019) in order to avoid an unusual result based on the results of a single year. The documents available for the analysis differ by insurer, as well as the basis of presentation utilized by the insurers in preparing the various documents. In preparing this analysis, adjustments were made to eliminate the impact of agreements between affiliates that would provide misleading results. No adjustment was made to convert GAAP financial information to a statutory basis. As such, the numbers presented in the company specific analyses below should be considered to be materially correct, but not exact.

The fair and reasonable thresholds detailed in **Section I** above were utilized to determine potential follow-up actions for the sixteen (16) insurers analyzed. Other actions may be appropriate if the thresholds were set differently.

The chart below provides a summary for the insurers located in the sample. Those insurers reported a total of approximately $165 million in net losses over the 2017-2019 time period. The affiliates of those insurers recorded approximately $348 million in net income. Financial information for some affiliates that provided services to the insurers in the sample was not available at the time this analysis was conducted. As a result, the net income of the affiliates may be understated. In some cases, the net income of an affiliate included debt service expense for funds provided to an insurer.

Totals All Sample Insurance Company / Affiliates	Insurance Company Net Income				Affiliates Net Income			
	2017	2018	2019	Total	2017	2018	2019	Total
All Sample Companies	(46,008,617)	(35,199,223)	(84,592,344)	(165,800,184)				
All Sample Companies Affiliates					124,445,951	112,448,718	104,700,230	341,594,899
All Capital Contributions / Fee Forgiveness / Surplus Notes	121,557,959	67,067,253	141,764,065	330,389,277				
All Dividends	(10,342,000)	(539,268)	(4,100,000)	(14,981,268)				

The information available also shows that the affiliates made capital contributions, forgave fees due under agreements with the insurers in the sample or provided cash by way of surplus notes in the amount of approximately $330 million. Approximately $15 million in dividends were paid by insurers during the 2017-2019 time period which reduced the capital of several insurers.

The financial results, including the need for capital contributions or the forgiveness of fees, differed significantly among insurers.

In formulating potential follow-up actions, the Office may also want to consider the following issues which were present in the financial statement of some insurers:

1. Many insurers demonstrated a practice to waive or forgive fees that were earned pursuant to the terms of an affiliate agreement. This may have been done to meet minimum surplus requirements, attain a higher Risk-Based Capital ratio, or to secure a solvency rating from a rating organization.
2. Many insurers received multiple capital contributions or issued surplus notes to affiliates to increase their surplus. This may have been done to meet minimum surplus requirements, attain a higher Risk-Based Capital ratio, or to secure a solvency rating from a rating organization.
3. In some cases where the fees were presumed to not be fair and reasonable, that presumption was based on the fees paid after debt service. In those cases, the disparity between the net income of the insurer and the net income of the affiliates would be greater than indicated in the analysis.
4. Several companies paid surplus notes with Office approval, and then reissued new surplus notes at high rates of interest. As an ongoing practice, this may be a strategy to circumvent the requirements of Section 628.371, Florida Statutes regarding dividend limitations.
5. A number of agreements are 10 or more years old and as such may need to be updated or replaced.

Specifically with respect to items 1 and 2 above, the Office may want to consider whether the provisions of Rule 69O-141.002(2)(q), Florida Administrative Code regarding criteria for determining unsound condition, or which render the continuance of business hazardous to the public or insureds, are applicable (…:has had to rely on frequent substantial capital contributions,…). If so, and an insurer's fees are presumed to not be fair and reasonable, the Office may be able to require revision to those affiliated agreements.

The chart below summarizes the potential follow-up actions for the insurers reviewed.

Report Reference	Company	Potential Follow-up Actions
III.1	Avatar Property & Casualty Insurance Company	Revise Agreements
III.2	Edison Insurance Company	Revise Agreements
III.3	FedNat Insurance Company	Revise Agreements
III.4	First Protective Insurance Company	Revise Agreements
III.5	Florida Family Insurance Company	Revise Agreements
III.6	Florida Family Home Insurance Company	Revise Agreements
III.7	Florida Peninsula Insurance Company	Revise Agreements
III.8	Gulfstream Property and Casualty Insurance Company	Revise Agreements
III.9	Monarch National Insurance Company	Revise Agreements
III.10	Olympus Insurance Company	Review Business Model
III.11	Safepoint Insurance Company	Review Business Model
III.12	St. Johns Insurance Company	Target Exam
III.13	Tower Hill Preferred Insurance Company	Revise Agreements
III.14	Tower Hill Prime Insurance Company	Revise Agreements
III.15	Tower Hill Signature Insurance Company	Revise Agreements
III.16	Weston Insurance Company	Review New Agreements

The recommendations in the table above are further detailed in the sections below.

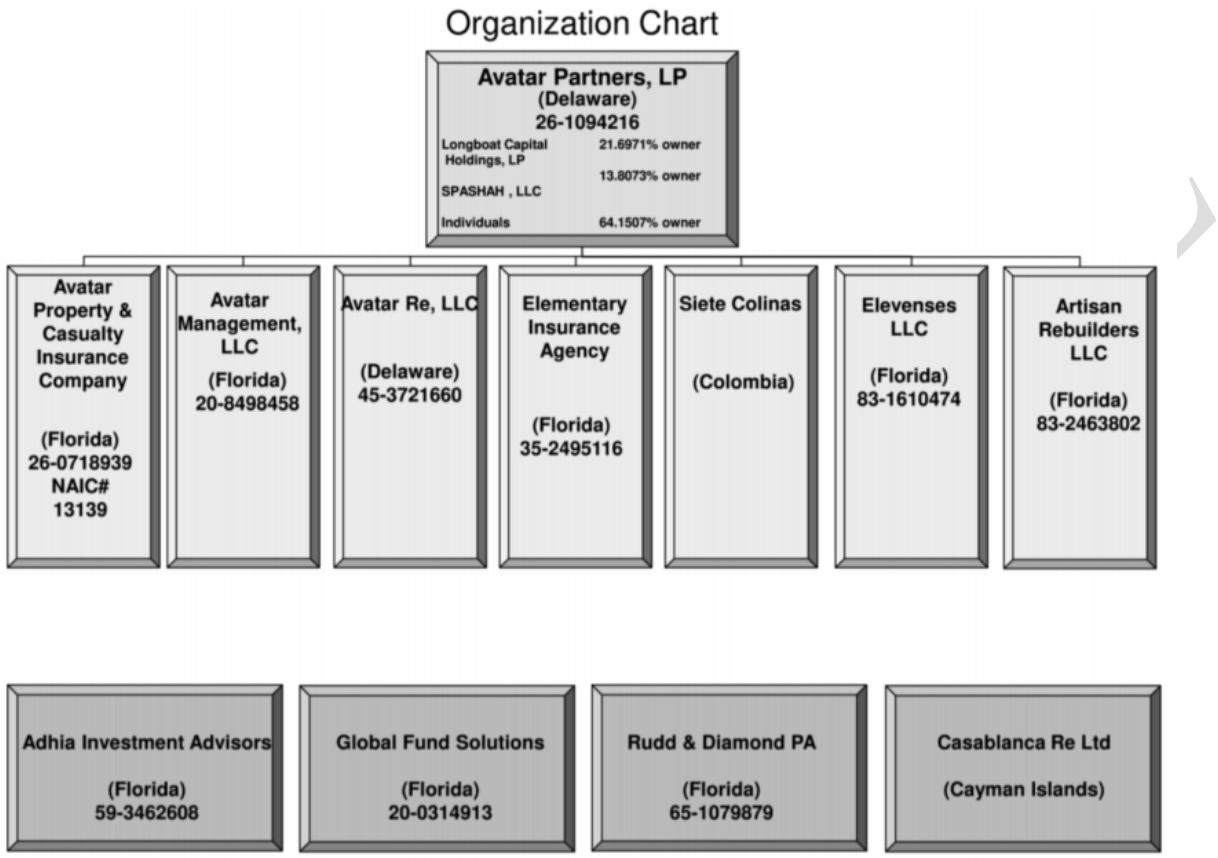
III. Individual Company Information and Recommendations

III.1 Avatar Property & Casualty Insurance Company

III.1.1 Summary

The "Avatar Group" consists of Avatar Property & Casualty Insurance Company ("APCIC" or "the Company"), Avatar Management, LLC ("AMLLC"), Avatar Partners, LP ("APLP"), Adhia Investment Advisors ("AIA"), Global Fund Solutions, LLC ("GFS"), Artisan Rebuilders ("Artisan"), Rudd & Diamond ("R&D"), Elements Insurance Agency ("EIA"). Elevenses LLC, another affiliate, is or was a coffee shop operated in the same building as APCIC and is not considered in this analysis. Elements Property Insurance Company merged with APCIC in 2017, which caused ACIC to report some unusual financial results for 2017. On July 31, 2020 the Office requested certain information from APCIC regarding its affiliates. APCIC provided a response to the Office on August 20, 2020. APCIC is currently licensed only in Florida, and primarily writes residential property policies. A copy of the Schedule Y, Part 1

organization chart from the 2019 Annual Statement of APCIC showing APCIC and its affiliates is provided below.



AMLLC serves as a managing general agent for APCIC and is responsible for underwriting, policy processing, premium collection, and binding services for business placed with the Company by independent agents. The commissions to the independent agents are paid directly by APCIC. AMLLC is also responsible for claims processing. AMLLC has entered into agreements with GFS and Siete for IT services, and customer services respectively. Artisan provides property repair services in an effort to minimize claims costs. R&D provides legal services to APCIC. AIA serves as the investment advisor for the Company's investment portfolio. EIA has a non-exclusive agreement to produce business for APCIC. AIA, Artisan, and R&D each have written agreements with APCIC. The Company reported net losses of $16.9 million, $6.4 million and $1.5 million for 2017, 2018 and 2019 respectively, for a total net loss of $25 million over the three-year period. Over the same time period affiliated entities APCIC (AIA, AMLLC, Artisan, GFS, R&D and EIA) reported net income in excess of $19 million. Information regarding the fees paid to affiliates and policies in force is presented in the tables below. During the same time period, APLP made a capital contribution and AMLLC forgave fees which together increased APCIC's surplus by a total of $10.7 million. No dividends to shareholders were paid by APCIC during 2017, 2018 or 2019.

Avatar Property & Casualty Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	92,633,311	86,023,017	88,581,513
Claims Administration Fees	0	0	0
Commissions to Affiliates	17,702	114,379	116,667
MGA Fees	7,545,072	9,061,507	8,289,659
MGA Policy Fees	1,595,375	1,474,700	1,457,300
Other Affiliated Fees- Claims			615,993
Other Affiliated Fees- Elements MGA Fees	6,214,172	0	0
Other Affiliated Fees- Investments	176,316	200,470	212,768
Other Affiliated Fees- IT Services	250,742	595,338	691,160
Other Affiliated Fees- Legal	592,444	2,063,266	3,218863
Total Affiliated Fees	16,391,823	13,509,660	14,602,410
Affiliated Fees % of Gross Premiums Written	17.70	15.70	16.48
MGA Fees Waived	0	3,216,696	4,500,000
Capital Contributions	3,000,000	0	0
Dividends	0	0	0
Policies In Force	59,451	57,362	56,517

III.1.2 Recommendations Regarding Affiliated Fees

While the percentage of fees paid to affiliates appears to be low compared to other insurers, it is important to remember that commissions paid to the independent agents producing business for APCIC are paid directly by the Company rather than by its MGA, AMLLC. Agent commissions for homeowners' policies would typically be in the range of 10-15 percent. After giving consideration to the direct payment of agent commissions, the affiliated fee percentage falls within a range of fees paid by other insurers.

It is significant that APLP, the parent company of APCIC, AMLLC, EIA, Artisan, Avatar Re, Siete Colinas, and Elevenses reported a consolidated loss of only $1.3 million during the 2017-2019 time period. The $1.3 million net loss by APLP includes interest payments in excess of $2.3 million paid in 2017, 2018 and 2019 on debt of APLP. This means that the $25 million loss by APCIC was entirely offset prior to the payment of debt, by net income of the other APLP affiliates, primarily AMLLC. The total net income of the affiliates does not include Siete Colinas Soluciones, or Elements MGA for a portion of 2017, as no financial information was available for these affiliates at the time of the report. The owners of APLP at least partially own three other entities which reported a total of $4.6 million in net income during the 2017-2019 time period. Each of the affiliates derives a significant portion of its revenue, if not all of its revenue, from services provide to or on behalf of APCIC.

Based on the financial statements of the affiliates of APCIC, the combined net income of the affiliated entities for 2017, 2018 and 2019 is more than the greater of $2 million per year or 15% of the net income of APCIC, and using that standard, the fees paid to affiliates are presumed not to be fair and

reasonable. The Office should consider requiring new affiliated agreements to be filed with the Office, along with documentation and financial projections of APCIC and its affiliates which demonstrate that the proposed fees are fair and reasonable. Further, the Office should consider obtaining additional information regarding the ownership of AIA, R&D, GFS, and financial information for Siete Colinas Soluciones.

III.2 Edison Insurance Company

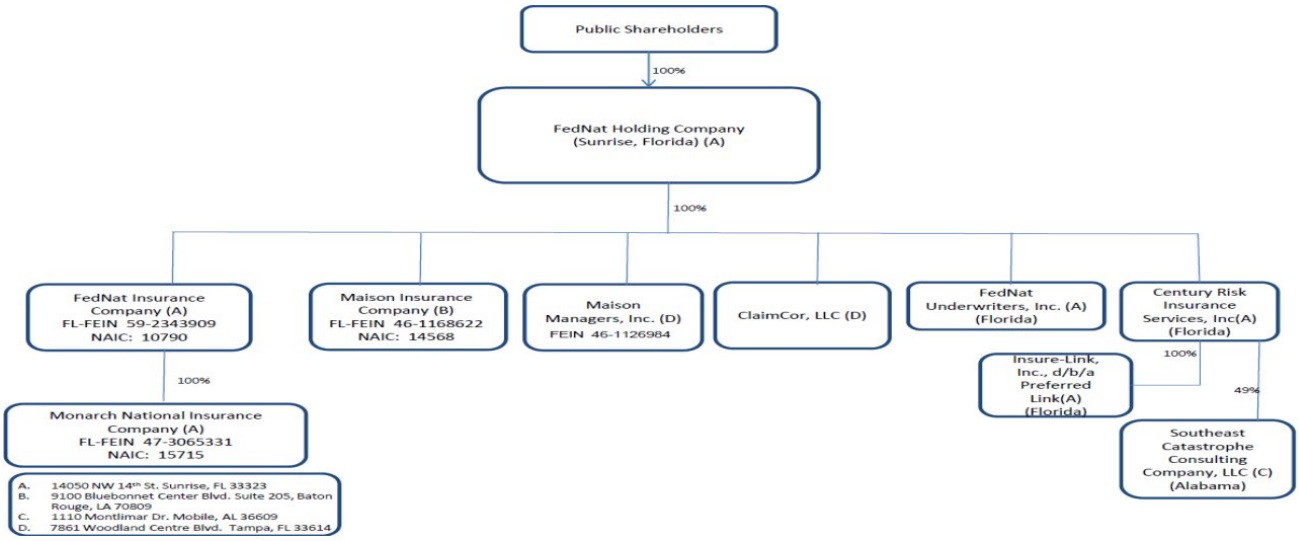
Edison Insurance Company is a wholly owned subsidiary of Florida Peninsula Insurance Company. See the review of Florida Peninsula Insurance Company for detailed information regarding Edison Insurance Company.

III.3 FedNat Insurance Company

III.3.1 Summary

The "FedNat Group" consists of FedNat Insurance Company ("FIC" or "the Company"), Monarch National Insurance Company ("MNIC"), Maison Insurance Company ("MIC"), FedNat Underwriters, Inc. ("FNU"), FedNat Holding Company ("FHC"), Century Risk Services, Inc. ("CRS"), Insure-Link, Inc. ("Link"), ClaimCor, LLC ("ClaimCor"), Maison Managers, Inc. ("MMI"), and Southeast Catastrophe Consulting Company, Inc. ("SECCC"). FIC, a Florida domestic insurer, is currently licensed in six states and is eligible to write surplus lines coverages in one additional state. FIC is actively writing in five states. MNIC is a Florida domestic insurer, licensed only in Florida, and is actively writing business. MIC is a Louisiana domestic insurer and is licensed and writing business in three states. Homeowners Multi-Peril is the primary line of business for FIC, MNIC and MIC.

On July 30, 2020 the Office requested certain information from FIC and MNIC regarding their affiliates. The revenue for the affiliates is almost exclusively, derived from the functions necessary to carry out the operations of FIC, FNIC and MIC. A copy of the Schedule Y, Part 1 organization chart from the 2019 Annual Statement of FIC showing FIC, FNIC, and MIC and their affiliates is provided below.



The operations of FIC and MNIC are performed by FNU pursuant to Managing General Agency and Claims Administration Agreements between FNU and FIC and MNIC. MIC has a similar agreement with its managing general agent, MMI. Information regarding the fees paid to affiliates and policies in force for each of the three insurers is presented in the tables below. FNU waived fees for both MNIC and FIC during the period and as such the Affiliated Fees % of Gross Premiums Written shown in the chart below for those two companies may be distorted.

FedNat Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	605,507,230	566,743,453	605,202,460
Claims Administration Fees	32,953,379	37,136,873	30,495,872
Commissions to Affiliates	20,909,402	3,892,999	11,658,774
MGA Fees	1,200,000	1,200,000	1,200,000
MGA Policy Fees	7,332,675	6,476,300	7,964,608
Other Affiliated Fees	381,697	370,258	367,794
Total Affiliated Fees	62,777,153	49,076,430	51,687,048
Affiliated Fees % of Gross Premiums Written	10.37	8.66	8.54
MGA Fees Waived	0	14,500,000	6,000,000
Capital Contributions	30,000,000	0	0
Dividends	0	0	0
Policies In Force	263,695	238,263	228,401

Maison Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	72,679,073	96,149,734	95,839,412
Claims Administration Fees	0	0	0
Commissions to Affiliates	0	0	0
MGA Fees	18,059,966	25,523,111	26,400,000
MGA Policy Fees	0	0	0
Other Affiliated Fees	0	0	0
Total Affiliated Fees	18,059,966	25,523,111	26,400,000
Affiliated Fees % of Gross Premiums Written	24.85	26.55	27.55
MGA Fees Waived	0	0	0
Capital Contributions	16,000,000	2,050,000	15,731,147
Dividends	0	0	0
Policies In Force	49,657	68,793	62,079

Monarch National Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	14,129,103	13,038,298	9,270,396
Claims Administration Fees	488,217		
Commissions to Affiliates	556,322		
MGA Fees	200,004	1,079,449	513,061
MGA Policy Fees	221,050	217,400	154,075
Other Affiliated Fees- Commissions	40,076		
Total Affiliated Fees	1,505,669	1,269,849	667,136
Affiliated Fees % of Gross Premiums Written	10.66	9.95	7.20
MGA Fees Waived	0	500,000	783,451
Capital Contributions	0	0	5,000,000
Dividends	0	0	0
Policies In Force	8,651	8,356	5,896

The information available also shows that during 2017, 2018 and 2019 the FIC affiliates made capital contributions, forgave fees due under agreements with the insurers or provided cash by way of surplus notes in the amount of approximately $90 million. No dividends were paid by FIC, MNIC or MIC during 2017, 2018 or 2019.

III.3.2 Recommendations Regarding Affiliated Fees

During the time period of January 1, 2017 to December 31, 2019, MNIC and MIC each reported a net loss each year, and FIC reported losses in 2017 and 2019. Since MNIC is a subsidiary of FIC, the losses of MNIC are reflected in the financial statements of FIC. The total combined net income of FIC and MIC for the 2017 – 2019 time period was approximately a negative $42.0 million. In addition, the surplus of FIC and MNIC declined during that time period. The decline in surplus was mitigated by

approximately $90.0 million in capital contributions, forgiveness or waiver of MGA fees, or the issuance of additional surplus notes.

While the affiliated fees as a percentage of gross premiums seems to be relatively low, there is a significant disparity in the financial results of the insurers in the group and their affiliates. The combined net income earned by the affiliates excluding; FHC, ClaimCor, and MMI for 2017, 2018 and 2019, was $79.4 million or approximately $121 million more the combined income of FIC and MIC for the same time period. The total net income of the affiliates does not include the income of FHC, ClaimCor, MMI or SECCC as no financial information was available for these affiliates at the time of the report. The fees paid to affiliates are presumed not to be fair and reasonable since the combined net income of the affiliated entities is more than the greater of $2 million per year or 15% of the combined net income of FIC, MNIC and MIC. The Office should consider requiring FIC and MNIC to refile revised affiliated agreements or replace its affiliated agreements and provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

III.4 First Protective Insurance Company

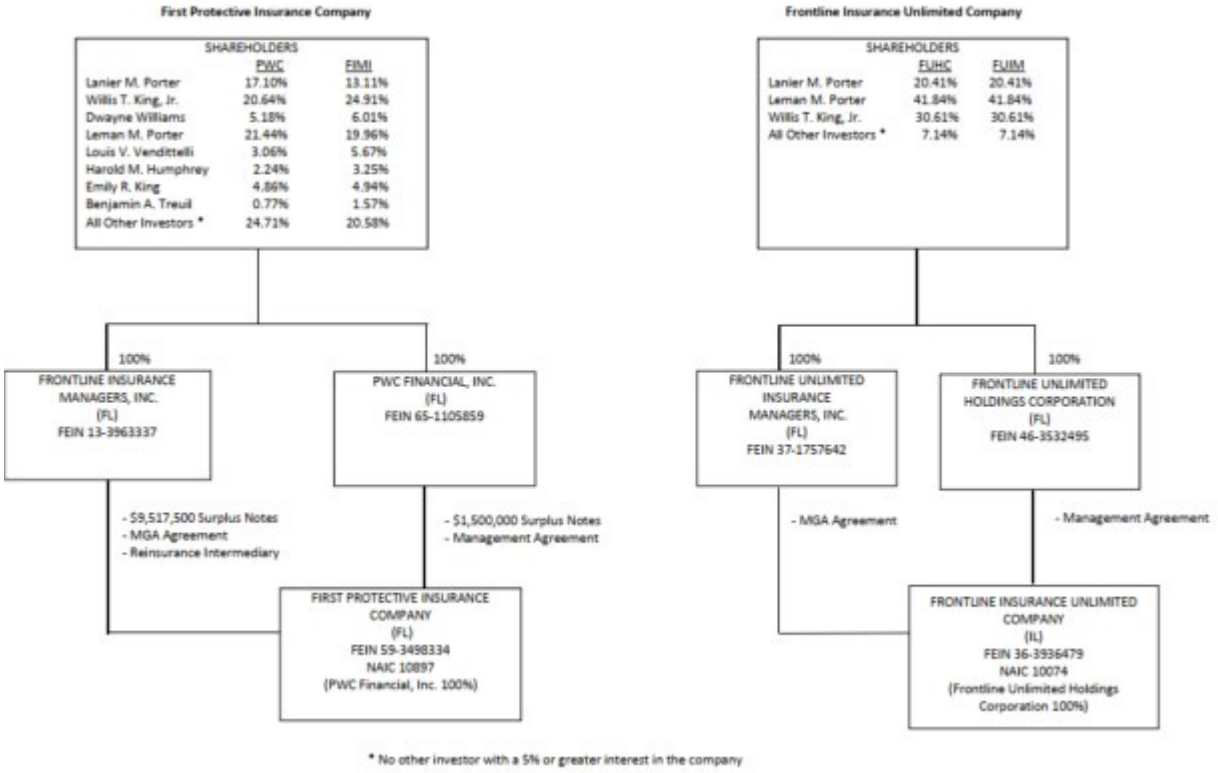
III.4.1 Summary

Based on the information reported in First Protective Insurance Company's 2019 Annual Statement, the "First Protective Group" consists of First Protective Insurance Company ("FPIC" or "the Company"), Frontline Insurance Managers, Inc. ("FIMI"), PWC Financial, Inc. ("PWC"), Frontline Insurance Unlimited Company ("FIUC"), Frontline Unlimited Insurance Managers, Inc. ("FUIM"), and Frontline Unlimited Holdings Corporation ("FUHC").

FPIC currently is licensed in eight states and is actively writing in five states. FIUC is an Illinois domiciled insurer, licensed in seven states and an eligible surplus lines insurer in five other states, including Florida. FPIC primarily writes Homeowners Multi-Peril policies.

On July 30, 2020 the Office requested certain information from FPIC regarding its affiliates. FPIC responded on August 28, 2020 with information which included a statement; "There is no income for any affiliate that is the result of services provided to entities other than the company."

A copy of the organization chart from the FPIC 2019 Annual Statement showing FPIC and affiliates is provided below.



The NAIC Annual Statement Instructions require an organization chart consistent with the instructions for Schedule Y, Part 1 be included in an insurer's Annual Statement. Based on information found on the Florida Secretary of State, Division of Corporations website regarding active entities, FPIC appears to have additional affiliates which were not shown as required on Schedule Y, Part 1 of multiple financial statements filed with the Office. Those additional affiliates include the following:

- Frontline Aviation, LLC.
- Frontline Advanced Aviation, LLC.
- Frontline Land Holdings, LLC.
- Frontline Insurance Productions, LLC.
- Heathrow Land Holdings, LLC.
- Irish Pub Investments, Inc.
- Ready 5 Restoration, LLC.
- Replacement Tiles Solutions, Inc.
- WLL 2, LLC.

In addition, information regarding some of these entities listed above may have been required to be reported in Schedule Y, Part 2 of the financial statements filed with the Office.

FIMI is a managing general agent (MGA) which provides policy administration services, claim adjusting and administrative services, and performs agency duties on behalf of FPIC. FPIC is a party to other affiliated agreements including the following: Management Contract with PWC, and a Reinsurance Intermediary Broker Services Agreement with FIMI. Information regarding fees paid to affiliates and policies in force is presented in the table below.

First Protective Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	395,651,866	414,831,968	432,483,671
Claims Administration Fees	15,383,022	20,011,338	24,675,771
Commissions to Affiliates	44,970,319	47,252,616	49,368,425
MGA Fees	31,869,888	44,588,560	45,726,770
MGA Policy Fees	4,844,509	5,084,736	5,321,578
Other Affiliated Fees- Management	17,699,659	19,815,018	20,263,451
Total Affiliated Fees	114,767,397	136,752,268	146,259,923
Affiliated Fees % of Gross Premiums Written	29.01	32.97	33.82
MGA Fees Waived	0	0	0
Capital Contributions	0	0	15,000,000
Dividends	0	0	0
Policies In Force	154,263	158,862	164,500

FPIC reported net income of $5 million in 2017 and losses of $1.4 million and $11.6 million in 2018 and 2019 respectively for a total net loss of $8 million. PWC and FIMI reported a combined net income of $10.7 million over the same time period. FPIC has an additional affiliate identified in its audited financial statements of which was not reported on Schedule Y, Part 1: Heathrow Land Holdings, LLC. The NAIC instructions for Schedule Y, Part 2 include a reporting requirement for transactions involving ½ of 1% or more of the largest insurers admitted assets as of December 31. However, this limitation on reporting does not apply to Schedule Y, Part 1, and the nine affiliates noted above were required to be included in the Schedule Y, Part 1 organization charts submitted to the Office. It is unclear based on the level of reporting whether any of these entities had material transactions with FPIC that would have required reporting in Schedule Y, Part 2. The Office should consider the appropriate follow-up with the Company regarding the required reporting in Schedule Y. During 2019 a $15 million capital contribution was received by FPIC. There was no forgiveness of fees by FIMI during 2017, 2018 or 2019.

III.4.2 Recommendations Regarding Affiliated Fees

Without including net income of the affiliates that were not listed on FPIC's Schedule Y, Part 1 filings with the Office, some of which had transactions with FPIC, the combined net income earned by the

affiliates of FPIC during 2017, 2018 and 2019 was more that the greater of $2 million per year or 15% of the net income of FPIC. As such the combined fees paid to the affiliates of FPIC are not presumed to be fair and reasonable.

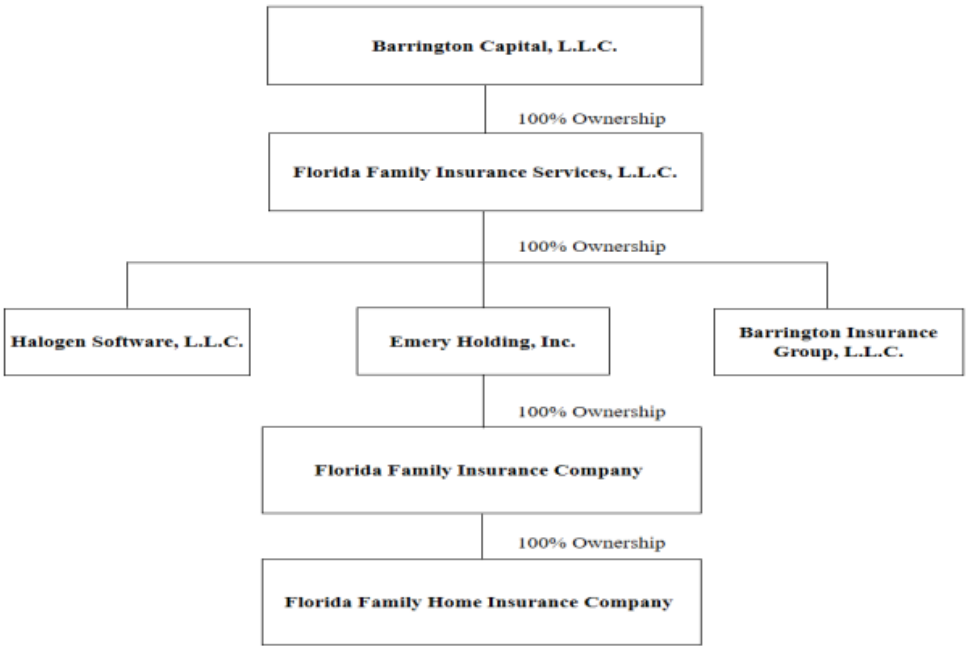
The Office may want to consider requiring FPIC to amend or replace its existing agreements, along with documentation and financial projections for FPIC and its affiliates that demonstrate that the proposed fees in the new or revised agreements are fair and reasonable. In addition, the Office may want to consider conducting a limited scope examination to review the reporting of affiliates, transactions with affiliates, and expenses of FIMI and PWC associated with the services provided to FPIC.

III.5 Florida Family Insurance Company

III.5.1 Summary

The "Florida Family Group" consists of Florida Family Insurance Company ("FFIC" or "the Company"), Florida Family Home Insurance Company ("FFHIC"), Florida Family Insurance Services ("FFIS"), Halogen Software, LLC ("Halogen"), Emery Holding, Inc. ("Emery"), Barrington Insurance Group, LLC, and Barrington Capital.

FFIC and FFHIC are both licensed only in Florida. Both companies primarily write property insurance policies. FFIC and FFHIC provided a joint response to the Office's letter of July 31, 2020 which requested certain information regarding the companies and their affiliates. The response on August 27, 2020 indicated that none of the affiliated entities provide services to any third parties other than the National Flood Insurance Program. As such, FFIC and FFHIC are the source of revenue for all of the affiliated entities. A copy of the organization chart from the FFIC 2019 Annual Statement showing FFIC and FFHIC and their affiliates is provided below.



FFIC and FFHIC are both Florida domestic insurers, licensed only in Florida and actively writing property insurance policies. The operations of FFIC and FFHIC are performed by FFIS pursuant to a Managing General Agency Agreement. FFIC and FFHIC are also parties to other affiliated agreements including the following: Cost Sharing Agreement, Tax Sharing Agreement, Reinsurance and Pooling Agreement, and Software Maintenance and Support Agreement. Neither FFIC nor FFHIC received capital contributions or had fees owed to affiliates waived during 2017, 2018 or 2019. No dividends to shareholders were paid by either company in 2017, 2018 or 2019. Information regarding the fees paid to affiliates and policies in force is presented in the tables below.

Florida Family Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	109,359,742	105,827,652	111,085,017
Claims Administration Fees*	3,687,770	2,352,027	1,572,125
Commissions to Affiliates*	17,669,051	17,197,097	15,885,318
MGA Fees	1,726,313	1,577,681	1,567,856
MGA Policy Fees	2,301,750	2,103,575	1,919,575
Other Affiliated Fees- IT Services	1,552,887	1,505,255	1,486,885
Other Affiliated Fees- Reinsurance	0	0	0
Total Affiliated Fees	26,937,771	24,735,635	22,431,759
Affiliated Fees % of Gross Premiums Written	24.63	23.37	20.19
MGA Fees Waived	0	0	0
Capital Contributions	0	0	0
Dividends	0	0	0
Policies In Force	74,278	81,314	88,797

Florida Family Home Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	20,028,882	19,338,480	29,925,561
Claims Administration Fees*	675,403	429,799	423,520
Commissions to Affiliates*	3,236,029	3,142,522	4,279,399
MGA Fees	575,438	525,894	522,619
MGA Policy Fees	0	0	170,900
Other Affiliated Fees- IT Services	517,629	501,752	495,628
Other Affiliated Fees- Reinsurance	0	0	0
Total Affiliated Fees	5,004,499	4,599,967	5,892,066
Affiliated Fees % of Gross Premiums Written	24.99	23.79	19.69
MGA Fees Waived	0	0	0
Capital Contributions	0	0	0
Dividends	0	0	0
Policies In Force	0	0	6,404

*These fees were not identified by company in the information provided and were allocated to each company based on the amount of premiums written.

FFHIC is a subsidiary of FFIC and its financial results are reflected in the financial statements of FFIC. FFIC reported a net loss in both 2017 and 2019, and a small net income in 2018, for total loss of $3.7 million over the three-year period. FFIS reported net income in each of 2017, 2018 and 2019 for a total net income of $12.6 million. The net income of FFIS is inclusive of the financial results of Barrington Insurance Group LLC, Halogen Software LLC, Emery Holding, Inc. and the Company. The financial statements provided for Halogen Software L.L.C., Emery Holding, Inc., and Barrington Insurance Group have limited detail and preclude all but a high-level analysis. The financial statements provided for Barrington Capital, L.L.C. are on a consolidated basis and do not allow for a detailed analysis of the profitability of the ultimate parent company.

Halogen provides IT services for FFIC and FFHIC and receives fees or reimbursements ranging from $1.2 million in 2017 to a high of $2.0 million in 2019. Halogen receives 2% of the gross premiums written or assumed business of FFIC and FFHIC without any reduction for reinsurance ceded. It is unclear if Halogen is paid an additional 2% fee based on the premiums assumed by FFHIC and FFIC as a result of their pooling agreement.

The response provided by FFIC and FFHIC regarding dividends paid by Barrington Insurance Group was “n/a” for 2017, 2018 and 2019. The financial statements for Barrington Group reported net income in excess of $800,000 for each year of the period 2017 through 2019, with a total net income for the period in excess of $2.7 million. The December 10, 2020 response from FFIC indicates that the source of the income for Barrington Group is from fees paid by the reinsurers. The net worth of Barrington Group was reported as $477,585 at year end 2017 and $261,293 at year end 2019. Either the August 27, 2020 response provided by FFIC and FFHIC or the Barrington Group financial statements for 2017,

2018 and 2019 are incorrect. Based on the reduced net worth of the Barrington Group as of 12/31/2019, it would appear that dividends were paid to FFIS during 2017- 2019 time period.

The cover letter provided with the Underwriting Analysis Template indicates that Barrington Capital L.L.C. issued $12 million in Trust Preferred Securities which mature in 2034 and 2035. Interest on the Trust Preferred Securities is paid four times a year.

Emery has reported a “Receivable from FFIS” in the amount of $675,000 as a liability since December 31, 2017. A receivable would normally be reported as an asset. FFIS does not show a corresponding payable to affiliates in that amount and the financial statements for both FFIS and Emery lack sufficient detail to determine the real character of this item.

Part 3 – Expenses, Page 11 of the 2017, 2018 and 2019 Annual Statements for both FFIC and FFHIC both have material amounts shown in the Details of Write-Ins section. The amounts reported on line 2498 are an aggregation of the items detailed on the Overflow Page. A review of the Overflow Page shows that the MGA Fee Expense and Data Processing Fees are the major components of the amounts reported on line 2498, and that each of those items exceed the amounts of the other write-in items listed on Page 11. The MGA Fee Expense for FFIC ranged from $1.5 million to $1.7 million per year while the Data Processing Fees for FFIC were approximately $1.5 million per year. FFHIC reported similar fees on the Overflow Pages in lesser although material amounts. Reporting the larger items on an Overflow Page rather than Page 11 is unusual.

Also listed as a write-in on Page 11 for both FFIC and FFHIC is a “Computer Hosting and Managed Services” expense which is not identified as an affiliated expense. Those expenses total approximately $300,000 per year for both companies.

Additionally, at the bottom of Page 11 of each of the Annual Statements there is a footnote that provides for a disclosure of the amount of management fees paid to affiliates and non-affiliates. That footnote was not completed for either company on the 2017, 2018 and 2019 Annual Statements. FFIC and FFHIC characterize the amounts paid to FFIS as commissions rather than fees.

The Office may want to consider additional guidance to insurers for reporting of affiliated expenses.

III.5.2 Recommendations Regarding Affiliated Fees

During the time period of January 1, 2017 to December 31, 2019, FFIC and FFHIC paid fees of various types to FFIS, and Halogen. During that time period FFIC reported losses of $3.7 million. However, FFIS reported net income of $12.6 million. In addition, Barrington Capital L.L.C. also reported

consolidated net income, after debt service, of $1.8 million for that time period. Based on the foregoing, the combined net income of the affiliates exceeds the net income of the insurers by more than the greater of $2 million per year or 15% of the net income of the insurers over the three-year period and as such the total of fees paid to the affiliates of FFIC and FFHIC are presumed not to be fair and reasonable. As further detailed below FFIC and FFHIC should review its current affiliated agreements and revise and update those agreements as appropriate.

1. The Managing General Agency Agreement between FFIC and FFIS is over 20 years old. The Agreement provides for a fee of 18% of premium beginning with the initial premium for all policies and endorsements and continuing for 10 years after the termination of the Agreement. The Agreement should be updated to account for changes that have taken place since 2000. In conjunction with that update, FFIC should provide documentation that supports the fees paid to FFIS are fair and reasonable in light of the disparity of profits earned by FFIC and FFIS.
2. The Software Maintenance and Support Agreement between Halogen and FFIC is in excess of 15 years old. Given the changes in the field of technology over that period of time, the Agreement should be updated. Further, it is not clear that the fee charged by Halogen based on a percentage of premiums is fair and reasonable. While Halogen reported net losses in 2018 and 2019, there are significant expenditures for equipment by Halogen each year ranging from $1.2 million to $2 million without any detail.
3. Page 11 of the 2017, 2018 and 2019 Annual Statements for both FFIC and FFHIC report in excess of $2.7 million in consulting fees paid during the same time period to unnamed parties. Given that the footnote on Page 11 (management fees paid to affiliates) was not completed for any of the years for either FFIC or FFHIC, the parties receiving the consulting fees should be identified and if affiliated, the reasonableness of the fees should be justified by FFIC and/or FFHIC.

III.5.3 Other Recommendations

1. The Reinsurance and Pooling Agreement is over 10 years old, and FFHIC is listed under its previous name. The agreement should be updated to more accurately identify the parties to the agreement.
2. The Cost Sharing Agreement Amendment and underlying Cost Sharing Agreement are both over 10 years old and FFHIC is listed under its previous name. The amendment to the agreement also lists Lakeview Underwriting Managers, LLC as a party, however that entity is not found on the organization chart but is listed as an affiliate in the agreement. The underlying agreement should be updated to correctly identify all of the parties to the agreement and replace both the amendment and original agreement.

3. The Tax Sharing Agreement amendment and underlying Tax Sharing Agreement are both over 10 years old, and FFHIC is listed under its previous name. That agreement should also be updated to correctly identify the parties to the agreement.

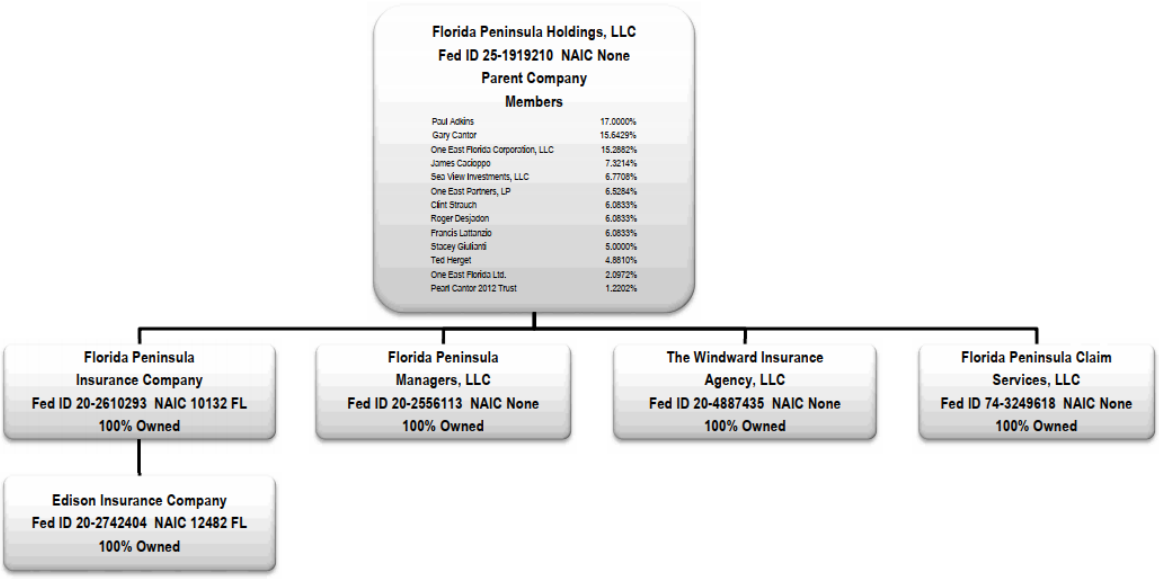
III.6 Florida Family Home Insurance Company

Florida Family Home Insurance Company is a wholly owned subsidiary of Florida Family Home Insurance Company. See the review of Florida Family Insurance Company for detailed information regarding Florida Family Home Insurance Company.

III.7 Florida Peninsula Insurance Company

III.7.1 Summary

The "FPIC Group" consists of Florida Peninsula Insurance Company ("FPIC" or "the Company") and Edison Insurance Company ("EIC"), Florida Peninsula Managers, LLC ("FPM"), Florida Peninsula Claims Services, LLC ("FPCS"), The Windward Insurance Agency, LLC ("Windward") and Florida Peninsula Holdings, LLC ("FPH"). On July 30, 2020 the Office requested certain information from FPIC and EIC regarding their affiliates. FPIC and EIC submitted separate responses to the Office on August 28, 2020. FPIC and EIC both write Homeowners Multi-Peril policies in the State of Florida and do not currently write business in any other state. The revenue for each of the affiliates is almost exclusively, derived from the functions necessary to carry out the operations of FPIC and EIC. The Consolidating Statement of Income and Comprehensive Income Statements document provided by FPIC showed that only a minimal amount of revenue of the FPIC Group, less than .2%, was earned from services provided to third parties. A copy of the organization chart from the FPIC 2019 Annual Statement showing FPIC, EIC and their affiliates is provided below.



FPIC has one employee, and EIC does not have any employees. The operations of FPIC and EIC are primarily carried out by affiliates, Florida Peninsula Managers, LLC ("FPM") and Florida Peninsula Claim Services, LLC ("FPCS") as detailed in the Managing General Agency Agreement between FPIC and FPM and a similar agreement between EIC and FPM. FPCS is responsible for providing claims administration services for FPIC's and EIC's claims under the Claims Administration Servicing Agreement between FPM and FPCS. While the Claims Administration Servicing Agreement does not list EIC, Note 10.F of the 2019 Annual Statement indicates that FPCS provides claim adjusting services for EIC. During the 2017-2019 EIC received approximately $18.2 million in capital contributions. FPIC paid dividends of $10 million in 2017. No other shareholder dividends were paid in 2017, 2018 or 2019. Information regarding the fees paid to affiliates and policies in force is presented in the tables below.

Florida Peninsula Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	240,360,823	229,549,882	218,531,212
Claims Administration Fees	7,701,185	4,330,537	3,909,481
Commissions to Affiliates	75,875,761	71,889,167	67,711,980
MGA Fees			
MGA Policy Fees	1,557,075	1,443,350	1,376,100
Other Affiliated Fees- IT Services			
Other Affiliated Fees- Commissions			
Total Affiliated Fees	85,134,021	77,663,054	73,997,561
Affiliated Fees % of Gross Premiums Written	35.42	33.83	33.86
MGA Fees Waived	0	0	0
Capital Contributions	0	0	0
Dividends	10,000,000	0	0
Policies In Force	111,874	103,359	96,901

Edison Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	68,127,267	94,047,520	106,714,247
Claims Administration Fees	2,326,249	1,560,087	1,900,722
Commissions to Affiliates			
MGA Fees	18,734,708	25,509,572	31,894,201
MGA Policy Fees	1,155,800	1,473,425	1,155,300
Other Affiliated Fees- IT Services			
Other Affiliated Fees- Reinsurance			
Total Affiliated Fees	22,216,757	28,543,084	35,350,223
Affiliated Fees % of Gross Premiums Written	32.61	30.35	33.13
MGA Fees Waived	0	0	0
Capital Contributions	2,482,959	3,475,501	12,319,111
Dividends	0	0	0
Policies In Force	44,280	56,515	59,018

Each of the affiliates of FPIC and EIC is organized as a Limited Liability Company, and distributions to their members are made as determined by management of each of the affiliated entities. FPHC has a consistent history of distributions to members including: $21 million, $32.5 million and $19.5 million for 2016, 2017, and 2018 respectively. While not specifically reported in the 2019 FPHC Consolidated Financial Statements, FPHC's retained earnings increased by approximately $2.7 million on net income of $26.7 million which suggests distributions to members of approximately $24 million in 2019. While FPIC reported a net loss in 2017 of $4 million, FPIC paid a $10 million dividend to FPHC in 2017. It should be noted that the current agreements between FPIC and FPM, and EIC and FPM also include a profit-sharing provision.

III.7.2 Recommendations Regarding Affiliated Fees

EIC is a subsidiary of FPIC and the financial results of EIC are reflected in the financial statements of FPIC. During the time period of January 1, 2017 to December 31, 2019, FPIC reported a net loss each year, with a total net loss of approximately $12.0 million. In addition, the surplus of both insurers declined during both 2017 and 2018. FPIC reported a further decline in surplus in 2019 and except for a capital contribution to EIC, it would also have reported a decline in surplus in 2019. The capital contributions to EIC in 2017, 2018 and 2019 total $18.2 million. Without the capital contribution in 2019, EIC would likely have reported a Company Action Level Risk-Based Capital Event. Windward reported a net loss during that same period of $349,080. Conversely, FPM and FPCS reported positive income each of the same three years. The total net income for FPM and FPCS for the same three-year period was $93.9 million.

The net income earned by FPIC and FPCS earned over the period under review is earned almost exclusively by providing services to FPIC and EIC. The consolidated net income of FPHC for the 2017-2019 period is $68.1 million. Even after giving consideration to the capital contributions made to EIC, the combined net income of the affiliated entities is more than the greater of $2 million per year or 15% of the combined net income of FPIC, and as such the fees are presumed not to be fair and reasonable. New affiliated agreements should be required to be filed with the Office, along with documentation and financial projections for the insurers and affiliates that demonstrates that the proposed fees are fair and reasonable.

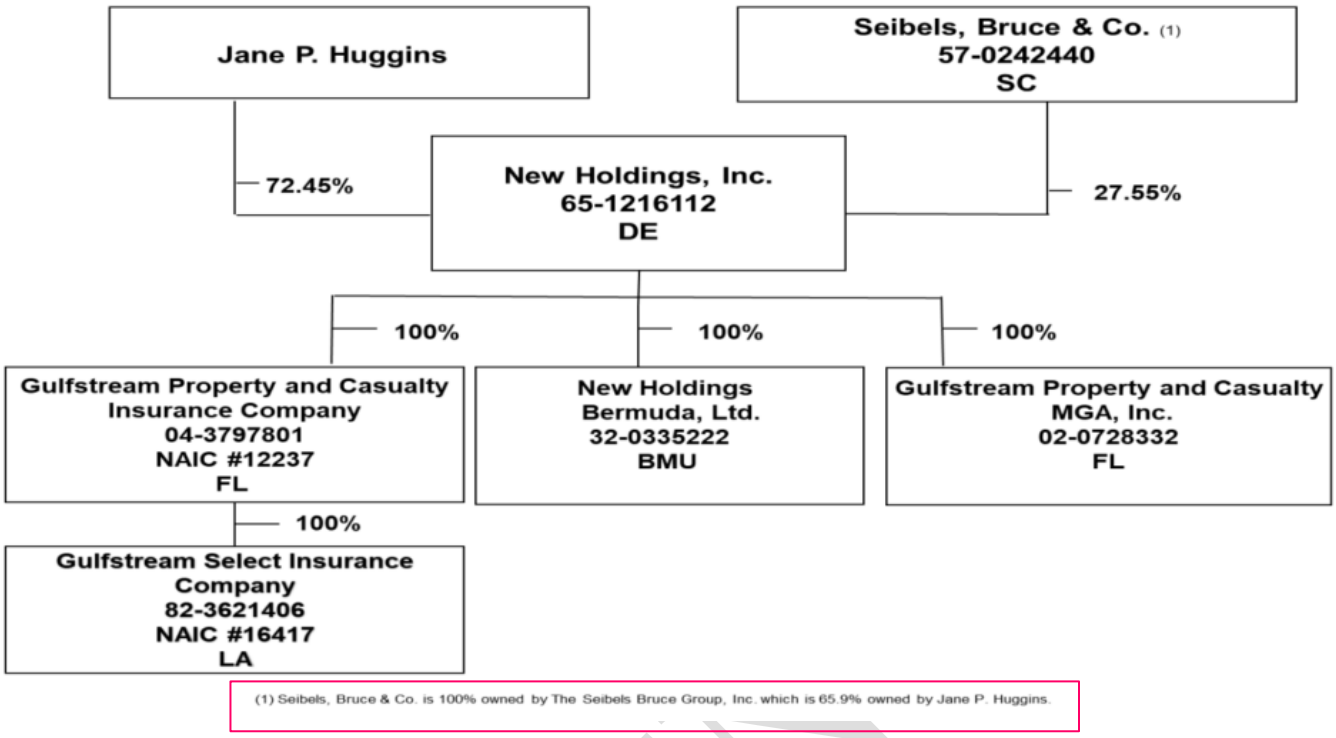
III.8 Gulfstream Property and Casualty Insurance Company

III.8.1 Summary

Based on the information reported in Gulfstream Property and Casualty Insurance Company's 2019 Annual Statement, the "Gulfstream Group" consists of Gulfstream Property and Casualty Insurance Company ("GPCIC" or "the Company"), Gulfstream Select Insurance Company ("GSIC"), Gulfstream Property and Casualty MGA, Inc. ("GMGA"), New Holdings, Inc. ("NHI"), New Holdings Bermuda LTD. ("NHB"), and Seibels, Bruce & Company ("SBC"). GSIC is a Louisiana domestic insurer which commenced operations in August of 2018. GSIC had limited operations in 2018 and 2019, and was excluded from this analysis as it did not have any material impact on the financial performance of GPCIC.

On July 31, 2020 the Office requested certain information from GPCIC regarding its affiliates. GPCIC responded to the Office on August 4, 2020 and provided a completed worksheet.

GPCIC is licensed in seven states and currently writes personal lines property policies in six of those states. GSIC is licensed only in Louisiana and cedes all premiums written to GPCIC. The total amount of premiums assumed from GSIC over the 2017-2019 time period was less than $60,000. In excess of 99% of the revenue of the affiliates of GPCIC is derived from the functions necessary to carry out the operations of GPCIC. The Consolidated Financial Statements and Supplementary Information prepared by the GPCIC's auditors show that no more than .48% of the total revenue of the group is generated from third parties. A copy of the organization chart from the GPCIC 2019 Annual Statement showing GPCIC and its affiliates is provided below. See section III.8.3 Other Considerations for further information regarding the organization chart as filed with the Office.



The operations of GPCIC are primarily carried out by GMGA and NHI as detailed in the Managing General Agency Agreement and the Claims Administration Servicing Agreement between GPCIC and GMGA, and the Executive Management Agreement between GPCIC and NHI. During 2017-2019 the Company received capital contributions and a waiver of fees due to GMGA in the amount of $15.3 million. The Company did not pay any dividends to shareholders in 2017, 2018 or 2019. Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Gulfstream Property & Casualty Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	150,717,551	155,303,556	149,505,417
Claims Administration Fees	10,019,608	11,102,968	8,460,925
Commissions to Affiliates	29,946,757	29,472,149	28,661,878
MGA Fees			
MGA Policy Fees	2,389,525	2,335,946	2,206,036
Other Affiliated Fees			
Other Affiliated Fees (NHI)	709,398	729,009	217,453
Total Affiliated Fees	43,064,928	43,640,071	39,328,839
Affiliated Fees % of Gross Premiums Written	28.57	28.10	26.45
MGA Fees Waived	800,000	2,000,000	1,500,000
Capital Contributions	500,000	5,000,000	5,500,000
Dividends	0	0	0
Policies In Force	89,573	87,724	82,483

III.8.2 Recommendations Regarding Affiliated Fees

GPCIC reported net income of $567,000 in 2017, and net losses in 2018 and 2019 of $7.5 million and $7.4 million respectively, with a total net loss of $14.4 million for the three year period. In contrast, GMGA reported net income of $1.1 million for the same time period, despite having waived fees totaling $4.3 million. Without the waiver of MGA fees, GPCIC would have reported a net loss of $18.7 million, and GMGA a net income of $5.4 million. The surplus of GPCIC declined from $31.4 million in 2017 to $25.2 million in 2019 despite capital contributions of $11 million, and the waiver of MGA fees referenced above.

While not specifically identified by name, the audited financial statements for GMGA indicate that "GMGA contracts with service companies affiliated through common ownership to provide technology, underwriting, premium billing, claims administration, financial accounting and other services." This reference is almost certainly to Seibels Technology Solutions, Seibels Processing Solutions and Seibels Claims Solutions, each of which provides similar services for St. Johns Insurance Company. The net income earned by affiliates is understated by the amount of net income of these entities attributable to GPCIC. As noted above, virtually all revenue of the GPCIC affiliates is derived from services provided to GPCIC. The net income of the affiliates of GPCIC is more than the greater of $2 million per year or 15% of the combined net income of the GPCIC, accordingly those fees are presumed not to be fair and reasonable. New affiliated agreements and financial projections should be required to be filed with the Office, along with documentation that demonstrates that proposed fees for those agreements are fair and reasonable.

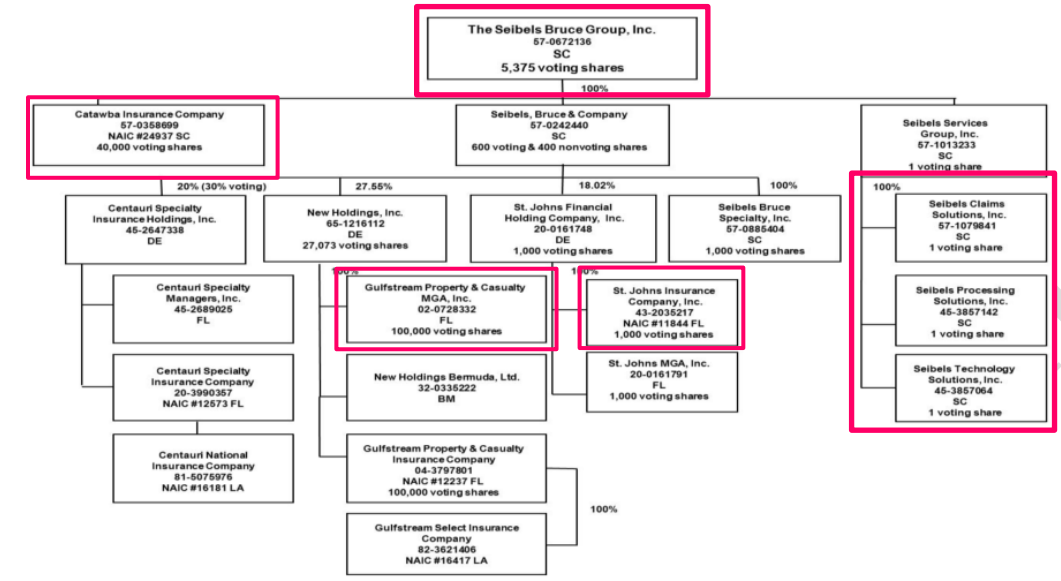
III.8.3 Other Considerations

The organization chart in the 2017, 2018 and 2019 Annual Statements submitted by GPCIC to comply with the requirements of Schedule Y, Part 1 is inaccurate. As of December 31, 2019 GPCIC was an affiliate of St. Johns Insurance Company ("SJIC"), and potentially other insurers. A copy of Schedule Y, Part 1 from Catawba Insurance Company's 2019 Annual Statement shown below provides a more accurate picture of the Seibels Bruce subsidiaries and affiliates. While more complete, the Catawba Insurance Company Schedule Y, Part 1 omits the footnote found on the GPCIC Schedule Y, Part 1 regarding the ownership of Seibels Bruce Group Inc. For purposes of this analysis the Gulfstream Group has been analyzed separately from SJIC, however, a more accurate Schedule Y, Part 1 common to all insurers, should be required for the 2020 Annual Statements.

Annual Statement for the year 2019 of the **CATAWBA INSURANCE COMPANY**

SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 – ORGANIZATIONAL CHART



III.9 Monarch National Insurance Company

Monarch National Insurance Company is a wholly owned subsidiary of FedNat Insurance Company. See the review of FedNat Insurance Company for detailed information regarding Monarch National Insurance Company.

III.10 Olympus Insurance Company

III.10.1 Summary

The “Olympus Group” consists of Olympus Insurance Company (“OIC” or “the Company”), Olympus MGA Corporation (“OMGA”), Technology Enhanced Claims Handling, Inc. (“Tech”), Gemini Financial Holdings, Corp. (“GFH”), Gemini Financial Services Corporation (“GFSC”), Gemini Financial Holdings, LLC (“GFHLLC”), Radiant Insurance Agency (“RAI”), and Gemini Re (“GRE”). Juster LLC is also a member of this group and financial information for that affiliate is combined with GFSC. OIC is a Florida domestic insurer that commenced business in 2007. OIC is currently licensed only in Florida and primarily writes homeowners’ multi-peril policies. The revenue for its affiliates is almost exclusively derived from the functions necessary to carry out the operations of OIC. A copy of the organization chart from the OIC 2019 Annual Statement showing OIC and its affiliates is provided below.

The operations of OIC are carried out by OMGA as detailed in the exclusive Managing General Agency Agreement with OMGA. Under terms of the agreement OIC pays OMGA a commission equal to 25% of premiums written, inclusive of a $25 per policy MGA fee. The Company is also party to an Intercompany Services Agreement with GFH. Under terms of the Intercompany Services Agreement GFH provides centralized administrative functions and allocates the expenses to OIC and its affiliates. OIC has two other agreements is place with GFH for investment management services and also to serve as a reinsurance intermediary. OGMA entered into a contract with Tech to provide claims administration services. In 2017, 2018 and 2019 OIC reported “Contributions Administration” in the amounts of $22.2 million, $9.3 million and $24.4 million respectively for a total reduction to expenses of approximately $56 million. As noted in OIC’s Annual Statements, the Managing General Agency Agreement with OMGA permits OMGA to reimburse OIC for general and administrative expenses. Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Olympus Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	136,754,952	157,465,985	190,980,001
Claims Administration Fees	0	0	0
Commissions to Affiliates	32,100,000	37,100,000	45,000,000
MGA Fees	0	0	0
MGA Policy Fees	2,100,000	2,300,000	2,700,000
Other Affiliated Fees- Investments	175,000	175,000	175,000
Total Affiliated Fees	34,375,000	38,575,000	49,875,000
Affiliated Fees % of Gross Premiums Written	25.14	25.13	25.07
MGA Fees Waived	22,275,000	9,300,000	24,436,494
Capital Contributions	0	0	0
Dividends	0	0	0
Policies In Force	79,803	89,865	104,673

While OIC did not receive any capital contributions or investments in the form of surplus notes, a total of $56 million in "Contributions Administration" was received from OMGA during 2017, 2018 and 2019. The "Contributions Administration" by OMGA appears to have the same impact on the financial condition of OIC as a waiver of fees. The "Contributions Administration" allowed OIC's surplus to increase from $30.4 million at the beginning of 2017 to $34.8 million at the end of 2019. Without the "Contributions Administration" OIC would have been impaired at the end of 2017, been in one or more RBC levels requiring action by the Company or the Office, and OIC would likely have lost its solvency strength rating one or more times during the 2017-2019 period. The Company did not pay any shareholder dividends during the period under review.

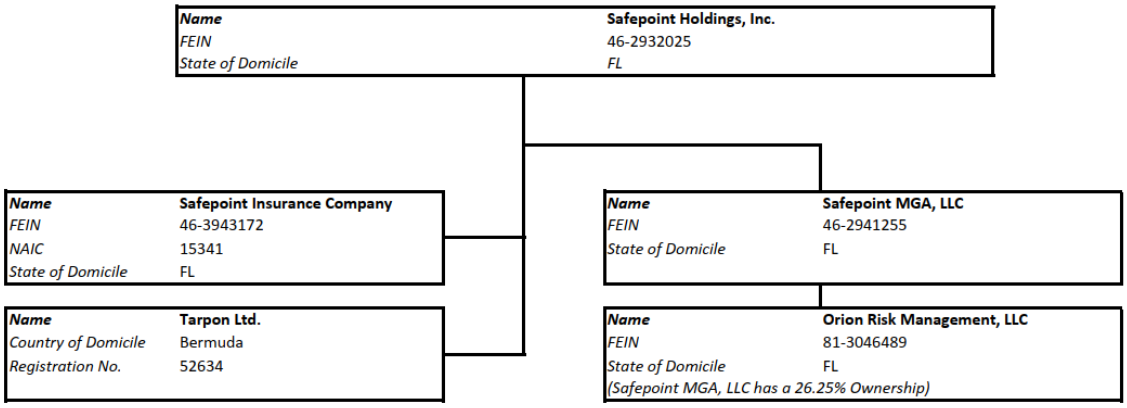
III.10.2 Recommendations Regarding Affiliated Fees

During the time period of January 1, 2017 to December 31, 2019, OIC reported net income of $3.6 million while its parent company reported net income on a consolidated basis of $5.8 million. As reported, the net income of the affiliates of OIC would not exceed the greater of $2 million per year or 10% of the net income of OIC (after the "Claims Administration" adjustment), and the fees paid to the affiliates would be presumed to be fair and reasonable. However, without the "Claims Administration" adjustment, the Company would have been impaired at December 31, 2017 and reported an authorized control level Risk-Based Capital. Again, without the "Claims Administration" adjustment in 2019, the Company would likely have been impaired and likely would have reported a company action level Risk-Based Capital. The financial statements provided for Gemini Financial Holding Corporation do not reflect sufficient capital to sustain this business model for the long term.

III.11 Safepoint Insurance Company

III.11.1 Summary

The "Safepoint Group" consists of Safepoint Insurance Company ("SIC" or "the Company"), Safepoint MGA, LLC ("SMGA"), Safepoint Holdings, Inc. ("SHI"), Orion Risk Management, LLC ("ORM") and Tarpon Ltd. ("Tarpon"). In July 2020 the Office requested certain information from SIC regarding its affiliates. SIC provided a response to the Office on August 20, 2020. SIC is currently licensed in six states and writes property policies, including homeowners' multi-peril policies, in four of those states. The revenue for its affiliates is almost exclusively derived from the functions necessary to carry out the operations of SIC. The 2019 Consolidated Financial Statements for Safepoint Holdings, Inc. do not show any material revenue source other than gross premiums written or assumed by SIC. A copy of the organization chart from the SIC 2019 Annual Statement showing SIC and its affiliates is provided below.



The primary operations of SIC are carried out by SMGA as detailed in the Managing General Agency Agreement between SIC and SMGA. The agreement with SMGA has been amended five times, with the latest amendment as of August 1, 2020. Several of the amendments have been for the purpose of reducing the fees paid to SMGA and to allow SMGA to waive fees that SIC is obligated to pay under the agreement with SMGA. During 2017, 2018 and 2019 SMGA and SHI have made capital contributions and waived fees to increase the surplus of SIC by a total of $23.25 million. No dividends were paid to the shareholders of SIC during 2017, 2018 or 2019. Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Safepoint Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	169,977,936	166,043,270	157,274,032
Claims Administration Fees	5,092,757	5,279,986	5,067,902
Commissions to Affiliates	34,575,196	35,275,249	21,936,010
MGA Fees			
MGA Policy Fees	1,985,939	1,999,268	2,008,058
Other Affiliated Fees			
Other Affiliated Fees		4,185,658	6,538,327
Total Affiliated Fees	41,653,892	46,740,161	35,550,297
Affiliated Fees % of Gross Premiums Written	24.51	28.09	22.53
MGA Fees Waived	0	0	11,750,000
Capital Contributions	4,500,000	7,000,000	0
Dividends	0	0	0
Policies In Force	87,145	82,974	75,397

SIC reported a surplus as to policyholders at the beginning of 2017 of $49.6 million. At the end of 2019 that surplus had decreased to $35.5 million despite capital contributions and the waiver of fees due to SMGA. SIC reported a net loss in each year from 2017 through 2019 for a total loss of approximately $22.1 million over that time period. The Consolidated Financial Statements for SHI for the same period show a net loss of $2.2 million in 2017, and net income of approximately $2.1 million and $633,000 in

2018 and 2019 respectively. The table below compares the reported surplus / stockholders equity of SIC with its parent company SHI.

Year	SIC: Surplus as to Policyholders	SHI: Stockholders' Equity
2017	$46,115,547	$24,929,000
2018	$45,567,077	$24,648,000
2019	$38,889,929	$27,060,000

The Consolidated Financial Statements suggest that SHI has limited liquidity as a stand-alone entity with less than $50,000 in cash and invested assets at the end of 2018 and 2019. The financial statements provided for SMGA were submitted as an Excel worksheet with no explanations regarding the individual items. The most recent financial statement for SMGA shows a negative balance for cash and invested assets. The remaining assets of SMGA, other than the Claims Management Fee, are for the most part illiquid. As of December 31, 2019 SMGA reported $5.2 million in Members Equity, which included a $1.2 million capital contribution received during 2019.

III.11.2 Recommendations Regarding Affiliated Fees

As noted above, SIC consistently reported material losses during the time period of January 1, 2017 to December 31, 2019. The net income of the SIC affiliates was more that the greater of $2 million per year or 15% of SIC's net income for 2017, 2018 and 2019. As such, the fees paid to affiliates in 2017, 2018 and 2019 are presumed not to be fair and reasonable.

Material capital contributions or forgiveness/waiver of MGA fees were required for year-end 2018 and 2019 for SIC to maintain a 300% or greater Risk-Based Capital. The financial information provided to the Office regarding the affiliates of SIC does not demonstrate an ability to provide further material capital contributions to SIC that would be necessary if the Company continues to lose money. Further, SHI may be in violation of certain loan covenants which may impede its ability raise capital if necessary. Based on the foregoing the Office may want to consider whether SIC is in unsound condition as defined in 69O-141.002(2)(q), Florida Administrative Code.

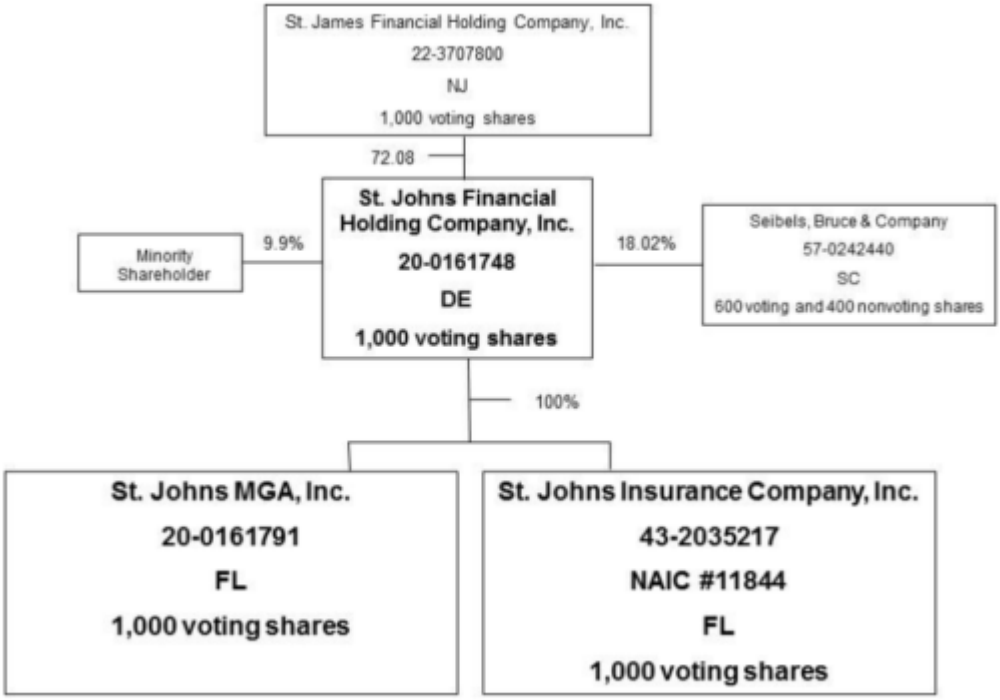
Considering the current status of the Safepoint Group as a whole, it likely would be more productive to engage in a detailed review of the overall business model, and then if appropriate, consider how best to revise the affiliated agreements.

III.12 St. Johns Insurance Company

III.12.1 Summary

Based on the information reported in St. Johns Insurance Company's 2019 Annual Statement, the "St. Johns Group" consists of St. Johns Insurance Company ("SJIC" or "the Company"), St. Johns MGA, Inc. ("SJMGA"), St. Johns Financial Holding Company, Inc. ("SJFHC"), St. James Financial Holding Company, Inc. ("St. James") and Seibels, Bruce & Company ("SBC").

On July 31, 2020 the Office requested certain information from SJIC regarding its affiliates. SJIC provided a response to the Office on August 20, 2020. SJIC is currently licensed in two states and writes primarily property policies, including homeowners' multi-peril policies, in both states. With the exception of SBC, the revenue for the affiliates is almost exclusively derived from the functions necessary to carry out the operations of SJIC. A copy of the organization chart from the SJIC 2019 Annual Statement showing SJIC and its affiliates is provided below.



SJIC reported a net loss of $5.8 million, $9.5 million, and $22.1 million for 2017, 2018 and 2019 respectively. SJIC has a contract with its affiliate SJMGA under which SJMGA is responsible for all policy processing, agent services, and claims handling for SJIC. The fees paid by SJIC to SJMGA are shown in the chart below as Commissions to Affiliates. SJMGA in turn entered into a claims administration agreement with Seibels Claims Solutions, a policy administration agreement with

Seibels Processing Solutions, and a technology services agreement with Seibels Technology Solutions. SJMGA also entered into an executive management agreement with St. James whereby St. James performs all executive management services on behalf of SJMGA. The total fees paid by SJMGA under the subcontracts listed above were $47.6 million and $55.3 million for the years 2018 and 2019 respectively. The amounts shown as Commissions to Affiliates does not include policy fees collected by SJMGA of approximately $5 million per year. With all or virtually all of the operational functions of the MGA contract with SJIC subcontracted to other entities, the only discernable remaining function of SJMGA is the payment of agent commissions. The level of detail in the documents filed with the Office does not specify the entity that is responsible for payment of the agent commissions.

SJFHC has a note payable to its minority shareholder with a remaining balance of approximately $15.1 million as of December 31, 2019. Since 2016 SJFHC has been able to reduce the amount of the note by approximately $3.7 million and pay the associated interest of approximately $2.7 million. The remaining amount of the note is due on March 9, 2021.

Based on the financial statements provided to the Office, SJMGA had a net income of $3.2 million, $4.5 million and $5.2 million for the years 2017, 2018 and 2019 respectively. SJMGA's commissions and marketing expense for 2017 and 2018 exceeded 50% of the amount received under its contract with SJIC.

The Company received a total of $39 million in capital contributions or waiver of MGA fees during the 2017-2019 time period. No dividends were paid to SJIC's shareholders during 2017, 2018 or 2019. Information regarding the fees paid to affiliates and policies in force is presented in the table below.

St. Johns Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	276,642,283	318,659,599	371,488,215
Claims Administration Fees	0	0	0
Commissions to Affiliates	75,213,888	89,446,092	103,916,702
MGA Fees	0	0	0
MGA Policy Fees	0	0	0
Other Affiliated Fees- IT Services	0	0	0
Other Affiliated Fees- Reinsurance	0	0	0
Total Affiliated Fees	75,213,888	89,446,092	103,916,702
Affiliated Fees % of Gross Premiums Written	27.19	28.07	27.97
MGA Fees Waived	0	0	0
Capital Contributions	7,000,000	8,000,000	24,000,00
Dividends	0	0	0
Policies In Force	180,387	197,755	216,306

III.12.2 Recommendations Regarding Affiliated Fees

During the time period of January 1, 2017 to December 31, 2019, SJIC reported net loss each year, with a total net loss of $37.4 million. The surplus of SJIC declined by approximately $4 million during that time period, however, the decline was mitigated by $39 million in capital contributions.

The 2019 SJFHC 2019 financial statement reported a negative shareholder's equity of approximately $4 million. The financial statements of the majority shareholder of SJFHC, St. James, were made available to the Office only for 2018. Under the executive management agreement between St. James and SJMGA, St. James is responsible for administrative and managerial oversight of the policy administration and claims agreements entered into by SJMGA with Seibels Processing Solutions and Seibels Claims Solutions. In addition, St. James is responsible for governmental and regulatory compliance, research and development of business for SJMGA, and other executive services. The fees paid to St. James for these services exceeded $40 million for 2018 and 2019.

Before reaching a conclusion regarding whether the fees for the current affiliated agreements are fair and reasonable, the Office should consider performing a target examination of SJIC's agreements with its affiliates, to include the reasonableness of the fees paid to St. James, and any subcontracts to other affiliates.

III.12.3 Other Recommendations

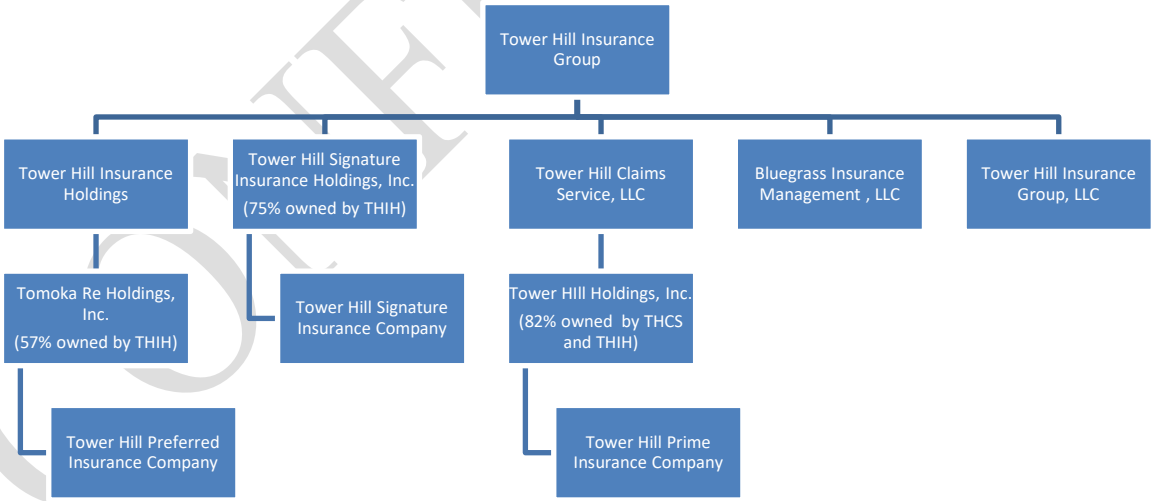
For purposes of this analysis the St. Johns Group has been analyzed separately from the Gulfstream Group. However, Schedule Y in the 2017 and 2019 Annual Statements list SBC as owning 18.02% of SJFHC and by statute, SBC is considered to be a shareholder with control of SJIC. SBC and Seibels Bruce Group's (omitted from the organization chart) primary shareholder together own 100% of the stock of GPCIC. Further, neither the Schedule Y filed on behalf of either SJIC or GPCIC lists additional SBC affiliates that are performing services on behalf of SJIC, and possibly on behalf of GPCIC. The Office should review SJIC and GPCIC as a group and require both insurers to file a common Schedule Y, Part 1 showing both insurers and affiliates, including ones that are currently omitted. See also the Schedule Y, Part 1 for Catawba Insurance Company in Section III.8.3 of this report.

III.13 Tower Hill Preferred Insurance Company

III.13.1 Summary

The Tower Hill companies consists of three Florida domestic insurers and 23 affiliates. This analysis is limited to the three insurers and affiliated entities that engage in material transactions with the three insurers, collectively the "Tower Hill Group". The "Tower Hill Group" consists of Tower Hill Preferred Insurance Company ("THPIC"), Tower Hill Prime Insurance Company ("THPrime"), Tower Hill Signature Insurance Company ("THSIC"), Tower Hill Holdings, Inc. ("THH"), Tower Hill Signature Insurance, Holdings, Inc. ("THSH"), Tomoka Re Holdings, Inc. ("TRH"), Tower Hill Claims Service ("THCS"), LLC, Bluegrass Insurance Management, LLC ("BIM") and Tower Hill Insurance Group, LLC ("THIG").

On July 31, 2020 the Office requested certain information from THPIC, THPrime, and THSIC regarding their affiliates. Each of the companies provided a separate response to the Office on August 27, 2020. THPIC is currently licensed only in Florida. THPrime is licensed in 22 states and is currently writing in 15 states. THSIC is licensed in six states and is currently writing in three states. THPIC, THPrime and THSIC all primarily write residential property policies. A simplified organization chart showing the Tower Hill Group is provided below.



A significant number of the entities shown above, and others shown in the full Schedule Y, Part 1 Organization Chart have multiple owners, both individuals and entities, in varying percentages. THPIC,

THPrime and THSIC utilize the other entities within the Tower Hill Group to provide services including the following:

- Claims processing and adjustment;
- Management services;
- Risk inspection;
- Marketing, underwriting, accounting and administrative services;

Each of the insurers makes monthly payments to the other members of the Tower Hill Group for the services listed above.

THPIC reported net losses in 2017, 2018 and 2019 for a total loss of $4.7 million. THPrime reported a $26.4 million net loss in 2017, however had net income of approximately $3 million over the entire 2017-2019 period. THSIC also reported a loss in 2017, but with net income of $5 million for the entire 2017-2019 period. Collectively the three insurers reported net income of $3.5 million during the 2017-2019 period. Conversely, the net income of the affiliates in the Tower Hill Group during the 2017-2019 period was in excess of $120 million. During the same time period THPrime and THSIC received capital contributions of approximately $62.2 million. More specific information regarding the fees paid to affiliates of the insurers is provided in the three charts below.

THPIC paid dividends to shareholders in 2018 and 2019 totaling approximately $1.9 million. THPIC also repaid a $1.4 million surplus note in 2018. During 2019 THPrime received an additional approval to repay $5 million of its outstanding surplus notes.

Tower Hill Preferred Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	104,237,707	99,965,815	107,489,934
Claims Administration Fees	4,658,533	4,576,956	3,333,520
Commissions to Affiliates	23,126,304	22,158,331	25,326,497
MGA Fees	1,356,341	1,314,050	1,505,950
MGA Policy Fees			
Other Affiliated Fees- Claims	0	1,039,105	1,697,326
Other Affiliated Fees- Inspections	97,794	182,980	163,571
Other Affiliated Fees- Management	2,118,006	2,010,372	1,985,682
Total Affiliated Fees	31,356,978	31,281,794	34,012,546
Affiliated Fees % of Gross Premiums Written	30.08	31.29	31.64
MGA Fees Waived	0	0	0
Capital Contributions	0	0	0
Dividends	0	539,268	1,400,000
Policies In Force	42,123	50,063	57,902

Tower Hill Prime Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	353,038,333	329,933,848	287,429,154
Claims Administration Fees*	4,778,681	11,964,528	9,594,085
Commissions to Affiliates*	60,200,136	54,209,766	57,573,525
MGA Fees	4,396,220	3,746,373	3.488,987
MGA Policy Fees			
Other Affiliated Fees- Claims	0	2,675,175	4,272,033
Other Affiliated Fees- Inspections	1,061,243	786,804	794,189
Other Affiliated Fees- Management	2,636,068	5,959,122	5,801,289
Total Affiliated Fees	73,072,348	79,341,768	81,524,108
Affiliated Fees % of Gross Premiums Written	20.70	24.05	28.36
MGA Fees Waived	0	0	0
Capital Contributions	35,000,000	0	0
Dividends	0	0	0
Policies In Force	149,056	138,582	120,813

Tower Hill Signature Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	138,884,110	135,421,411	156,185,782
Claims Administration Fees*	6,559,403	6,676,670	5,324,223
Commissions to Affiliates*	29,622,639	29,177,804	37,012,386
MGA Fees	2,064,650	2,027,268	2,334,722
MGA Policy Fees			
Other Affiliated Fees- Claims	0	1,629,451	2,856,975
Other Affiliated Fees- Inspections	286,453	370,741	389,924
Other Affiliated Fees- Management	2,665,671	2,686,436	3,254,568
Total Affiliated Fees	41,199,034	42,568,370	51,172,798
Affiliated Fees % of Gross Premiums Written	29.66	31.43	32.76
MGA Fees Waived	0	0	0
Capital Contributions	0	12,025,056	15,243,862
Dividends	0	0	0
Policies In Force	78,778	76,799	88,981

III.13.2 Recommendations Regarding Affiliated Fees

THPIC, THPrime and THSIC had a combined net income of $3.5 million during the 2017-2019 time period. The affiliates servicing THPIC, THPrime and THSIC had income which exceeds the greater of $2 million per year or 15% ($4,051,121) of the net income of THPIC, THPrime and THSIC for the same time period. BIM, THIG and THCS each had net income during the 2017-2019 time period which substantially exceeded the combined reported net incomes of the three insurers.

Based on the reported financial results of the three insurers and the six affiliates for 2017, 2018 and 2019 the fees paid to the affiliates are presumed not to be fair and reasonable. The Office should consider requiring revised agreements or new affiliated agreements to be filed with the Office, along

with documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

III.14 Tower Hill Prime Insurance Company

Tower Hill Prime Insurance Company is an affiliate of Tower Hill Preferred Insurance Company. See the review of Tower Hill Preferred Insurance Company for detailed information regarding Tower Hill Prime Insurance Company.

III.15 Tower Hill Signature Insurance Company

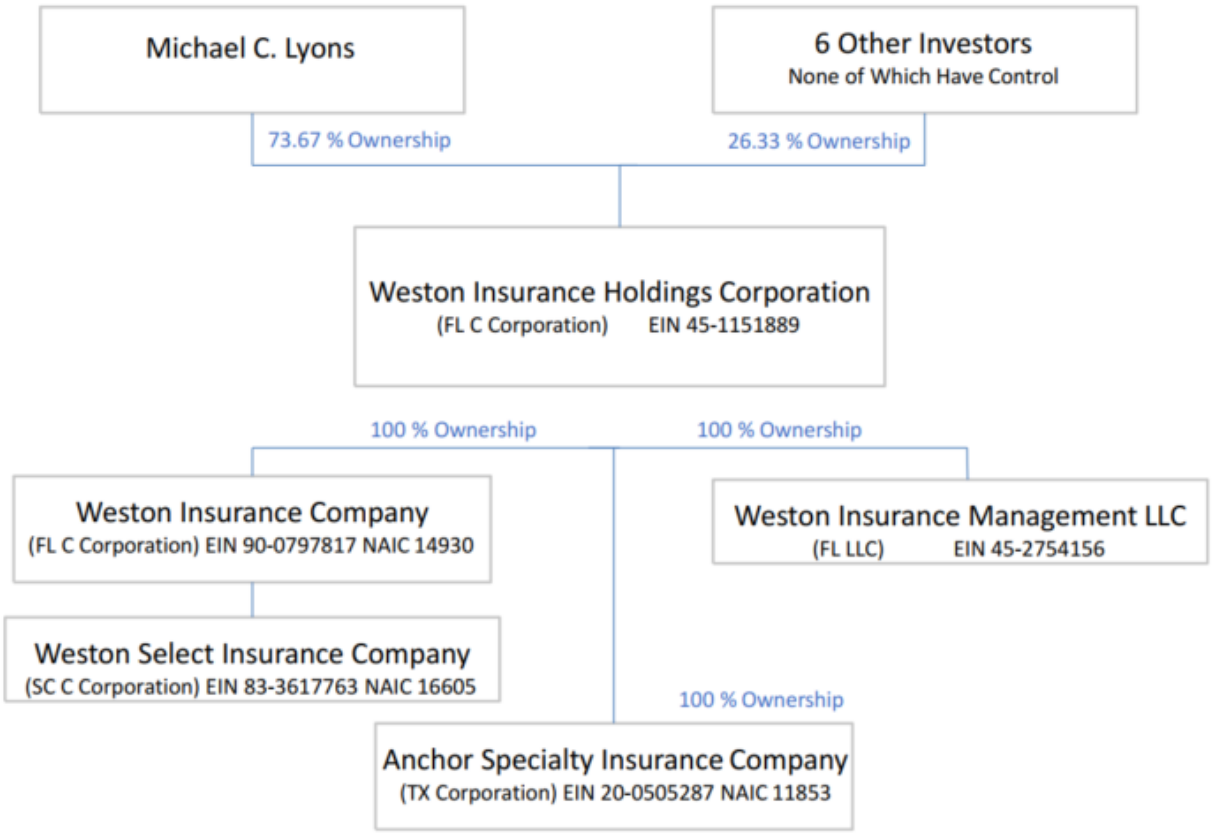
Tower Hill Signature Insurance Company is an affiliate of Tower Hill Preferred Insurance Company. See the review of Tower Hill Preferred Insurance Company for detailed information regarding Tower Hill Signature Insurance Company.

III.16 Weston Insurance Company

III.15.1 Summary

The "Weston Group" consists of Weston Insurance Company ("WIC"), Weston Select Insurance Company and Weston Specialty Insurance Company ("WSIC"), Weston Insurance Managers, LLC ("WIM"), and Weston Insurance Holdings Corporation ("WIHC"). WSIC was acquired by WIHC on December 31, 2019. Since WSIC (previously known as Anchor Specialty Insurance Company) was not part of the Weston Group during the 2017-2019 time period it has been excluded from this analysis.

On July 30, 2020 the Office requested certain information from WIC regarding its affiliates. WIC provided a response on August 28, 2020. WIC writes wind-only property policies which are reported under Allied Lines in its financial statements. As of December 31, 2019 WIC was licensed in five states, but was only writing business in Florida, Mississippi and Texas. WIC cedes between 92% and 95% of its business to non-affiliated reinsurers and receives substantial ceding commissions to cover its expenses. Weston Select Insurance Company was an inactive South Carolina domestic insurer, later merged into WIC. Revenue for the affiliates of WIC is exclusively derived from the functions necessary to carry out the operations of WIC. An organization chart as of December 31, 2019 showing WIC and its affiliates is provided below.



WIC reported a net income of approximately $66,000, $1.4 million in 2017 and 2019 respectively. WIC had a net loss in 2018 of approximately $1.3 million. WIC paid a dividend to WIHC of $342,000 in 2017 and another dividend of $2.7 million in 2019. The dividend in 2019 was utilized for the purchase of Anchor Specialty Insurance Company. No other dividends were paid to shareholders during 2017, 2018 or 2019.

WIC has an exclusive Managing General Agency Agreement with its affiliate WIM under which the Company pays a commission of 26.5% (increased by 2.25% in 2016) to the MGA for expenses incurred that are related to underwriting, acquisition, operations management, and for claims administration. In addition, WIM receives policy fees as shown in the table below.

Weston Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	88,034,446	86,550,165	80,179,755
Claims Administration Fees	0	0	0
Commissions to Affiliates	23,392,538	22,320,619	21,042,869
MGA Fees	0	0	0
MGA Policy Fees	891,505	1,139,943	1,191,065
Other Affiliated Fees- IT Services	0	0	0
Other Affiliated Fees- Reinsurance	0	0	0
Total Affiliated Fees	24,290,043	23,460,562	22,233,934
Affiliated Fees % of Gross Premiums Written	27.58	27.11	27.73
MGA Fees Waived	0	0	0
Capital Contributions	0	0	0
Dividends	342,000	0	2,700,000
Policies In Force	19,577	19,417	18,166

The Consolidated Financial Statements as of December 31, 2019 suggest that WIHC is illiquid as a stand-alone entity. The audited Consolidated Balance Sheets for the 2017, 2018 and 2019 show that WIHC never reported more than $63,000 in liquid assets, and that it's only other assets were deferred tax assets, income tax receivables and investments in subsidiaries. Similarly, WIM also appears to have been illiquid during the same time period, with the audited Consolidated Balance Sheets never showing more than $16,000 in liquid assets and a negative stockholders' equity. WIM reported net income of approximately $1 million and $2.4 million for 2017 and 2018 respectively. WIM had a loss of approximately $220,000 in 2019. The reported income for WIM is not reflective of the results of its operations in that it includes approximately $9.0 million in expenses during the time period that are software development costs being funded by WIC. Based on the information shown in the consolidated financial statements, WIM did not have the ability to front the costs of the software development and did not have the ability to repay the amount borrowed from WIC at any time during the 2017-2019 time period. WIC reported the $9.0 million as a receivable from WIM in its financial statements, which was in reality an investment in WIM. The reporting of the $9.0 million as a receivable in the financial statements of WIC resulted in the surplus of WIC being materially overstated.

III.16.2 Recommendations Regarding Affiliated Fees

In June 2020 Hudson Structured Capital Management, LP acquired control of WIC through an acquisition of shares of Weston Insurance Holdings Corporation. Since that time the new owners have taken steps to improve the financial position of WIC. The Company is currently working on an RBC Plan which should address affiliated fees and financial statement issues. The Office should consider the actions to be taken as a part of the RBC Plan as it reviews any new affiliated agreements or revisions to existing agreements.

AFFILIATED FEE ANALYSIS MEMORANDUM

****INFORMATION CONTAINED HEREIN IS CONSIDERED CONFIDENTIAL AND/OR TRADE SECRET PURSUANT TO SECTIONS 624.4212 AND 624.4213, FLORIDA STATUTES****

TO: Virginia Christy
Director, Property and Casualty Financial Oversight

FROM: Jan Moenck

DATE: March 31, 2022

SUBJECT: Affiliated Fee Analysis - Phase 2

I. Overview

While some insurers doing business in Florida perform most or all of the functions necessary to the operation of an insurance company utilizing their own employees, a significant number of insurers contract one or more of the those functions to affiliated entities or to a third party. The contracted functions may incude any of the following: accounting, actuarial, management of investments, information technology administration, policy issuance and administration, underwriting, reinsurance intermediary services, claims investigation and settlement. The National Association of Insurance Commissioners Statutory Statement of Accounting Principles No. 25 reads in part:

1. Related party transactions are subject to abuse because reporting entities may be induced to enter into transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its policyholders. As such, related party transactions require specialized accounting rules and increased regulatory scrutiny.

The purpose of this analysis was to undertake a comprehensive review of the fees paid in material related party transactions by a sample of insurers writing homeowners policies in the State of Florida. Administrative Rule 69O-143.047, Florida Administrative Code, sets certain standards regarding material transactions between an insurer and its affiliates and reads in part:

"(1) Material transactions by registered insurers with their affiliates shall be subject to the following standards:
(a) The terms shall be fair and reasonable;
(b) Charges or fees for services performed shall be reasonable;
(c) Expenses incurred and payment received shall be allocated to the insurer in conformity with customary insurance accounting practices consistently applied;

(d) The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the precise nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties;"

Administrative Rule 69O-143.047, Florida Administrative Code, also requires that all management agreements, service contracts, tax allocation agreements, cost-sharing arrangements and any material transactions which the Office determines may adversely affect the interests of the insurer's policyholders be submitted to the Office for review. Agreements with related parties are not required to utiliize any specific form or any standard method for determining compensation to a related party. Florida domestic insurers have used a variety of methods of determining compensation for affiliated and non-affiliated agreements including the following:

- Percentage of written premium;
- Percentage of earned premium;
- Precentage of written or earned based on losses incurred;
- Hourly rate of compensation based on specific tasks;
- Yearly or quarterly fee payment schedules;
- Scheduled bonus payments;
- Commissions;
- Commissions based on multiple criteria;
- Any combination of one or more of the methods listed above, and in some cases, a forgiveness of fees due under the terms of an agreement.

The list above is not exhaustive of all compensation arrangements. In considering whether the fees paid by an insurer are in fact "fair and reasonable" it would be logical to focus on the types of services provided to an insurer in order to compare the fees paid. However, in many cases an affiliate may provide multiple types of services with only a single contractual method to compute compensation. Insurers that contract with affiliates for services typically have an agreement directly with an affiliate. However, a number of affiliates further subcontract the services to other affiliates of the insurer adding further complexity to understanding whether the compensation for the services is "fair and reasonable". Further complicating an understanding of the reasonableness of fees paid to affiliates, is the practice of some affiliates of "forgiving" or "waiving" fees due from an insurer.

The NAIC provides some further guidance regarding the "fair and reasonable" standard in its Financial Analysis Handbook. That guidance is focused on the use of a market rate, or the allocation of the actual costs of the services provided as methodologies for determining whether fees paid by an insurer meet the "fair and reasonable" standard.

This memorandum summarizes the initial results for eighteen (18) insurers as part of the Office's analysis of the reasonableness of the fees paid by certain insurers writing homeowners policies in the State of Florida during calendar years 2017, 2018 and 2019. In order to form a basis for comparison, the following elements, common to all insurers in the sample were utilized:

- The amount of gross written premiums
- The total amount of fees paid to affiliates
- The percentage of fees paid to affiliates of gross written premiums
- The number of policies in force at the end of each calendar year
- The net income of the insurers
- The net income of affiliates
- Capital contributions
- Forgiveness or waiver of fees owed to affiliates
- Dividends

The analysis was performed at a high level utilizing financial statements and other related documents on file with or requested by the Office. Some of the insurers reviewed in this analysis had agreements in place with affiliates that provided for fees based on an allocation of actual costs. For purposes of this analysis and report, initial conclusions and recommendations regarding the fairness and reasonableness of fees paid to affiliates were based on the following thresholds:

- Fees for affiliated agreements paid by an insurer or insurers may be fair and reasonable on an individual basis, however, when considered with all other fees paid by an insurer or insurers to affiliates may not be fair and reasonable;
- Fees initially determined to be fair and reasonable by the Office based on the information provided by an insurer or insurers, over time may no longer be fair and reasonable based on additional or revised affiliated agreements, or changes in the market;
- The calculation of the net income of affiliated entities for analyzing whether affiliated fees are fair and reasonable should be determined excluding fees earned from non-affiliated entities;
- If the combined net income of the affiliated entities derived from the fees paid by the insurer or insurers is less than the greater of $2 million per year or 110% of the combined net income of the insurers, those fees are presumed to be fair and reasonable;
- If the combined net income of the affiliated entities derived from the fees paid by the insurers in the group is more than the greater of $2 million per year or 110% of the combined net income of the insurers, but less than 115% of the combined net income of the insurers, additional information is required in order to determine if the fees are fair and reasonable;

- If the combined net income of the affiliated entities derived from the fees paid by the insurers in the group is more than the greater of $2 million per year or 115% of the combined net income of the insurers, those fees are presumed not to be fair and reasonable;

A number of the documents utilized were filed with the Office by an insurer as a "Trade Secret". As such, information regarding any of the individual companies discussed in this report may not be released without approval of the Director.

II. Summary

The analysis presented in **Section III** of this report provides details regarding eighteen (18) Florida domestic insurers either individually or as a part of a group of insurers. The analysis considered a three year period (2017-2019) in order to avoid an unusual result based on the results of a single year. The documents available for the analysis differ by insurer, as well as the basis of presentation utilized by the insurers in preparing the various documents. In preparing this analysis, adjustments were made to eliminate the impact of agreements between affiliates that would provide misleading results. Importantly, no adjustment was made to convert GAAP financial information to a statutory basis. As such, the numbers presented in a company specific analysis below should be considered to be materially correct, but not exact.

The fair and reasonable thresholds detailed in **Section I** above were utilized to determine potential follow-up actions for the eighteen (18) insurers analyzed. Other actions may be appropriate if the thresholds were set differently.

The chart below provides a summary for the insurers reviewed in the sample. Those insurers reported a total of approximately $120 million in net losses over the 2017-2019 time period. The affiliates of those insurers recorded approximately $562 million in net income. Financial information for some affiliates that provided services to the insurers in the sample was not available at the time this analysis was conducted. As a result, the net income of the affiliates may be understated. In some cases, the net income of an affiliate included debt service expense for funds provided to an insurer.

Totals All Sample Insurance Company / Affiliates	Insurance Company Net Income				Affiliates Net Income			
	2017	2018	2019	Total	2017	2018	2019	Total
All Sample Companies	56,211,125	(64,901,737)	(111,779,757)	(120,470,369)				
All Sample Companies Affiliates					191,155,860	222,917,278	147,709,183	561,782,321
All Capital Contributions / Fee Forgiveness / Surplus Notes	84,904,268	82,759,282	111,400,929	279,064,479				
All Dividends	30,000,000	0	0	30,000,000				

The information available also shows that the affiliates made capital contributions, forgave or waived fees due under agreements with the insurers in the sample or provided cash by way of surplus notes in the amount of approximately $279 million. $30 million in dividends were paid by insurers during the 2017-2019 time period which reduced the capital of several insurers.

The financial results, including the need for capital contributions or the forgiveness of fees, differed significantly among insurers.

In formulating potential follow-up actions, the Office may also want to consider the following issues which were present in the financial statement of some insurers:

1. Three insurers in this sample demonstrated a practice to waive or forgive fees that were earned pursuant to the terms of an affiliate agreement. This may have been done to meet minimum surplus requirements, attain a higher Risk-Based Capital ratio, secure a solvency rating from a rating organization, or to avoid a potential regulatory action.
2. Six insurers received multiple capital contributions or issued surplus notes to affiliates to increase their surplus. This may have been done to meet minimum surplus requirements, attain a higher Risk-Based Capital ratio, secure a solvency rating from a rating organization, or to avoid a potential regulatory action.
3. In some cases where the fees shown in this summary were presumed to not be fair and reasonable, that presumption was based on the fees paid after debt service. In those cases, the disparity between the net income of the insurer and the net income of the affiliates would be greater than indicated in the analysis.
4. A number of agreements are 10 or more years old and as such may need to be updated or replaced.

Specifically, with respect to items 1 and 2 above, the Office may want to consider whether the provisions of Rule 69O-141.002(2)(q), Florida Administrative Code regarding criteria for determining unsound condition, or which render the continuance of business hazardous to the public or insureds, are applicable (…:has had to rely on frequent substantial capital contributions,…). If so, and an insurer's fees are presumed to not be fair and reasonable, the Office may be able to require revision to those affiliated agreements.

The chart below summarizes the potential follow-up actions for the insurers reviewed.

Report Reference	Company	Potential Follow-up Actions
III.1	American Coastal Insurance Company	Obtain Affiliate Net Income Data for Further Analysis
III.2	American Integrity Insurance Company	Revise Current Affiliated Agreements
III.3	American Platinum Property and Casualty Insurance Company	Revise Current Affiliated Agreements
III.4	American Traditions Insurance Company	Revise Current Affiliated Agreements
III.5	Centauri Specialty Insurance Company	Not Reviewed
III.6	Granada Insurance Company	Revise Current Affiliated Agreements
III.7	Heritage Property & Casualty Insurance Company	Revise Current Affiliated Agreements
III.8	Journey Insurance Company	Not Reviewed
III.9	People's Trust Insurance Company	Revise Current Affiliated Agreements
III.10	Safe Harbor Insurance Company	Revise Current Affiliated Agreements
III.11	Safeport Insurance Company	Review Current Business Model
III.12	Security First Insurance Company	Revise Current Affiliate Agreements
III.13	Southern Oak Insurance Company	Revise Current Affiliate Agreements
III.14	United Property and Casualty Insurance Company	Review Business Model, Enhanced Monitoring
III.15	Universal Insurance Company of North America	Review Business Model, Enhanced Monitoring
III.16	Universal Property & Casualty Insurance Company	Revise Current Affiliate Agreements

Report Reference	Company	Potential Follow-up Actions
III.17	US Coastal Insurance Company	Revise Current Affiliate Agreements
III.18	Vault Reciprocal Exchange	Review Business Model, Enhanced Monitoring

The recommendations in the table above are further detailed in the sections below.

III. Individual Company Information and Recommendations

III.1 American Coastal Insurance Company

III.1.1 Summary

The "American Coastal Group" includes American Coastal Insurance Company ("**ACIC**" or "the Company"), United Property & Casualty Insurance Company ("**UPCIC**"), Journey Insurance Company ("**JIC**") and a number of affiliates shown in **ACIC's** Schedule Y below. **ACIC** is a wholly owned subsidiary of AmCo Holding Company ("**AmCo**"), which was acquired by United Insurance Holdings Corp. ("**UIHC**") on April 3, 2017. The Company is affiliated with BlueLine Cayman Holdings, LLC., a wholly owned subsidiary of **AmCo**.

AmCo is a wholly owned subsidiary of **UIHC**, a publicly traded holding company. **JIC** and **UPCIC** are also Florida domestic insurers. **JIC** did not commence operations until February of 2019, accordingly data from that company is not presented in this report. The following entities are also affiliates of **ACIC**: United Insurance Management L.C. ("**UIM**"), Skyway Claims Services, LLC, Skyway Reinsurance Service, UPC Re, Interboro Insurance Company and Family Security Holdings LLC, Family Security Insurance Company.

AmRisc, LLC ("**AmRisc**"), a Managing General Underwriter, handles the underwriting, claims processing, premium collection and reinsurance review for **ACIC**.

Effective August 15, 2017, **UPCIC** became party to an Amended and Restated Managing Agency Agreement with **AmRisc**. This agreement is limited solely to business written through **AmRisc**.

UPCIC has a Managing General Agent ("MGA") agreement with **UIM**. The agreement was executed on December 9, 2016. Under the agreement, **UPCIC** grants **UIM** the authority for marketing, underwriting, billing, collection, claims administration, termination, reinstatement, policy issuance,

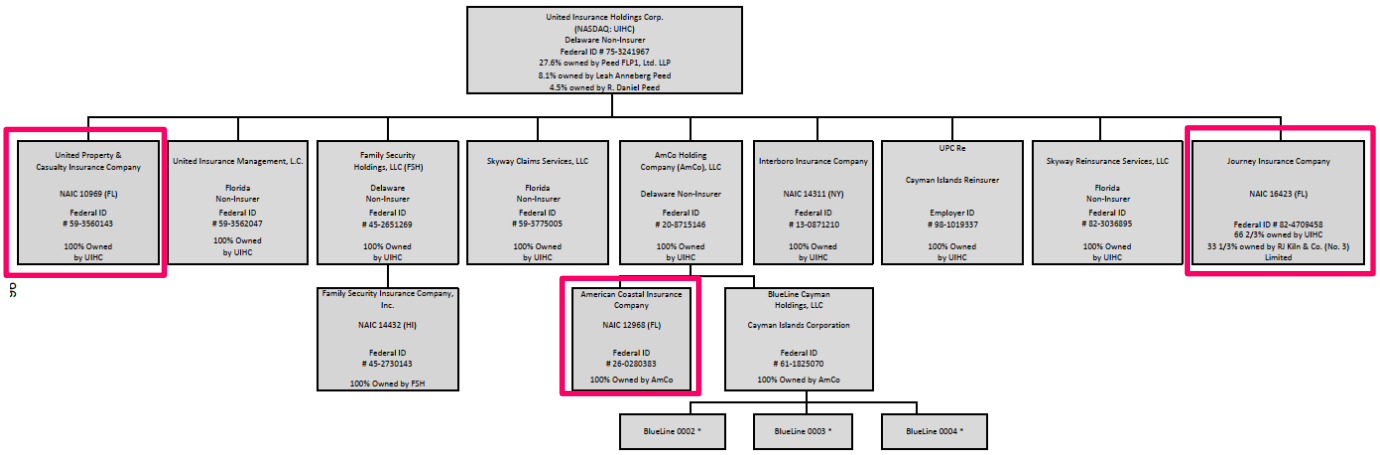
accounting, regulatory reporting, and reinsurance brokering. As part of providing these services, **UIM** subcontracts certain claims adjusting services for **UPCIC** and affiliate Journey Insurance Company with another affiliate, Skyway Claims Services, LLC.

A tax allocation agreement was executed between the Company's parent, United Insurance Holdings Corporation, and its affiliated companies. This agreement was amended on February 3, 2015 and September 19, 2018 to include additional affiliates. The Company, along with its parent, files a consolidated federal income tax return. Pursuant to the agreement, income taxes are allocated to each subsidiary in proportion to the amount of taxable income that each subsidiary contributed to the consolidated taxable return.

As of December 31, 2019 **ACIC** was authorized to write the following lines of business in the state of Florida: Fire, Allied Lines, Homeowners Multi-Peril, Commercial Multi-Peril, Inland Marine, and Other Liability. **ACIC** was not licensed in any other states.

As of December 31, 2019 **UPCIC** was licensed to write business in seventeen states, but was only writing business in Connecticut, Florida, Georgia, Louisiana, Massachusetts, New Jersey, New York, North Carolina, Rhode Island, South Carolina and Texas. **UPCIC's** focus is in writing Homeowners Multi-Peril business, but it was also licensed to write Fire, Allied Lines, Other Liability, Inland Marine, Burglary and Theft and Boiler and Machinery as of December 31, 2019.

A copy of the Schedule Y, Part 1 organization chart from the 2019 Annual Statement of **ACIC** showing **ACIC**, **JIC**, **UPCIC** and their affiliates is provided below.



ACIC paid extraordinary dividends to **UIHC** of $35,601,000, $50,000,000 and $13,578,898 in 2017, 2018 and 2019, respectively. **ACIC** did not receive any capital contributions or fee forgiveness and did not have any surplus notes outstanding during the period under review.

UPCIC received capital contributions of $25,000,000 in 2017, $12,000,000 in 2018, and $29,000,001 in 2019. **UPCIC** has an outstanding surplus note to the Florida State Board of Administration. Payments made on the surplus note were $1,472,297 in 2017, $1,475,245 in 2018, and $1,364,599 in 2019. **UPCIC** did not pay any dividends during the period under review.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

American Coastal Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	234,516,254	258,363,130	$302,302,199
Claims Administration Fees			$451,660
Commissions to Affiliates	$56,838,734	$71,894,480	$83,909,528
Other Affiliated Fees			$24,857,375
Total Affiliated Fees (1)	$56,838,734	$71,894,480	$109,218,563
Affiliated Fees % of Gross Premiums Written	24.24%	27.83%	36.13%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Dividends	$35,601,000	$50,000,000	$13,578,898
Policies In Force	Not Provided		

(1) In 2019 the amounts reported for management fees paid to affiliates in the footnote on page 11, the Notes to Financial Statements 10.b., and Schedule Y part 2 ranged from $451,660 to $109,218,563. The amount reported on Page 11 appeared to be most accurate and was used for this analysis.

During the period under review **ACIC** had a positive net income in 2017 and 2018, but a net loss in 2019 for a total net income over the three-year period of $21,152,146.

United Property and Casualty Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$694,796,900	$708,629,177	$739,911,882
Claims Administration Fees			
MGA Fees – Management Fees	$180,514,630	$186,184,109	$192,837,752
Other Affiliated Fees			
Total Affiliated Fees (1)	$180,514,630	$186,300,094	$192,837,752
Affiliated Fees % of Gross Premiums Written	25.98%	26.29%	16.43%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$25,000,000	$12,000,000	$29,000,001
Dividends	$0	$0	$0
Payments on Surplus Notes (Florida SBA)	$1,472,297	$1,475,245	$1,364,599
Policies In Force	Not Provided		

(1) In 2019 the amounts reported for management fees paid to affiliates in the footnote on page 11, the Notes to Financial Statements 10.b., and Schedule Y part 2 ranged from $121,547,201 to $192,837,752. The amount reported in Schedule Y part 2 appeared to be most accurate and was used for this analysis. Different amounts were

reported in 2017 and 2018 as well and the amount included in Schedule Y part 2 was what was used for the analysis.

UPCIC had a net loss all years under review for a total net loss of ($51,173,766).

III.1.2 Recommendations Regarding Affiliated Fees

1. During the period under review, **ACIC** and **UPCIC** reported a total net loss of $30 million. If the affiliates providing services to **ACIC** and **UPCIC** reported a combined net income for the years 2017, 2018 and 2019, the Office should consider reviewing existing agreements.
2. During 2019 for **ACIC** and in all years under review for **UPCIC** there were inconsistencies between the amounts reported as expenses paid to affiliates on the companies Underwriting and Investment Exhibit page 11, Notes to Financial Statements Note 10.B. and Schedule Y part 2. If the analyst finds material inconsistencies in the review of the 2021 Annual Statement, the analyst should ask the Company for an explanation for the inconsistencies.

III.2 American Integrity Insurance Company

III.2.1 Summary

Its 2019 Annual Statement, American Integrity Insurance Company ("**AIIC**" or "the Company") reported that it was a wholly owned subsidiary of American Integrity Insurance Group ("**AIIG**"), a privately held company incorporated in Texas. On December 31, 2019 AIIG was 59.25% owned by James Sowell, with Robert Ritchie owning 22.7% and various other investors owning the remaining 18.05%. In addition to **AIIC**, **AIIG** had the following subsidiaries:

- American Integrity MGA, LLC ("**AIMGA**")
- Pinnacle Analytics, LLC ("**PINA**")
- American Integrity Claims Services, LLC ("**AICS**")
- Pinnacle Insurance Consultants, LLC ("**PIC**")

Lines of business written by **AIIC** as of December 31, 2019 included Homeowners, General Liability, Dwelling Fire, Private Passenger Auto, and Auto Physical Damage. AIIC writes business exclusively in the State of Florida.

During November 2021 the Office requested certain information from **AIIC** regarding its affiliates. **AIIC** responded in December 2020.

The Company entered into a Management Agreement with its parent, **AIIG**, on June 23, 2006, to provide certain management services. The agreement continued in force for a term of five years and automatically renews for successive five-year periods, unless otherwise terminated within the guidelines of the agreement.

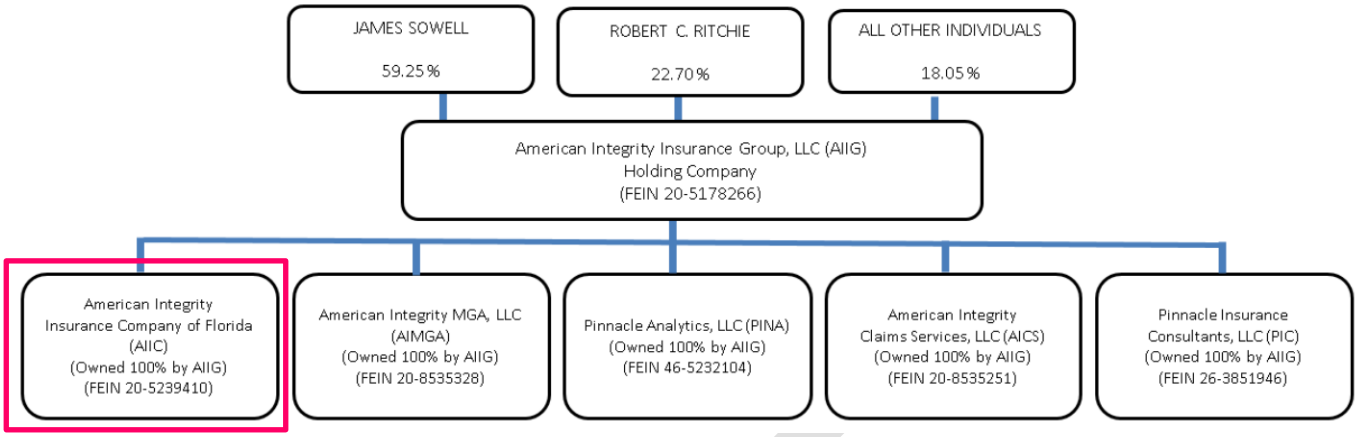
The Company entered into a Managing General Agency Agreement with its affiliate **AIMGA** on December 31, 2007. The agreement continued in force for a term of five years and automatically renews for successive five-year periods, unless otherwise terminated within the guidelines of the agreement. MGA fees are based on 24% of direct written premium (5% for the business from Citizens) and included a $25 policy fee. Claims administration services are also included in the agreement and associated fees are calculated according to a fee schedule based on the size of the claim. The Company stated that **AIMGA** contracts directly with the agency force. **AIMGA** also subcontracted the policy administration and claims services with West Point Underwriters. The Office should note that the Company identified the intercompany agreements and consolidating financial statements as "Trade Secret" documents.

The Company entered into an Agreement for Reinsurance Intermediary Services with affiliate **PINA** on January 1, 2014. It also is party to a co-broker agreement with **PINA** and Guy Carpenter effective January 1, 2014.

During 2019 **AIMGA** forgave $38.35 million in management fees, thereby reducing the amount owed by the Company. **AIIC** paid no dividends and received no capital contributions during the period under review.

As of December 31, 2019, **AIIC** had surplus notes outstanding both with the Florida State Board of Administration and with **AIIG**.

An organizational chart of the American Integrity Insurance Group, LLC as depicted in **AIIC's** December 31, 2019 Annual Statement is listed below:



Information regarding the fees paid to affiliates and policies in force is presented in the table below.

American Integrity Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$292,351,744	$316,880,059	$341,514,383
Management Fees Paid to Affiliates	$54,983,951	$42,380,189	$41,650,876
Management Fee Paid to Parent	$5,706,996	$6,190,016	$6,677,300
Claims Administration Fees	$22,216,971	$17,312,063	$26,156,000
Other Affiliated Fees			
Total Affiliated Fees	$82,907,918	$65,882,268	$74,484,176
Affiliated Fees % of Gross Premiums Written	28.36%	20.79%	21.81%
MGA Fees Waived	$0	$0	$38,350,000
Capital Contributions	$0	$0	$0
Dividends	$0	$0	$0
Surplus Note Payments to Parent	$0	$0	$0
Policies In Force	Not Provided		

AIIC reported net income in all years under review, $2.6 million in 2017, $1.2 million in 2018, and $3.5 million in 2019, for a total net income over the three-year period of $7.2 million. During the same time period the **AIIC** affiliates providing services to **AIIC** reported a combined net income of $17.4 million. The Office should note that the Consolidating Financial Statements, which were the source of information for the affiliate income, have been identified as "Trade Secret" documents by the Company.

III.2.2 Recommendations Regarding Affiliated Fees

1. **AIIC** reported a net income in all years under review, its total net income for the period was $7,227,003. However, the Company would have reported a material net loss for 2019 except for the fee forgiveness by the **AIMGA** in the amount of $38.3 million. The net income of the affiliates of $17.4 million over the three-year period, as reported in "Trade Secret" documents, exceeded $2 million and 115% of the combined net income of **AIIC**. This level of fees is

presumed not to be fair and reasonable. The Office should consider requiring **AIIC** to refile revised affiliated agreements or replace its affiliated agreements and provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

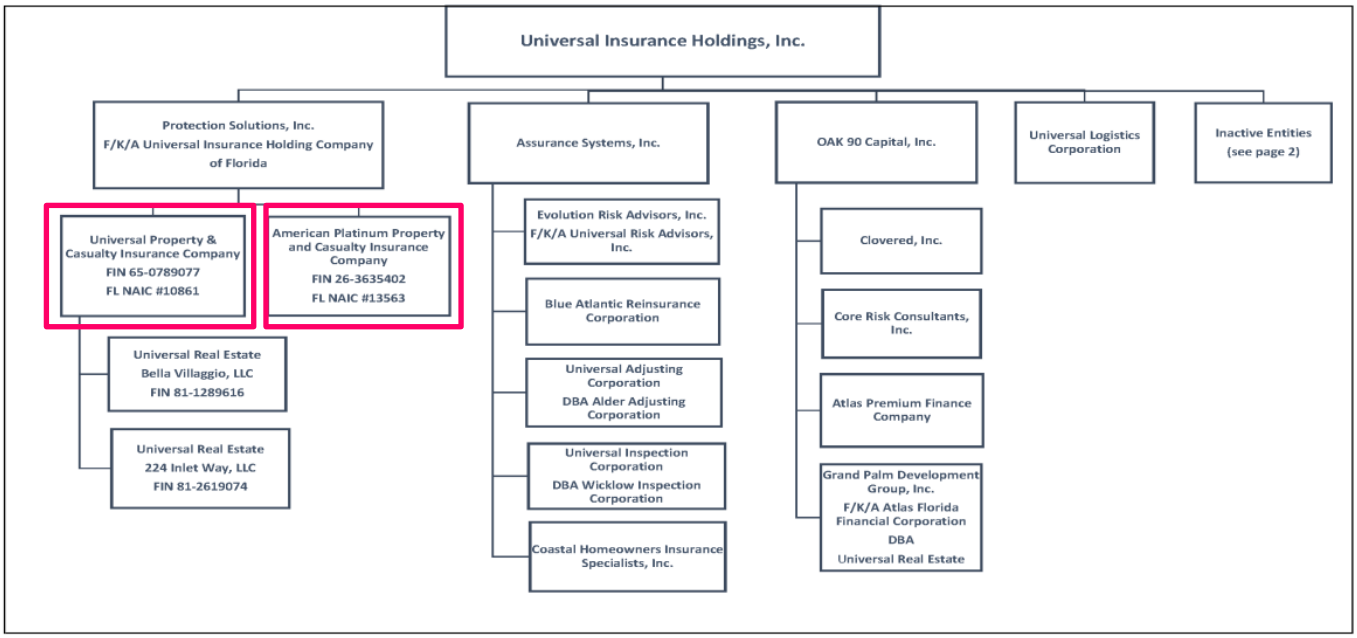
2. For all years under review **AIIC's** Underwriting and Investment Exhibit, Page 11 indicates $0 for management fees paid to affiliates; however, management fees were paid to affiliates each year under review. If the Company's 2021 Annual Statement shows $0 paid for management fees to affiliates the Analyst should bring it to the attention of the Company.

III.3 American Platinum Property and Casualty Insurance Company

III.3.1 Summary

The "American Platinum Group" consists of American Platinum Property and Casualty Insurance Company ("**APPCIC**"), Universal Property & Casualty Insurance Company ("**UPCIC**"), Evolution risk Advisors, Inc. ("**ERA**"), Universal Adjusting Corporation ("**UAC**"), Universal Inspection Corporation ("**UIC**"), Blue Atlantic Reinsurance Corporation ("**BARC**"). **APPCIC** is a Florida domestic insurer currently licensed only in Florida and does not write business in any other state. **UPCIC** is also a Florida domestic insurer licensed in twenty states and is currently writing in eighteen of those states. Both companies primarily write homeowners policies.

On July 30, 2020 the Office requested certain information from **APPCIC** and **UPCIC** regarding their affiliates. The response to the Office on August 28, 2020 did not identify any other sources of revenue for **APPCIC** and **UPCIC** other than **APPCIC** and **UPCIC**. Based on that response, revenue for the affiliates is exclusively, derived from the functions necessary to carry out the operations of **APPCIC** and **UPCIC**. A copy of the Schedule Y, Part 1 organization chart from the 2019 Annual Statement of **APPCIC** showing **APPCIC** and **UPCIC** and their affiliates is provided below.



The policy processing and managing general agency functions of **APPCIC** and **UPCIC** are performed by **ERA** pursuant to Managing General Agency Agreements and Policy Administration Agreements. Claims processing and adjusting functions are performed by **UAC** under a Claims Services Agreements (2014, 2017 and 2019). Property risks are inspected by **UIC** under separate Inspection Agreements. **APPCIC** and **UPCIC's** reinsurance intermediary is **BARC**, which receives commissions on reinsurance contracts placed for the **APPCIC** and **UPCIC**.

Information regarding the fees paid to affiliates and policies in force is presented in the tables below.

American Platinum Property and Casualty Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$6,409,212	$6,403,877	$7,494,185
Claims Administration Fees	$206,843	$310,461	$74,130
MGA Commissions	$250,212	$269,572	$247,634
Other Affiliated Fees- Commissions	$1,292	$8,716	$0
Other Affiliated Fees- Data Processing	$13,986	$16,365	$0
Other Affiliated Fees- Inspections	$4,988	$4,916	$10,212
Other Affiliated Fees- Policy Administration	$344,041	$370,661	$340,437
Total Affiliated Fees (1)	$821,362	$980,691	$672,413
Affiliated Fees % of Gross Premiums Written	12.82%	15.31%	8.97%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Dividends	$0	$0	$0
Surplus Note Payments to Parent	$0	$0	$0
Policies In Force	Not Provided		

(1) Amounts for 2019 fees listed above were sourced from the Company's 2019 Annual Statement Underwriting and Investment Exhibit, page 11 and Notes to Financial Statements 10.F. The 2019 Schedule Y part 2 lists a total of $0 transactions with affiliates. We believe that the Company mis-reported transactions with affiliates for 2019 and believe the total expenditures should be aligned with those of previous years since there was no change in the structure of intercompany agreements.

Universal Property & Casualty Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$1,049,476,901	$1,184,471,431	$1,285,226,857
Claims Administration Fees	$116,154,989	$124,973,291	$81,898,428
MGA Commissions	$39,717,721	$44,596,022	$49,077,212
Other Affiliated Fees- Inspection Fees	$6,850,917	$7,463,701	$6,840,462
Other Affiliated Fees- Policy Administration	$44,982,437	$50,470,525	$55,511,863
Other Affiliated Fees- Not Specified		$20,263,755	$21,546,622
Total Affiliated Fees	$207,706,064	247,767,294	$208,034,125
Affiliated Fees % of Gross Premiums Written	19.79%	20.92%	16.19%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$30,000,000
Dividends	$30,000,000	$0	$0
Policies In Force	Not Provided		

APPCIC reported net losses in 2017 and 2018, with a net income of approximately $252,000 in 2019. **UPCIC** reported a total net income of approximately $40 million for 2017 and 2018 and a net loss of approximately $50 million in 2019. In total **APPCIC** and **UPCIC** reported a net loss of $11.1 million during the three-year period. **ERA** reported a total net income of $166 million over the same three-year period.

The information available also shows that during 2017, 2018 and 2019 the **APPCIC** and **UPCIC** affiliates made a capital contribution of $30 million, while **UPCIC** paid one dividend of $30 million. Neither of the two companies has issued surplus notes during the three-year period, however **UPCIC** has an outstanding surplus note to the Florida State Board of Administration.

III.3.2 Recommendations Regarding Affiliated Fees

1. There is a significant disparity in the financial results of the insurers in the group and their affiliates. The net income earned by **ERA** was approximately $166 million or approximately $177.1 million more the combined net income of **APPCIC** and **UPCIC** for the same time period. The fees paid to affiliates are presumed not to be fair and reasonable since the combined net income of the affiliated entities is more than the greater of $2 million per year or 115% of the combined net income of **APPCIC** and **UPCIC**. The Office should consider requiring **APPCIC** and **UPCIC** to refile revised

affiliated agreements or replace its affiliated agreements and in either case, provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

2. The fees paid to affiliates in both Note 10 to the Notes to the Financial Statements of **UPCIC** and in Schedule Y, Part of the 2019 Annual Statement of **UPCIC** are materially different than the amount reported in the 2019 audited financial statements of **ERA**. The Office may consider further analysis regarding the data reported in the **UPCIC** financial statements.

III.4 American Traditions Insurance Company

III.4.1 Summary

Based on the information reported in American Traditions Insurance Company's ("**ATIC**" or "The Company") 2019 Annual Statement, **ATIC** is wholly owned by Jerger Insurance Holding Company ("**Jerger**"), a Florida Corporation. Jerger is owned by a group of investors, with the largest investor, West Point Underwriters, LLC ("**West Point**"), owning 22.044%.

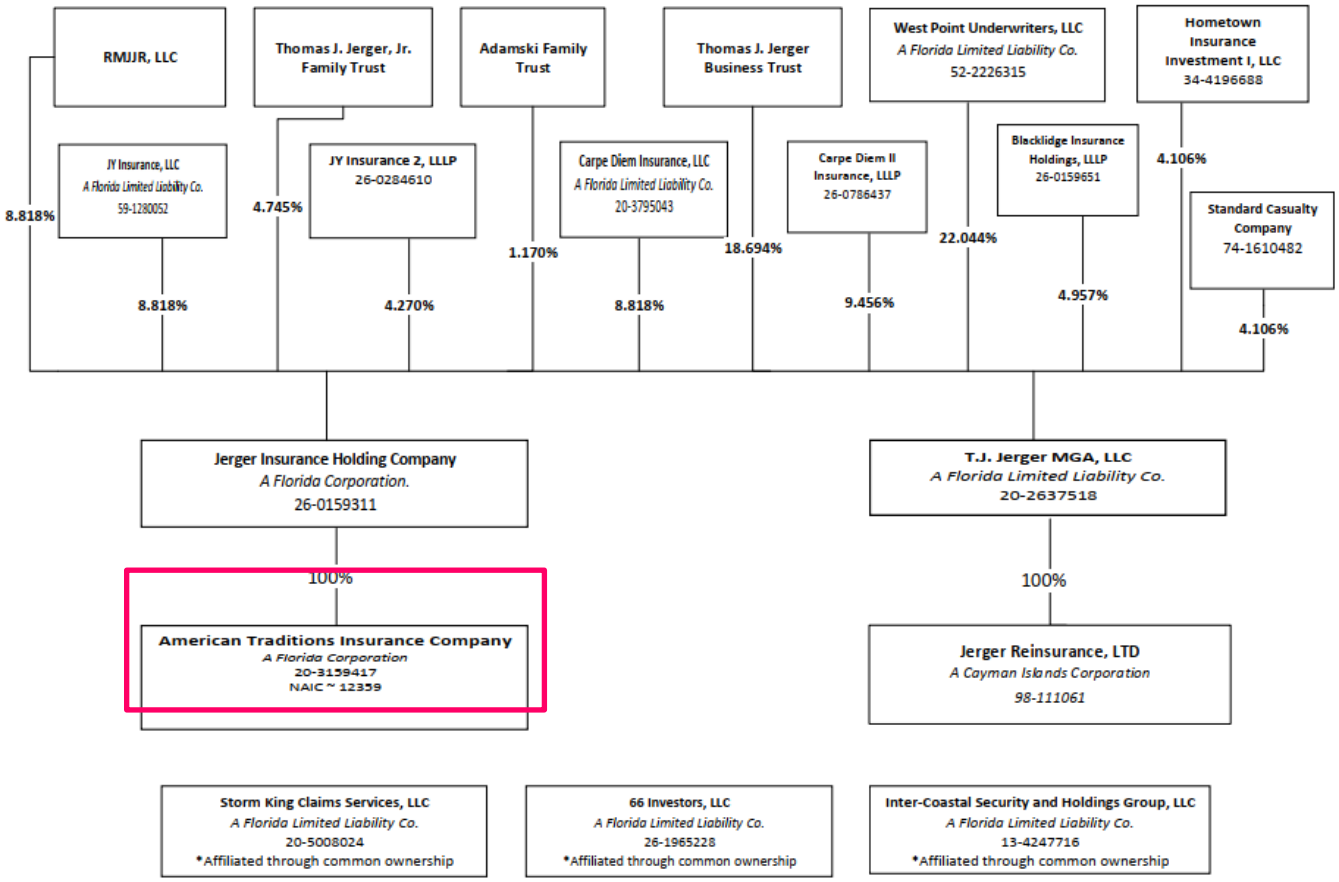
Other investors or companies in the group that appear to be in the business of insurance include Standard Casualty Company, a Texas Domiciled Mobile Home Insurer (4.106% ownership of Jerger); TJ Jerger MGA, LLC, a Florida limited liability company (sister company to Jerger); and Jerger Reinsurance LTD, a Cayman Islands Corporation that is wholly owned by TJ Jerger MGA, LLC. Other Florida limited liability companies affiliated through common ownership include Storm King Claims Services ("**Storm King**"), 66 Investors LLC, Inter-Coastal Security and Holdings Group, LLC and West Point Underwriters, LLC. See the organizational chart in the section below for a full listing of affiliated companies.

During the period under review **ATIC** was only licensed and writing business in Florida and wrote the following types of business: Allied Lines, Homeowners Multi-Peril, Mobile Home Multi-Peril, Other Liability, Fire, Inland Marine and Mobile Home Physical Damage.

During November 2021 the Office requested certain information from **ATIC** regarding its affiliates and **ATIC** responded to this request in November 2021. **ATIC** had previously responded on January 2, 2020 with information which included a statement; "On behalf of West Point Underwriters, LLC, Inter-Coastal Security and Holdings Group LLC, and Storm King Claims Services, LLC we respectfully decline to provide the 2018 year-end and 2019 3rd quarter financial statements for these entities." But with their November 2021 response they provided 2018 and 2019 statements for Storm King Claims

Services and Inter-Coastal Security and Holdings Group, LLC as well as financial statements for 66 Investors, LLC and Jerger Insurance Holdings.

A copy of the organization chart from the **ATIC** 2019 Annual Statement showing **ATIC** and affiliates is provided below.



The Company entered into a Managing General Agent agreement with T.J. Jerger MGA, LLC ("**TJMGA**"), effective September 1, 2005, to administer 100% of the policies written by the Company, with the exception of the Company's flood policies which are written through the National Flood Insurance Program, and provide services for managing and administering the affairs of the Company. Services included, but were not limited to, policy issuance, underwriting, premium billing and collection, and the adjustment and payment of claims. Contract terms included a commission rate of 20% of net written premium and a $25 per policy MGA fee. Effective April 1, 2013, the commission rate changed to be in a range from 20% to 25%, depending on the Company's net income. Effective May 27, 2015, the agreement was amended to include general provisions related to the processing of funds between the Company, **TJMGA**, insureds and claimants, claim payments, and written communication between the Company, **TJMGA** and the Company's policyholders. Effective September 1, 2005, **TJMGA** outsourced the policy issuance, underwriting, premium billing and collection serving to the affiliated

Third Party Administrator West Point Underwriters, LLC, through a Policy Administration Agreement. Effective January 1, 2006, **TJMGA** outsourced the claims servicing on behalf of the Company through a Claims Administration Services Agreement to an affiliate, Storm King Claims Service ("**SKC**"). Under the terms of this agreement, **TJMGA** pays an administrative fee of $330 per claim and an hourly rate of $60 to **SKC** for claims not outsourced to third party independent adjusters. Any third-party costs such as independent adjusters, engineers, investigators and all legal expenses are paid for by the Company. Effective January 1, 2019, **TJMGA** pays a $660 fee to **SKC** for claims meeting the following criteria: (a) where the insured is represented by an attorney or public adjuster, or (b) where there is litigation, or (c) is a third-party liability claim.

During the period under review the Company was party to a cost allocation agreement with affiliate Modern USA Insurance Company ("**MUSA**") in which all general and administrative expenses not separately identified are allocated between the companies. On May 13, 2018 the Company merged with **MUSA** with the Company being the surviving Company.

The Company is party to a commercial lease agreement with 66 Investors, LLC. **West Point** shares office space with the Company and is charged a proportionate share of rent and building related expenses. The Company also participates in a facility agreement with several related parties. Under the terms of the agreement all occupancy expenses not separately identified are allocated between the participating entities.

The Company is also party to a Tax Allocation Agreement with its immediate parent.

The Office should note that the Company identified the intercompany agreements as "Trade Secret" Documents. The information above was sourced from the Company's Financial Examination Report as of December 31, 2018 and from the Company's Annual Statement.

The Company had forgiven commissions from **TJMGA** resulting in a reduction of expense of $3,295,330 in 2017, $2,451,782 in 2018, and $7,590,338 in 2019. The Company recorded a $4 million receivable representing a portion of the commissions for 2019 forgiven by **TJMGA** and unreimbursed at year-end.

Information regarding fees paid to affiliates and policies in force is presented in the table below.

American Traditions Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$57,719,211	$110,817,020	$129,056,829
Commissions to Affiliates	$14,228,500	$19,814,750	$11,486,678
MGA Policy Fees	$3,079,775	$3,007,575	$3,328,025
Other Affiliated Fees			
Total Affiliated Fees	$17,308,275	$22,822,325	$14,814,703
Affiliated Fees % of Gross Premiums Written	30.0%	20.6%	11.5%
MGA Fees Waived	$3,295,330	$2,451,782	$7,590,338
Capital Contributions	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

ATIC had modest net income of $355,099 in 2017 and $597,853 in 2019, but a large net loss of $(4,832,778) in 2018, for a net loss of $(3,879,826) for the three-year period. Commissions of $3,295,330, $2,451,782, and $7,590,338 due to **TJMGA** were waived in 2017, 2018 and 2019, respectively. In addition to the net loss in 2018, **ATIC** would have reported material net losses in 2017 and 2019 if not for the waiver of commissions by **TJMGA**.

ATIC has an outstanding surplus note to the Florida State Board of Administration that had been issued to **MUSA** prior to the merger with the Company. The Company paid no dividends during the years under review.

Financial statements were not provided for **TJMGA** and **West Point** so an accurate analysis of the reasonableness of the fees paid to affiliates of **ATIC** is not possible at this time.

III.4.2 Recommendations Regarding Affiliated Fees

Over the three-year period under review **ATIC** sustained a total net loss of $(3,879,826) which would have been significantly worse if not for the forgiveness of more than $13 million owed in commissions to **TJMGA**. To date, the Company has declined to provide financial statements for **TJMGA** and **West Point**. As a result, the Office is unable to reach a conclusion regarding the reasonableness of the fees paid to affiliates. The Office should consider requiring **ATIC** to refile revised affiliated agreements or replace its affiliated agreements and in either case, provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

III.5 Centauri Specialty Insurance Company

In 2021, Centauri Specialty Insurance Company ("**Centauri**") was acquired by Omaha, Nebraska based Applied Underwriters ("**Applied Underwriters**"). **Applied Underwriters** owns twelve (12) insurance companies, including Florida domiciled **Centauri** and Florida Casualty Insurance Company, and is 100% owned by Steven M. Menzies. Given the change in control and organizational structure in 2021, the company was not reviewed.

III.5 Granada Insurance Company

III.5.1 Summary

Granada Insurance Company ("**Granada**" or "the Company") is a wholly owned subsidiary of Hattbert Holdings Inc. ("**Hattbert**"), a Florida Corporation. During the period under review **Hattbert** was owned by a group of investors, mostly from the Diaz-Padron family; however, it was recently sold to a group of investors in the Ambrose Investment Group, LLC. Pre and post-sale organizational charts have been included in the section below. **Granada** has two affiliates, G.I.C. Underwriters ("**GIC**"), a managing general agency contracted by **Granada** to market, underwrite and adjust claims, and Granada Premium Finance ("**GPC**"). When it was owned by the Diaz-Padron family there was also an office rental lease with a related party Immobiliare Group ("**Immobiliare**").

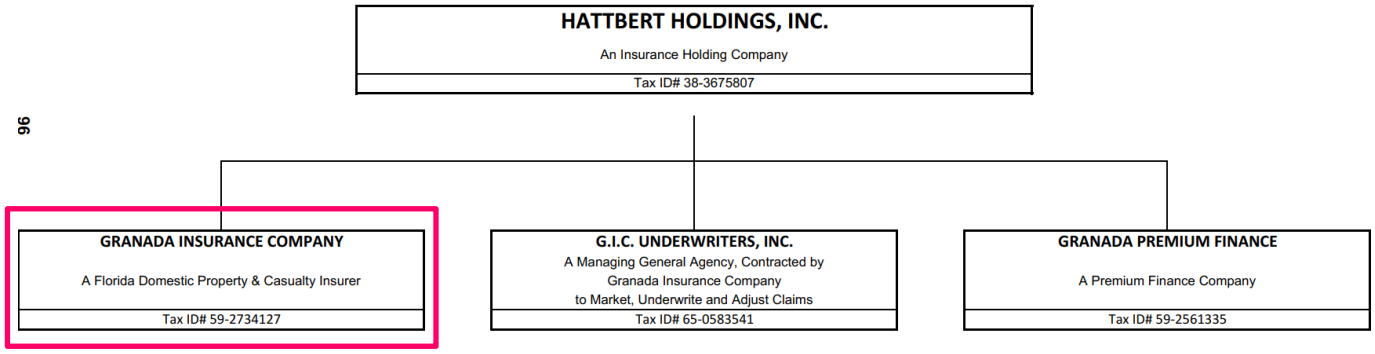
In November 2021 the Office requested certain information from **Granada** regarding its affiliates. Requested information was provided to the Office in November 2021.

During the period under review **Granada** was authorized to write business in Georgia and Florida, but only wrote business in Florida. **Granada** was authorized to write the following lines of business: Fire, Allied Lines, Commercial Multi-Peril, Inland Marine, Private Passenger Auto Physical Damage, Other Liability, Commercial Auto Liability, Commercial Auto Physical Damage, and Glass.

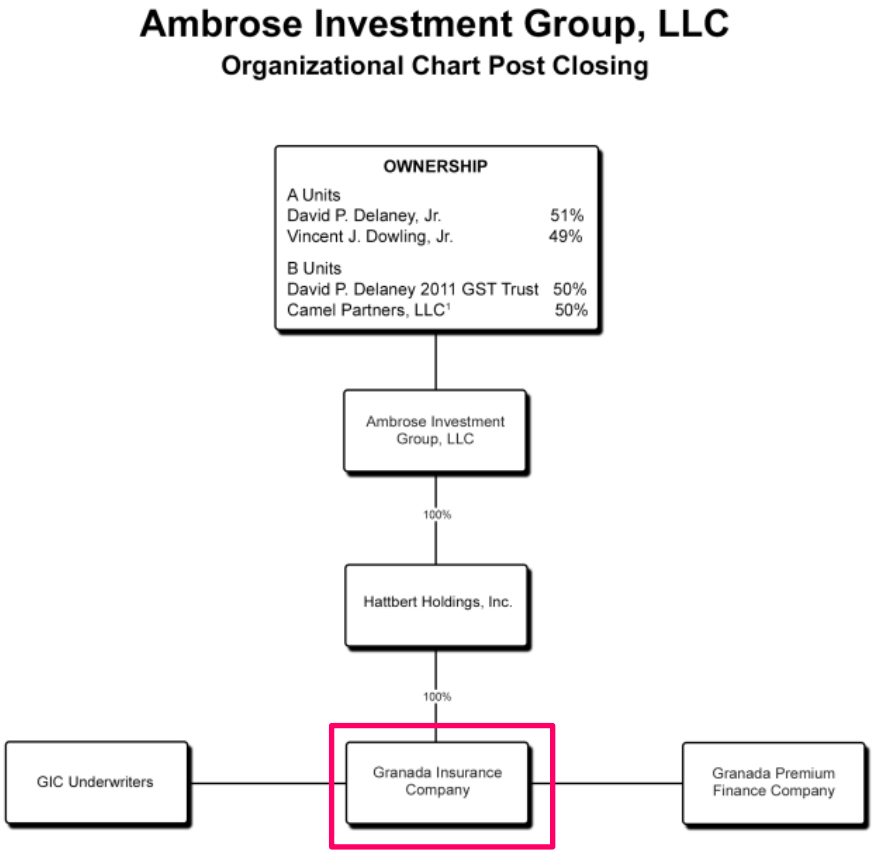
Granada entered into the MGA agreement with its affiliate, GIC on September 10, 2003 and it was amended on April 28, 2016. The MGA Agreement continues in force unless otherwise terminated within the guidelines of the MGA Agreement. MGA fees are based on 22.5% of direct written premium and include a $25 policy fee.

Granada entered into an Amended and Restated Expense Allocation Agreement with **Hattbert**, **GIC**, and **GPC** on January 1, 2012. The agreement allocates costs based upon the scope of work and responsibilities performed for the benefit of the affiliated company.

A copy of the organization chart from the **Granada** 2019 Annual Statement showing **Granada** and its affiliates is provided below.



The organizational chart below depicts the current structure after the recent acquisition by Ambrose Investment Group subsequent to 2019.



Granada received a $2,900,000 capital contribution in 2017, it did not issue any surplus notes during the period under review. No shareholder dividends were paid by **Granada** in 2017, 2018 or 2019. Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Granada Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$68,176,410	$84,445,930	$89,545,701
Commissions to Affiliates	$15,340,169	$19,000,334	$20,147,783
Other Affiliated Fees			
Total Affiliated Fees	$15,340,169	$19,000,334	$20,147,783
Affiliated Fees % of Gross Premiums Written	22.50%	22.50%	22.50%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$2,900,000	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

Granada had a net income totaling $6,189,374 over the three-year period under review. During that same timeframe, the net income of its affiliates was $14.6 million. The Office should note that the affiliate financial statements were marked "Trade Secret".

III.5.2 Recommendations Regarding Affiliated Fees

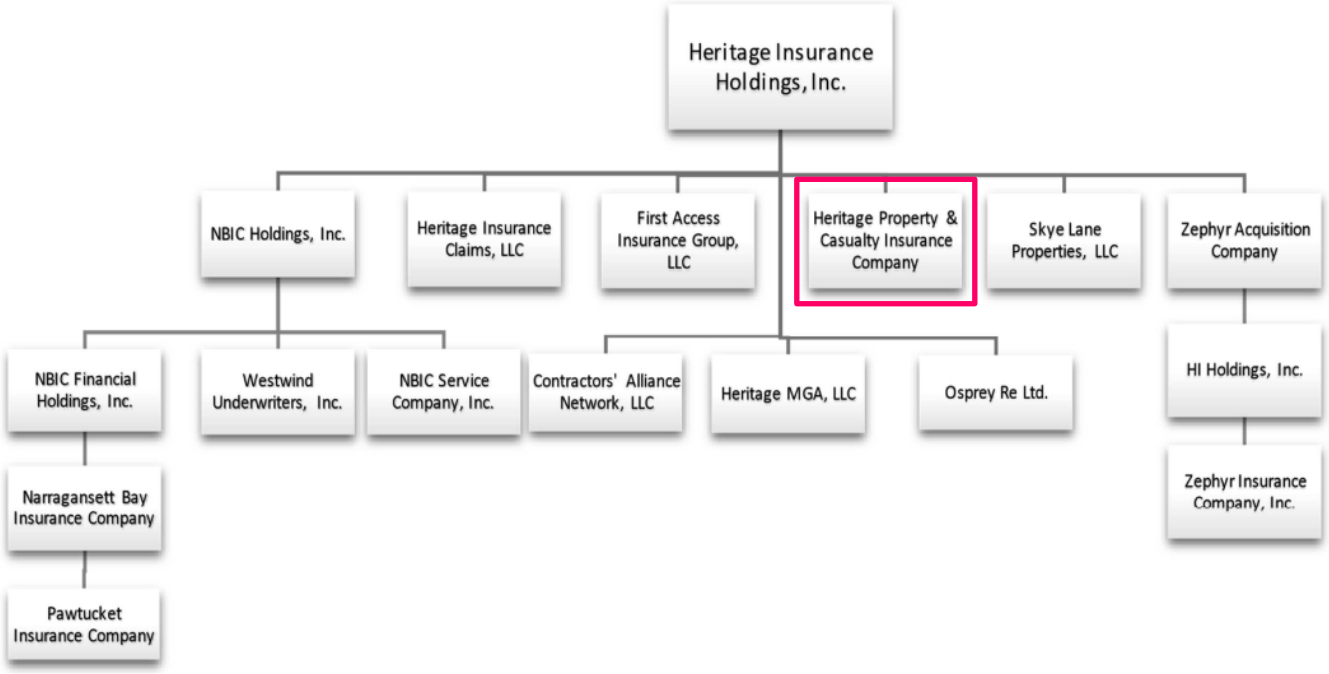
1. The net income of the affiliates exceeded the greater of $2 million per year or 115% of the combined net income of **Granada**. Accordingly, the fees paid to the affiliates of **Granada** are not presumed to be fair and reasonable for purposes of this report.
2. Commission payments to affiliates listed in the table above were found in Schedule Y, Part 2 of the Company's Annual Statements. The Holding Company Registration Statements and other documents filed with the Office indicated different amounts of commission payments. The analyst should inquire with the company as to the reason for the differences.
3. The Company entered into an agreement with an unaffiliated third party for the sale and lease-back of software. The Office should consider an in-depth review of the terms of that agreement.

III.6 Heritage Property & Casualty Insurance Company

III.6.1 Summary

Heritage Property & Casualty Insurance Company's ("**HPCIC**" or "the Company") 2019 Annual Statement states that **HPCIC** is a wholly owned subsidiary of Heritage Insurance Holdings, Inc. ("**HIH**"), a Delaware corporation. **HPCIC** is affiliated with Heritage MGA, LLC ("**HMGA**"), Contractors Alliance Network, LLC ("**CAN**"), First Access Insurance Group, LLC ("**FAIG**"), Skye Lane Properties, LLC ("**SLP**"), Osprey Re LTD ("**Osprey**"), Zephyr Acquisition Company ("**ZAC**"), and NBIC Holdings, Inc. ("**NBIC**"). These affiliates are also wholly owned subsidiaries of **HIH**. **NBIC**, **ZAC** and Hi Holdings,

Inc. also have subsidiaries. The organizational chart from the 2019 Annual Statement of **HPCIC** is included below for reference.



In November 2021 the Office requested certain information from **HPCIC** regarding its affiliates. The requested information was provided to the Office in November 2021.

The Company has an exclusive MGA Agreement with **HMGA**, which serves as a MGA and provides underwriting, policy administration, claims administration services and executive management services. The Company has an agreement with **CAN** which manages the Company's contracted claims vendor network. **HIH** owns a commercial building complex, a portion of which is used for its Home Office facilities under the terms of a lease that runs through February 28, 2024, with the remaining space leased to non-affiliates.

HPCIC is party to a Cost Allocation Agreement with various affiliates. The agreement defines allocable expenses and the allocation methods used to assign the expense among the agreement's participants.

HPCIC entered into a Vendor Services Agreement with its affiliate **CAN** on August 8, 2013. **CAN** exclusively manages the Company's network of approved claim 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.

The Company entered into its exclusive MGA Agreement with its affiliate, **HMGA**, January 1, 2019. The MGA provides underwriting, policy administration, claims administration services, and executive management services under the terms of the agreement.

The Company is party to a Lease Agreement effective February 28, 2014 with **SLP**, **HIH's** commercial property manager subsidiary, to occupy space of a building in Clearwater, Florida.

HPCIC is party to a Reinsurance Contract with its captive reinsurance affiliate, **Osprey**.

On December 13, 2018 the Company loaned $19.2 million to its parent company, **HIH**, with a 5% interest rate. The source of the funds loaned to **HIH** appears to be a loan from the Federal Home Loan Bank ("FHLB"). As of December 31, 2019, $21.8 million of collateral was pledged for the loan from FHLB. The loan agreement was approved by the Office with Consent Order No. 2337737-18-CO. Interest is due quarterly, and the principal amount can be repaid at any time.

At year-end 2019 the Company was licensed to write business in Alabama, Florida, Georgia, Mississippi, North Carolina and South Carolina. The Company wrote 91.5% of its business in Florida. It was authorized to write Fire, Allied Lines, Homeowners Multi-peril, Commercial Multi-peril, Other Liability and Mobile Home Multi-peril in Florida.

HPCIC made payments on its surplus note to its parent of $1,360,000 each year under review. **HPCIC** received capital contributions of $2,407,500 in 2017, $37,407,500 in 2018 and $1,265,062 in 2019. **ZAC** redeemed approximately $3.87 million in preferred stock from the Company during each of the three years under review. The Company also received a total of $8.4 million in preferred stock dividends from **ZAC** during that time period. It paid no dividends to its parent in the years under review.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Heritage Property and Casualty Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$550,777,855	$537,163,364	$535,439,840
Claims Services	$99,500,000	$138,800,000	$37,800,000
Mitigation Services			
MGA Fees	$118,400,000	$112,800,000	$114,000,000
MGA Policy Fees	$6,300,000	$6,400,000	$6,800,000
Other Affiliated Fees – Office Rent	$466,264	$606,160	$726,586
Total Affiliated Fees	$224,666,264	$258,606,160	$159,326,586
Affiliated Fees % of Gross Premiums Written	40.79%	48.14%	29.76%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$2,407,500	$37,407,500	$1,265,062
Dividends	$0	$0	$0

Surplus Note Payments to Parent	$1,360,000	$1,360,000	$1,360,000
Policies In Force	Not Provided		

HPCIC had significant net losses two of the three years under review for a total net loss of ($80,864,359) over the three-year period. During that same time, it also had capital contributions totaling $41,080,062. During the same period, its affiliates had a total of $174,329,000 in net income. The net income of the affiliates was disclosed in documents marked "Trade Secret".

III.6.2 Recommendations Regarding Affiliated Fees

HPCIC's affiliated fees dropped in 2019, however the net income of the affiliates greatly exceeded the net income of **HPCIC** during the three years under review. The fees paid to affiliates are presumed not to be fair and reasonable since the combined net income of the affiliated entities is more than the greater of $2 million per year or 115% of the combined net income of **HPCIC** for 2017, 2018 and 2019. The Office should consider requiring **HPCIC** to refile revised affiliated agreements or replace its affiliated agreements and in either case, provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

III.7 Journey Insurance Company

Journey Insurance Company ("**JIC**") is a wholly owned subsidiary of United Insurance Holdings Corp. that specializes in commercial residential insurance. See Section III.1 for the review of American Coastal Insurance Company. **JIC** did not commence operations until February of 2019, accordingly data from that company is not presented in this report.

III.7 People's Trust Insurance Company

III.7.1 Summary

Based on the information reported in People's Trust Insurance Company's 2019 Annual Statement, the "People's Trust Group" consists of People's Trust Insurance Company ("**PTIC**" or "The Company"), People's Trust MGA, LLC ("**PTMGA**"), and PTI Agency, LLC ("**PITA**"). **PTIC** is a wholly-owned subsidiary of People's Trust Holdings, LLC ("**PTH**"). **PTIC's** Schedule Y also includes several other related parties, including GS Two, LLC and its wholly owned subsidiaries Del Re Holdings, Inc., Del

Re, LTD, Rapid Response Team, LLC, DPF Store, LLC, G&I Commercial Realty, LLC, and Home Inspection Services, LLC.

People's Trust Holdings formed People's Trust MGA, LLC to provide certain services to the Company, including property inspections, managing general agent underwriting, claims adjusting and other administration services.

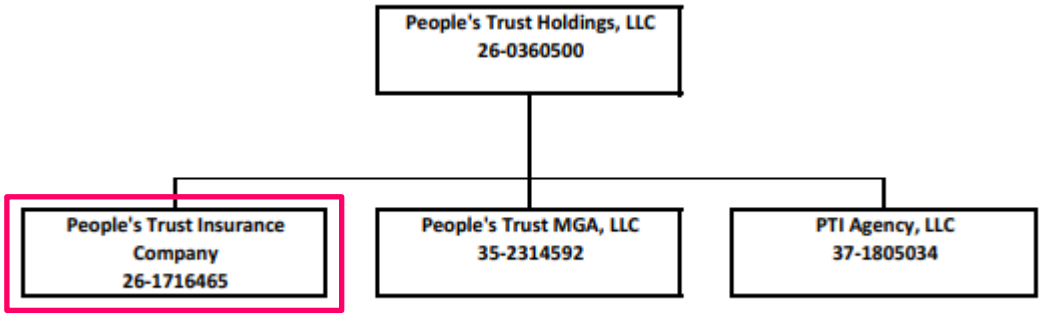
An affiliated holding company, GS Two Holdings, LLC, through its subsidiary, Rapid Response Team, LLC, provides services to PTIC and the People's Trust MGA, LLC, such as claims estimating and loss mitigation in addition to making insured home repairs following policyholders' claims.

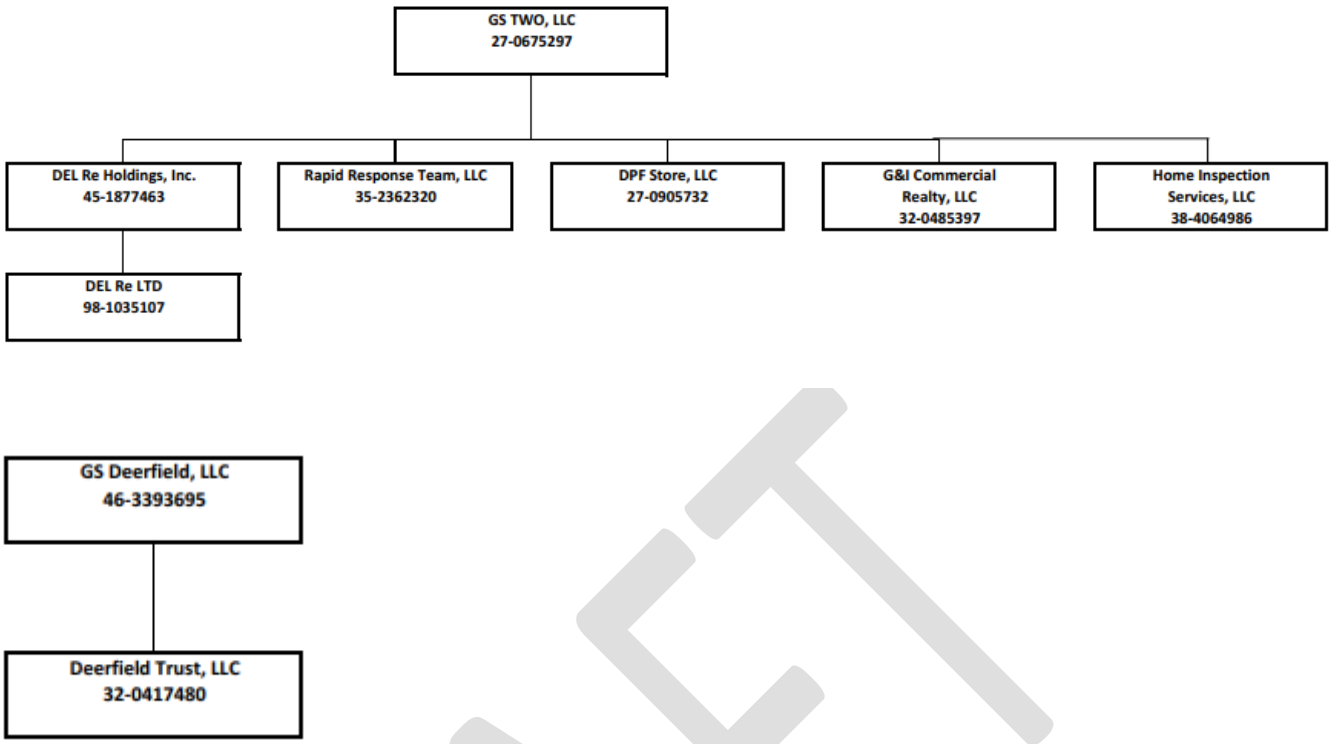
DEL Re Ltd, a captive reinsurance company domiciled in Bermuda and a subsidiary of GS Two, participates in **PTIC's** catastrophe reinsurance programs.

In November 2021 the Office requested certain information from **PTIC** regarding its affiliates. **PTIC** responded to the Office in December 2020 but refused to complete the Underwriting Analysis template.

During the period under review, **PTIC** was licensed and wrote business only in the State of Florida. **PTIC** was licensed to write Homeowners Multi-Peril, Fire, Private Passenger Auto Liability, Auto Physical Damage and Allied Lines.

A copy of the organization chart from the **PTIC** 2019 Annual Statement showing **PTIC** and its affiliates is provided below.





The operations of **PTIC** are primarily carried out by **PTH** and its subsidiaries. **PTIC** entered into a MGA Contract with its affiliate **PTMGA**, effective February 1, 2008. Under the agreement **PTMGA** provides sales, marketing, inspection, policy administration and claims administration services for the Company.

PTIC entered into a Management Services Agreement with its parent **PTH**, effective January 1, 2008. Under the agreement **PTH** provides certain administrative services to **PTIC** such as corporate organization and management services, tax services, human resources, benefit plan management, insurance, and group infrastructure and services. **PTH** receives a sum equal to one percent (1%) of the Company's direct written premiums.

PTIC entered into a Services Agreement with RRT effective September 14, 2009 which was amended in 2018 and 2020. Under the agreement, the Company may issue assignments to **RRT** for property loss assessment and mitigation, remediation and repair. **RRT** is owned by GS Two, LLC, which is owned by the same members of **PTH**.

PTIC has a Cost Allocation Agreement with **PTMGA**, **PTH** and **RRT** effective July 27, 2011, covering allocable expenses incurred by one or more companies conferring a direct benefit on another company, a portion of which expense is properly allocable to the company receiving the benefit.

Effective January 1, 2008 the Company entered into a Service Agreement with its affiliate **PTMGA** for legal services to be provided. Under the agreement **PTMGA** is providing legal counsel for policy and claims related activities as well as civil remedy notices and examinations under oath.

The Office should note that the Company identified the intercompany agreements as "Trade Secret" Documents.

PTIC's Annual Statement Notes to Financial Statements discuss reductions in commissions after **PTMGA** reviewed the commissions due to it under the MGA agreement with the Company and determined the commissions exceeded a fair and reasonable rate. Commissions were reduced by $19,801,438 in 2017, $17,000,000 in 2018, and $16,195,529 in 2019.

The Company did not issue any surplus notes during the period under review but has a number of surplus notes that have been issued to its parent. There were no payments made on these surplus notes during the period under review. The Company also paid no dividends to its parent during this period.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

People's Trust Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$239,576,112	$219,650,194	$234,981,777
MGA Fees	$71,196,193	$75,666,764	$77,003,046
Other Affiliated Fees – Repair and Mitigation	$41,260,833	$59,871,948	$65,248,707
Management Fee Paid to Holding Company	$2,363,750	$2,165,792	$2,313,647
Total Affiliated Fees	$114,820,776	$137,704,504	$144,565,400
Affiliated Fees % of Gross Premiums Written	47.93%	62.69%	61.52%
MGA Fees Waived	$19,801,438	$17,000,000	$16,195,529
Capital Contributions	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

PTIC had positive net income in of $9,887,408 in 2017 and $15,385,866 in 2018, in 2019 it had a net loss of $(2,806,270). For the three years under review **PTIC's** net income totaled $22,457,004. During the same period **PTIC's** affiliates had a total net income of $6,883,720. Without the waiver of fees, the Company would have reported a net loss each of the three years under review. Note that the information regarding the net income of the affiliates was submitted to the Office as a "Trade Secret".

III.7.2 Recommendations Regarding Affiliated Fees

1. Note 10.B. of **PTIC's** Annual Statement states that the Company determined that the commissions exceeded a fair and reasonable rate and in each of the three years waived material amounts of commissions. The Office should consider requiring **PTIC** to refile revised affiliated agreements or replace its affiliated agreements and provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

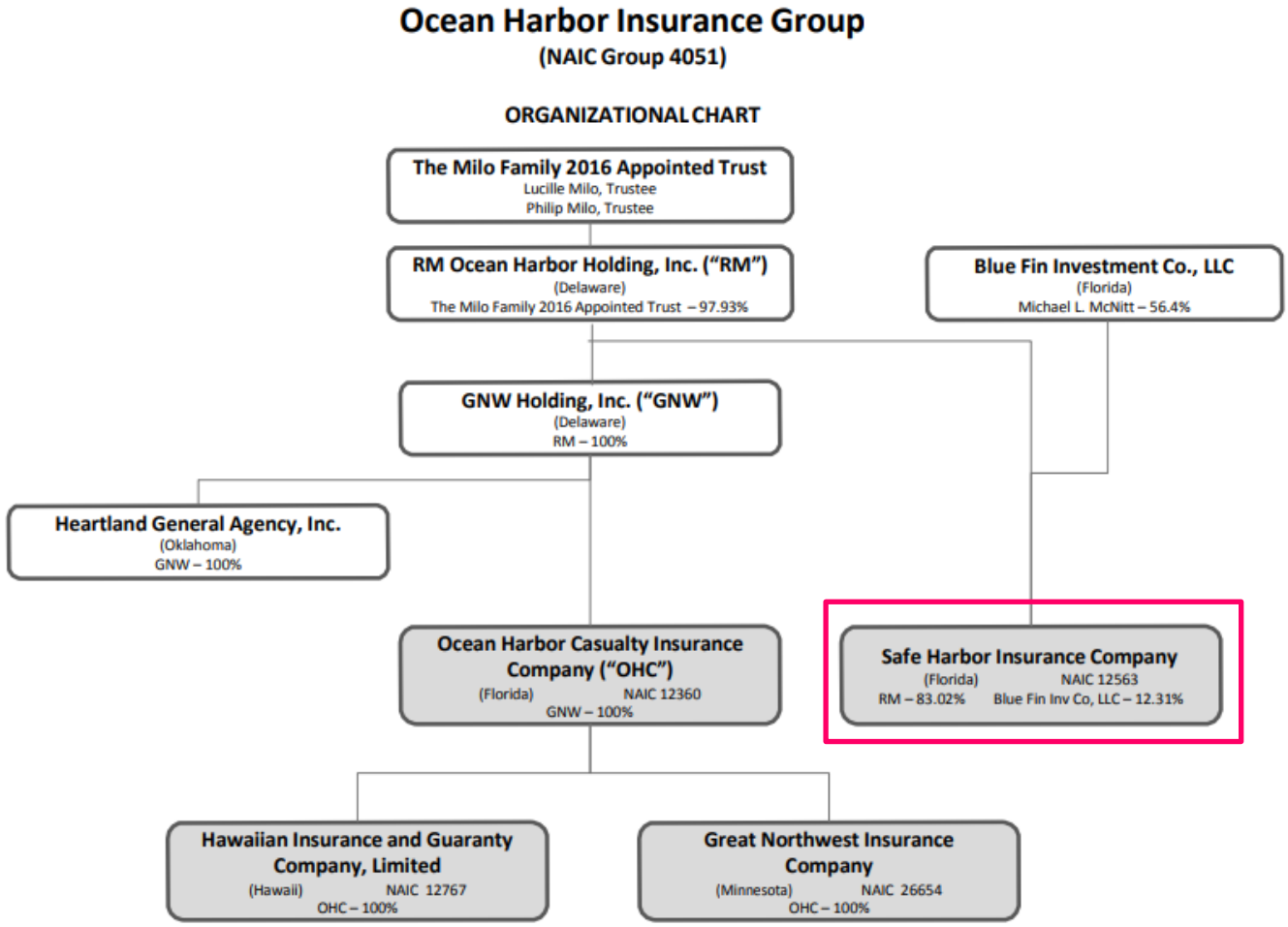
III.8 Safe Harbor Insurance Company

III.8.1 Summary

The "Safe Harbor Group" consists of Safe Harbor Insurance Company ("**Safe Harbor**" or "the Company"), Ocean Harbor Insurance Company ("**OHIC**"), Hawaiian Insurance and Guaranty Company, Limited ("**HUGC**"), Great Northwest Insurance Company ("**GNIC**"), GNW Holding, Inc. ("**GNW**"), RM Ocean Harbor Holding, Inc ("**RM**"), The Milo Family 2016 Appoint Trust ("**Milo Trust**") and Blue Fin Investment Co., LLC ("**Blue Fin**"). **Safe Harbor** and **OHIC** are both Florida domestic insurers. **Safe Harbor** is licensed in six states and actively writing business in two states. **OHIC** wrote business in eleven states in 2019. **Safe Harbor** primarily writes homeowners policies, while **OHIC's** primary lines of business are homeowners and private passenger auto.

On July 30, 2020 the Office requested certain information from **Safe Harbor** and **OHIC** regarding their affiliates. The Company's response on August 28,2020 indicated that a portion of the fees earned by affiliates of **Safe Harbor** were earned from entities outside the group. See Section III.8.2 below for a further discussion regarding the composition of the Safe Harbor Group.

A copy of the Schedule Y, Part 1 organization chart from the 2019 Annual Statement of Safe Harbor Insurance Company showing **Safe Harbor** and its affiliates is provided below.



The operations of **Safe Harbor** are performed by Cabrillo Coastal General Insurance Agency, LLC ("**CCGIA**") pursuant to an MGA Agreement. **CCGIA** produced all of the premiums written by the Company in 2017, 2018 and 2019. Harbor Claims, Inc. ("**Harbor**") serves as a claims administrator for **Safe Harbor**. The Company is also a party to a Cost Allocation Agreement, and Tax Allocation Agreement with RM Ocean Harbor Holding, Inc. and certain of **RM's** subsidiaries. See Section III.8.2 regarding Harbor's affiliation with US Coastal Property & Casualty Insurance Company. **Safe Harbor** did not pay any dividends or receive any capital contributions in 2017, 2018 or 2019. The Company has not issued any surplus notes.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Safe Harbor Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$74,868,897	$79,627,689	$95,500,116
Claims Administration Fees	$4,638,223	$4,744,127	$4,246,330
Commissions to Affiliates	$16,665,416	$17,594,508	$20,113,496
Other Affiliated Fees			
Total Affiliated Fees	21,303,639	22,338,635	24,359,826
Affiliated Fees % of Gross Premiums Written	28.45%	28.05%	25.50%

MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

The Company reported net losses in 2017 and 2019, with a net income of $1.8 million in 2018. In total **Safe Harbor** reported a net loss of $2.1 million during the three-year period under review. **Safe Harbor** and US Coastal Property & Casualty Insurance Company ("**USCPCIC**") both utilize the same MGA and claims administrator. Without further detail regarding the source of the profits of the MGA and Harbor Claims (whether from **Safe Harbor** or **USPCIC**) a direct comparison of the profitability of **Safe Harbor** and **USCPCIC** with its affiliates is not possible. However, in the aggregate, **Safe Harbor** and **USCPCIP** collectively reported a net loss of $5.2 million, while **CCIGGA** and **Harbor Claims** reported net income of $9.9 million. Note that some of the information regarding the net income of the affiliates was submitted to the Office as a "Trade Secret".

III.8.2 Recommendations Regarding Affiliated Fees

1. The Schedule Y, Part 1 included in the Safe Harbor's 2019 Annual Statement shows that **Blue Fin** owns 12.31% of the shares of **Safe Harbor**. Michael McNitt owns 56.4% of the shares of **Blue Fin**. The balance of the shares of **Safe Harbor** are owned by RM Ocean Harbor Holding, Inc. **OHIC** filed a Schedule Y, Part 1 identical to **Safe Harbor's**. The Schedule Y, Part 1 included in the 2019 Annual Statement of **USCPCIC** shows that Michael McNitt is also the controlling shareholder (50.20%) of Cabrillo Intermediate Holdings, LLC which is the controlling shareholder (54.57%) of Cabrillo Holdings, LLC which is the sole shareholder of USCPC Holdings, Inc., the sole shareholder of **USCPCIC**. The Office should consider whether a common Schedule Y, Part 1 should be filed by **Safe Harbor**, **OHIC** and **USCPCIC**. In making that decision the Office may consider the following:
    a. Whether a disclaimer of control filed with the Office in accordance with Section 628.461(12)(a) provides a basis for excluding an entity from Schedule Y, Part 1.
    b. Note 19 of the 2019 Annual Statement of **Safe Harbor** shows that Cabrillo Coastal General Insurance Agency is a Managing General Agent for **Safe Harbor**.
    c. Note 8 of **Safe Harbor's** 2019 audited financial statement filed with the Office includes the following: "Cabrillo Coastal General Insurance Agency ("**Cabrillo Coastal**"), the Company's sole MGA, is a related party to the Company in that the principal owners of **Cabrillo Coastal** are also the principal owners of **Blue Fin**. In addition, Note 8 also includes the following language: "Harbor Claims, Inc. (Harbor) is a third party administrator (TPA) contracted to settle and pay claims for the Company. Harbor is a

related party to the Company in that the owners of Harbor are also the owners of Cabrillo Coastal."

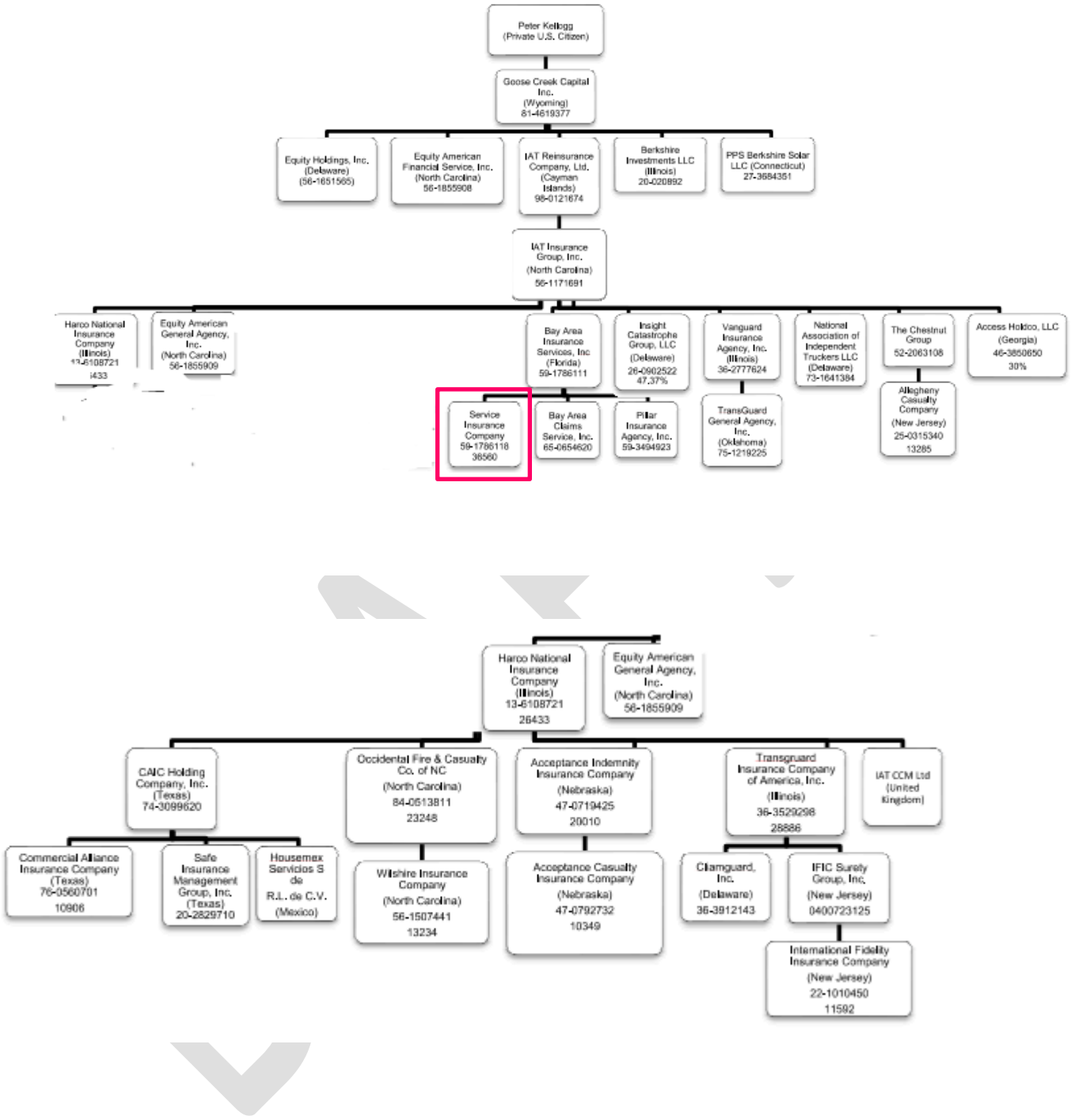
d. As of January 13, 2022, **Safe Harbor's** website Home Page listed Harbor Claims, LLC as it claims administrator.

2. Determine if transactions, such as business assumed and ceded from or to non-affiliates is accurately reported in **Safe Harbor** and **USPCIC's** financial statements.
3. Based on the financial statement of **Harbor** and **CCGIA**, referred to as related parties of **Safe Harbor** by the Company's auditor, the combined net income of the related parties for 2017, 2018 and 2019 is more than the greater of $2 million per year or 115% of the total net income of **Safe Harbor** and **USCPCIC**. Using that standard, the fees paid to the related parties are presumed not to be fair and reasonable. The Office should consider requiring new affiliated agreements to be filed with the Office, along with documentation and financial projections of **Safe Harbor** and USCPCIC and their affiliates which demonstrate that the proposed fees are fair and reasonable.

III.9 SafePort Insurance Company

III.9.1 Summary

SafePort Insurance Company's ("**SafePort**" or "the Company") 2019 Annual Statement reported that **SafePort** was a wholly owned subsidiary of Bay Area Insurance Services, Inc. ("**BAIS**"), an insurance holding company domiciled in the State of Florida. **BAIS** is a majority-owned subsidiary of IAT Reinsurance Company, Ltd. ("**IAT**"), a Cayman Islands based reinsurance company. **IAT** is a wholly owned subsidiary of Goose Creek Capital, a Wyoming Holding Company which is as of December 31, 2019 was wholly owned by Peter Kellog. Effective January 19, 2021, Peter Kellog sold his entire ownership in Goose Creek Capital, Inc. to his son, Charles Kellog. A copy of the organization chart from **SafePort's** 2019 Annual Statement is provided below. **SafePort** received approval to change its name from Service Insurance Company to **SafePort** on February 10, 2020; the organization chart below refers to the Company as Service Insurance Company.



As of December 31, 2019, the Company was authorized to transact business in 41 states, including Florida. It was authorized to write Fire, Allied Lines, Homeowners Multi-peril, Commercial Multi-peril, Inland Marine, Earthquake, Other Liability – Occurrence, Burglary and Theft, Mobile Home Physical Damage, Mobile Home Multi-peril, and Glass. However, primarily wrote Fire, Allied Lines, and Homeowners insurance. The Company's direct business was mainly written in the coastal regions with concentrations in Florida, Louisiana, North Carolina, South Carolina and Texas.

Effective January 1, 2015, the Company was added and became party to the Consolidated Master Cost Sharing Agreement with the seven other insurance affiliates within the group. The agreement provides for the pooling of general and administrative expenses and subsequent allocation of these expenses to each of the companies.

The Company also entered into a Master Hardware & Software Cost Sharing Agreement effective January 1, 2015 with eight other affiliates in the group. This agreement provides for the pooling of shared system expenses, and subsequent allocation of expenses based on net premiums written of each company. Other actual costs incurred are charged directly to the Company.

The Company is party to the Consolidated Tax Allocation Agreement with IAT Reinsurance Company Ltd. And its affiliates. The Company, along with its parent, Bay Area Insurance Services, Inc. and affiliates, file a consolidated federal income tax return. Each member of the group recorded an inter-company income tax receivable or payable with IAT Reinsurance Company Ltd.

Effective June 1, 2017, the Company entered into a property catastrophe excess of loss reinsurance agreement with IAT Reinsurance Company, Ltd. This agreement provides per occurrence catastrophe reinsurance coverage for property lines of business in two layers.

Effective June 1, 2018, the Company entered into a property catastrophe excess of loss reinsurance agreement with IAT Reinsurance Company, Ltd. This agreement provides per occurrence catastrophe reinsurance coverage for property lines of business in two layers.

Effective June 1, 2019 the Company entered into a property catastrophe excess of loss reinsurance agreement with IAT Reinsurance Company, Ltd. This agreement provides per occurrence catastrophe reinsurance coverage for property lines of business in three layers.

The Company has not disclosed that they are a party to affiliated or non-affiliated Managing General Agents or Managing General Agent agreements.

As of December 31, 2019, Company had not issued any outstanding surplus notes. During the period under review the Company did not receive any capital contributions, pay any dividends or make payments on any surplus notes.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

SafePort Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$32,510,213	$19,666,659	$32,648,070
Other Affiliated Fees- Cost Sharing	$251,691	$124,922	$(1,385,351)
Other Affiliated Fees			
Total Affiliated Fees	$251,691	$124,922	$(1,385,351)
Affiliated Fees % of Gross Premiums Written	0.77%	0.64%	0.00%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

SafePort had net income of $4,313,649 in 2017 and net losses of $(4,578,814) and $(2,323,411) in 2018 and 2019, respectively, for a total net loss over the three-year period of $(2,588,576). Its immediate parent, Bay Area Insurance Services, and affiliate, Bay Area Claims, both had a positive total net income for the same period.

III.9.2 Recommendations Regarding Affiliated Fees

1. **SafePort's** Annual Statement states that **BAIS** is a majority-owned subsidiary of IAT Reinsurance Company, Ltd., a Cayman Islands based reinsurance company. Other documents provided by the Company indicate that **BAIS** is a wholly owned subsidiary of **IAT**. The analyst should obtain additional information on **BAIS'** ownership.
2. The Company's Consolidated Master Cost Sharing Agreement refers to an affiliate MCM Corporation. This Company is not listed on Schedule Y part 1 as an affiliate. The Office should consider requiring **SafePort** to list MCM Corporation on its Schedule Y part 1, additionally, the Analyst should obtain additional information as to the business of MCM Corporation.
3. **SafePort's** immediate parent, **BAIS**, had a net income for the period under review while the Company had a net loss. The Analyst should consider requesting a detailed listing of all services performed by **BAIS** for **SafePort** under the cost allocation agreement and the expense for each of those services.
4. The Underwriting and Investment Exhibit, page 11, of **SafePort's** 2019 Annual Statement states that $1,385,351 in management fees were paid to affiliates and the Notes to Financial Statements 10.B. states that the Company received $1,385,351. If the analyst notices inconsistencies such as this in future filings they should inquire with the Company to determine which statement is correct. If management fees were paid to an affiliate as shown on page 11, there should be a written management agreement on file with the Office.

III.10 Security First Insurance Company

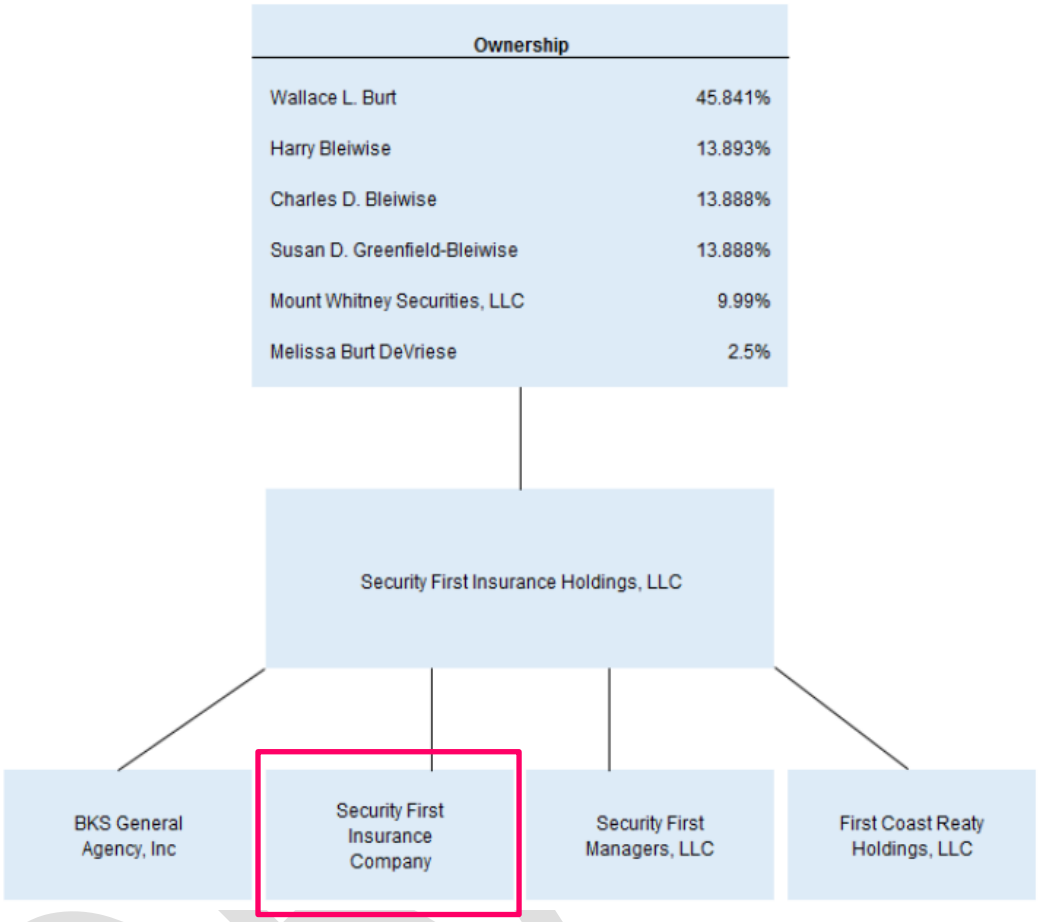
III.10.1 Summary

Security First Insurance Company's 2019 Annual Statement Schedule Y, Part 1, shows that Security First Insurance Company ("**SFIC**" or "The Company") is a wholly owned subsidiary of Security First Insurance Holdings, LLC ("**SFIH**"). **SFIH** is owned by an investor group, with the largest investor, at 45.84%, being Wallace Burt. No other investor owns more than a 14% share of **SFIH**. **SFIC's** affiliates include BKS General Agency, Inc., Security First Managers, LLC ("**SFM**"), and First Coast Realty Holdings, LLC. SFM's 2019 Audited Financial Statements indicate that Ormond Insurance and Reinsurance Management Services, Inc. ("**Ormond Re**") is an affiliate of **SFIH** through common ownership; however, **Ormond Re** is not included in SFIC's Annual Statement Schedule Y.

In November 2021 the Office requested certain information from **SFIC** regarding its affiliates. **SFIC** provided a response to the Office in November 2021.

At year-end 2019 **SFIC** was licensed in 38 states but was only writing in Florida. It writes homeowners and fire policies. Approximately 95% of the revenue of its affiliate MGA **SFM** was derived from **SFIC** during the period under review.

A copy of the organization chart from the **SFIC** 2019 Annual Statement showing SFIC and its affiliates is provided below.



The primary operations of **SFIC** are carried out by **SFM** as detailed in the MGA Agreement, entered into in 2005, between **SFIC** and **SFM**. An amendment to the agreement with **SMGA** was drafted in 2020 to increase the maximum amount of premium the MGA may write; the Company did not provide an executed copy of the agreement.

On December 16, 2019, the Company entered into a lease agreement with **SFM** whereby the Company agreed to lease office space to **SFM** for a term of 3 years, commencing on November 1, 2019.

During 2018 and 2019 **SFIH** made capital contributions to increase the surplus of **SFIC** by a total of $35 million. No dividends were paid to the shareholders of **SFIC** during 2017, 2018 or 2019. **SFIH** had no surplus notes outstanding during the period under review.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Security First Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$391,403,660	$422,400,849	$434,027,641
Commissions to Affiliates	$106;516,649	$127,500,557	$140,339,153
Lease Agreement with SFM (entered into in 2019)			$(403,333)
Other Affiliated Fees			
Total Affiliated Fees	$106,516,649	$127,500,557	$139,935,820
Affiliated Fees % of Gross Premiums Written	27.21%	30.18%	32.24%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$25,000,000	$10,000,000
Dividends	$0	$0	$0
Policies In Force	Not Provided		

SFIC had a net income of $2,579,103 in 2017 but had significant losses in 2018 of $(11,842,898) and in 2019 of $(17,550,782) for a total net loss over the three-year period of $(26,814,577). During that same time, it also had capital contributions totaling $35,000,000. During that same timeframe its affiliates had net income totaling over $50 million. Note that some of the information regarding the net income of the affiliates was submitted to the Office as a "Trade Secret".

III.10.2 Recommendations Regarding Affiliated Fees

1. **SFIC's** fees paid to affiliates are presumed not to be fair and reasonable since the combined net income of the affiliated entities is more than the greater of $2 million per year or 115% of the combined net income of **SFIC**. The Office should consider requiring **SFIC** to refile revised affiliated agreements or replace its affiliated agreements and in either case, provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.
2. During the period under review there were inconsistencies in the expenses reported on **SFIC's** Annual Statement. Amounts reported on the Underwriting and Expense Exhibit, page 11 as management fees paid to affiliates, expenses paid to affiliates in Notes to Financial Statements 10.B., and Management Agreements and Service Contracts did not agree.
3. The Office should consider requesting additional information regarding **Ormond Re** and the Burt and Scheld Corporation to determine if these entities should be reported as affiliates and listed on Schedule Y, Part 1. "Trade Secret" documents provided to the Office indicate that both of these entities have contractual relationships to provide services to **SFM**.

III.11 Southern Oak Insurance Company

III.11.1 Summary

According to its 2019 Annual Statement, Southern Oak Insurance Company ("**SOIC**" or "The Company") is a wholly owned subsidiary of Southern Oak Holding Company, LLC ("**SOHC**"). Ultimate controlling ownership of Southern Oak Holding Company, LLC is held by members of the Pajcic family with 63% ownership, Tony Loughman owning 13% and the remaining 24% held by others with no individual owning more than 10%. Southern Oak Management, LLC ("**SOM**") provides underwriting, claims administration, and other services to the Company. The Company and **SOM** have an exclusive MGA agreement that has been in place since the Company was formed. The Company is also affiliated with Eichel, Ltd. and Eichel II, Ltd. Eichel and Eichel II are investment vehicles domiciled in Bermuda with primary purpose to purchase catastrophe bonds which are managed by Horseshoe Re.

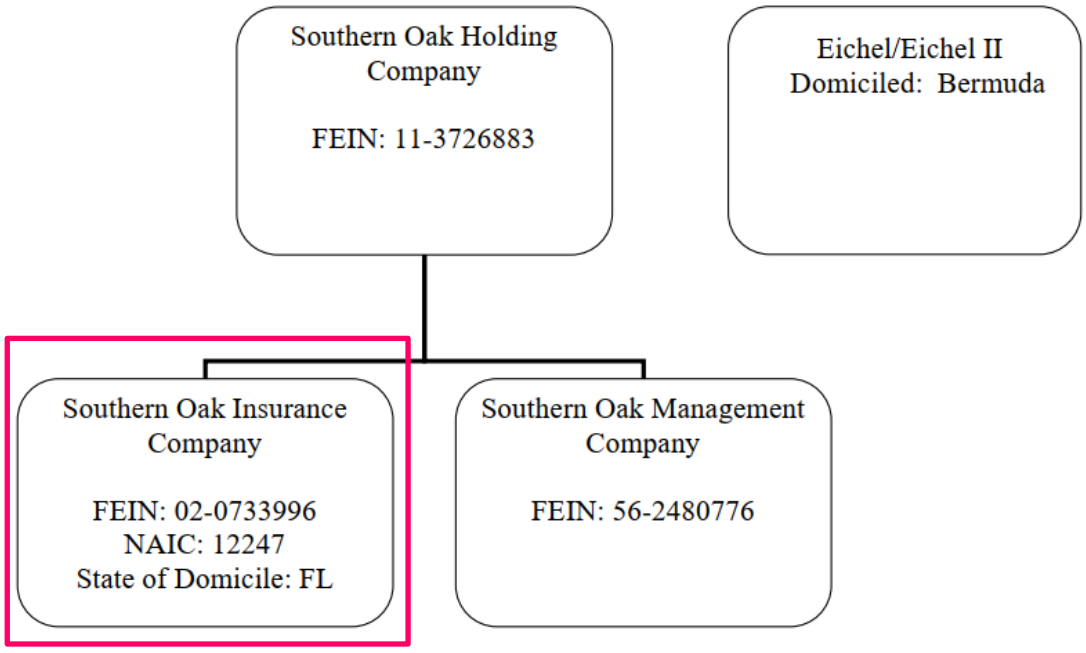
The Company is licensed only in FL and writes residential property coverage including Homeowners and Fire.

In November 2021 the Office requested certain information from **SOIC** regarding its affiliates. **SOIC** provided a response to the Office in November 2021.

The Company entered into a MGA and Claims Administration Agreement with **SOM** on December 1, 2004. The MGA is authorized to produce, administer and manage policies, and to adjust claims, providing other services in connection with policies, including but not limited to marketing, claims analysis, general ledger accounting, information services, product and underwriting development and management, and catastrophe risk management. The agreement was amended on April 1, 2010 and January 1, 2011 and continues to be in force unless otherwise terminated within the guidelines of the agreement. MGA fees are based on written premium.

During the period under review **SOIC** paid no dividends, received no capital contributions, and had no surplus notes outstanding.

A copy of the organization chart from the **SOIC** 2019 Annual Statement showing **SOIC** and its affiliates is provided below.



Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Southern Oak Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$102,692,439	$106,608,875	$105,489,011
Commissions to Affiliates	$27,395,901	$28,389,361	$28,071,907
Other Affiliated Fees			
Total Affiliated Fees	$27,395,901	$28,389,361	$28,071,907
Affiliated Fees % of Gross Premiums Written	26.68%	26.63%	26.61%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

SOIC had net income of $605,156 in 2017 but incurred a net loss in 2018 of $(435,258) and a more significant net loss in 2019 of $(13,346,960) for a total net loss over the three-year period of $(13,177,062). During that same timeframe its affiliate had net income totaling over $25 million. Note that some of the information regarding the net income of the affiliates was submitted to the Office as a "Trade Secret".

III.11.2 Recommendations Regarding Affiliated Fees

The fees paid to affiliates are presumed not to be fair and reasonable since the combined net income of the affiliated entities is more than the greater of $2 million per year or 115% of the combined net income of **SOIC**. The Office should consider requiring **SOIC** to refile revised affiliated agreements or replace its affiliated agreements and in either case, provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

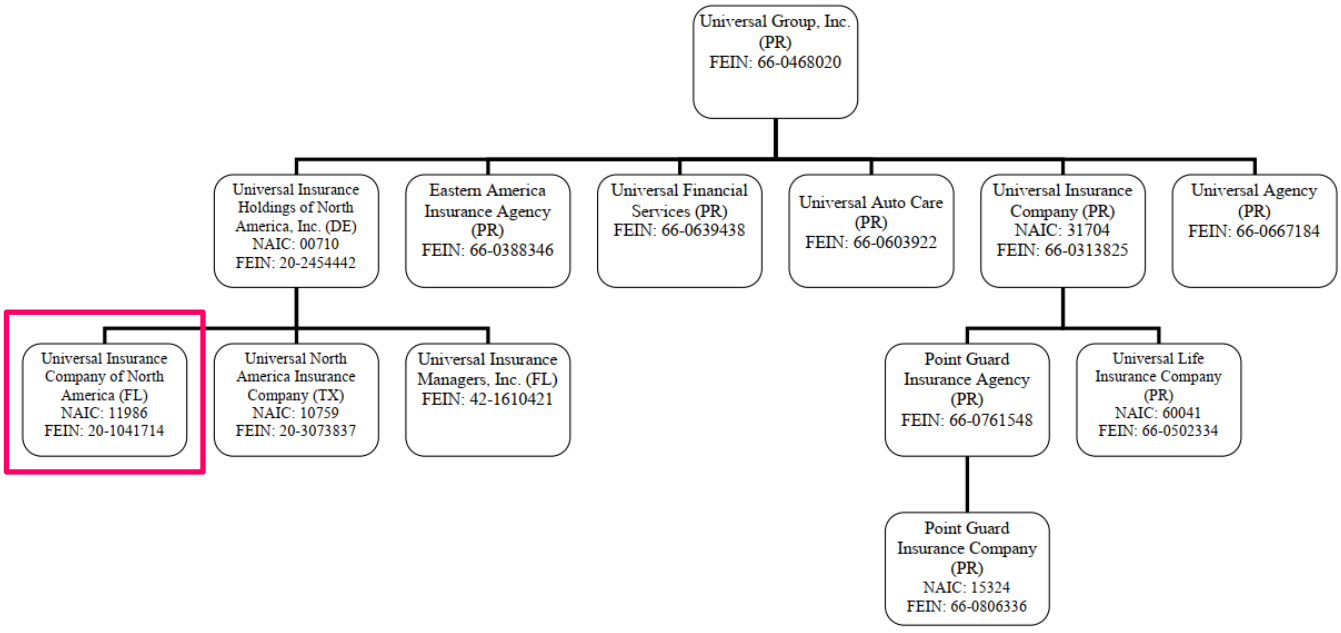
III.12 United Property and Casualty Insurance Company

United Property and Casualty Insurance Company is a wholly owned subsidiary of United Insurance Holdings Corp. See Section III.1 for the review of American Coastal Insurance Company which includes detailed information regarding United Property and Casualty Insurance Company.

III.13 Universal Insurance Company of North America

III.13.1 Summary

As described in its 2019 Annual Statement, Universal Insurance Company of North America ("**UICNA**") is a wholly owned subsidiary of Universal insurance Holdings of North America, Inc. ("**UIHNA**"), a Delaware corporation. **UIHNA** is a wholly owned subsidiary of Universal Group, Inc. ("**UGI**"), a Puerto Rico corporation. Other insurance companies within the group include Universal North America Insurance Company ("**UNAIC**"), a Texas domestic insurer; Universal Insurance Company ("**UIC**"), a Puerto Rico domestic insurer; and Universal Life Insurance Company ("**ULIC**"), a Puerto Rico domestic insurer. Other companies within the group are listed in the organization chart below.



At year-end 2019 **UICNA** was licensed in Florida, North Carolina, South Carolina, and Texas. It wrote residential property coverages in all states it was licensed, and also wrote commercial property and flood coverage in Florida.

In November 2021 the Office requested certain information from **UICNA** regarding its affiliates. **UICNA** provided a response to the Office in December 2021.

The Company entered into a Tax Sharing Agreement on March 31, 2005, with Universal Holdings, **UNAIC** and Universal Insurance Managers ("**UIM**"). This agreement was amended six times, the last time being October 28, 2016. The Company files a consolidated federal income tax return, whereby the allocation among the companies was made primarily on a separate return basis with current benefit for any net operating losses or other items utilized in the consolidated return.

The Company entered into an Executive Management Services Agreement on July 19, 2010, with Universal Holdings. Under the agreement Universal Holdings will perform the following for the Company: 1) house and maintain the corporate books and records, 2) retain auditors for the audited financial statements, 3) make certain facilities available, 4) provide investment management services or direct others, 5) perform such other services as may become necessary.

The Company entered into an Amended and Restated Managing General Agency and Claims Administration Agreement on August 11, 2016 with **UIM**. Under the agreement **UIM** will issue and

administer policies pursuant to the underwriting guidelines, rates, policy forms, directives, bulletins, and other standards and guidelines of the Company. In addition, the agreement grants UIM authority to fully investigate, evaluate, handle, adjust and settle each claim which may arise during the term of the agreement.

On December 20, 2019 the Company entered into a loan agreement with **UIM**. The principle of the loan was $3,300,000 with an annual interest rate of 6% due monthly until paid in full. In February 2020 the loan and all related outstanding interest were paid in full.

As of December 31, 2017, and December 31, 2019, the Company reported notes receivable in the amount of $2,000,000 and $4,000,000, respectively as write-in assets, which represented contributions made pursuant to SSAP No. 72 and treated as Type I subsequent events pursuant to SSAP No. 9. The contributions were included in the Company's surplus at December 31, 2017 and 2019.

The company declared no dividends during the period under review and had no surplus notes outstanding during the period under review. The Company received capital contributions of $5,000,000 in 2017 and $4,000,000 in 2019.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Universal Insurance Company of North America			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$138,887,188	$135,415,290	$123,390,139
MGA Fees	$32,145,892	$32,532,052	$30,867,155
Other Affiliated Fees			
Total Affiliated Fees	$32,145,892	$32,532,052	$30,867,155
Affiliated Fees % of Gross Premiums Written	23.15%	24.02%	25.02%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$5,000,000	$0	$4,000,000
Dividends	$0	$0	$0
Policies In Force	Not Provided		

UICNA incurred a net loss of $(2,089,964) in 2017 and of $(4,119,760) in 2019. In 2018 **UICNA** had net income of $85,857. For the three-year period, the Company had a net loss of $(6,123,867). During that same time, it also had capital contributions totaling $9,000,000. The Company's affiliates and holding company had a combined net loss of $(25,773,387), significantly greater than **UICNA's** net loss. Note that some of the information regarding the net income of the affiliates was submitted to the Office as a "Trade Secret".

III.13.2 Recommendations Regarding Affiliated Fees

Based on the operational results of the Company and its affiliates, the Office should consider meeting with the Company to discuss the long-term viability of the current business plan and potentially require a new business plan. The Office may also wish to consider enhanced monitoring of the Company.

III.14 Universal Property & Casualty Insurance Company

Universal Property & Casualty Insurance Company is a wholly-owned subsidiary of the Universal Insurance Holdings, Inc. Group. See Section III.3 for the review of American Platinum Property and Casualty Insurance Company which includes detailed information regarding Universal Property & Casualty Insurance Company.

III.15 US Coastal Property & Casualty Insurance Company

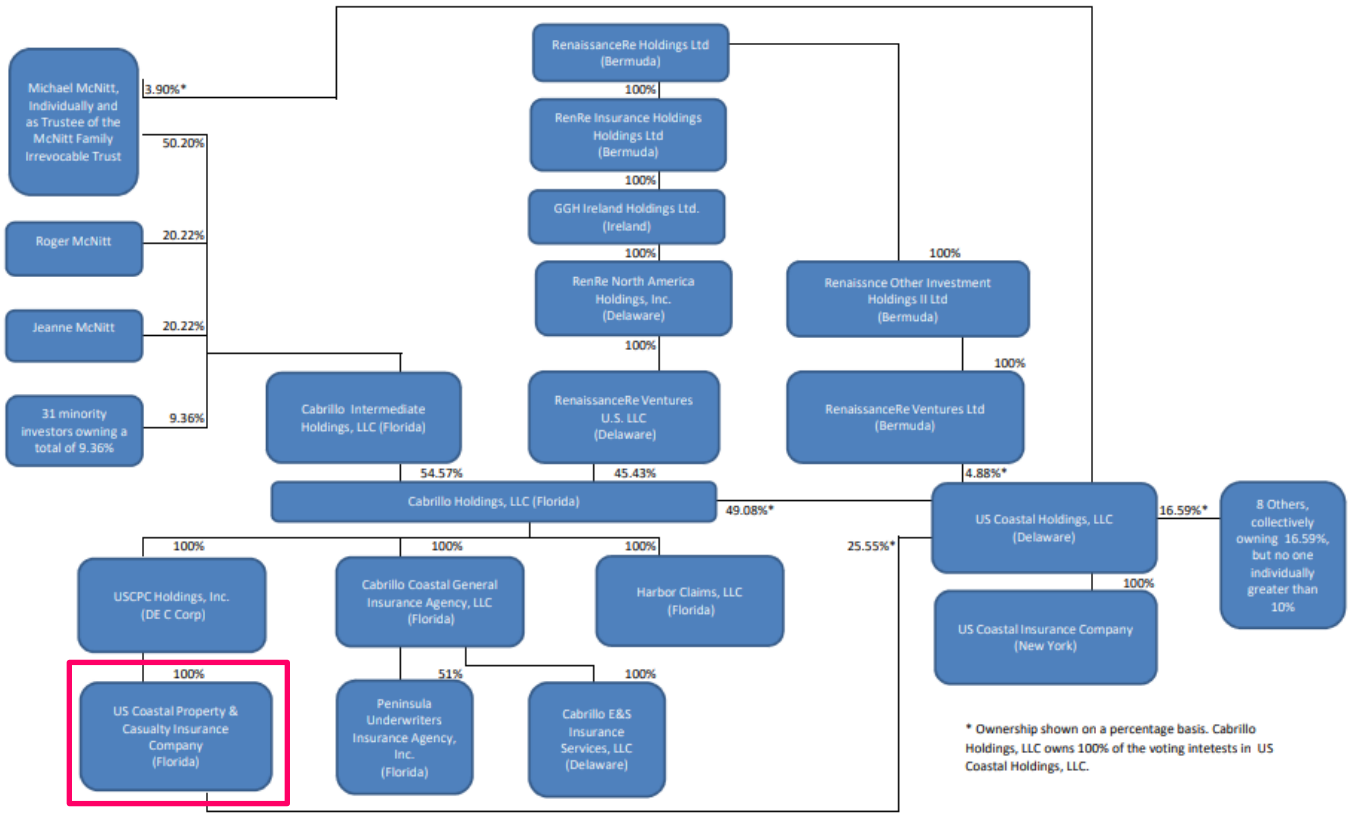
III.15.1 Summary

As reported in Schedule Y, Part 1 of US Coastal Property & Casualty Insurance Company's 2019 Annual Statement, The "US Coastal Group" consists of US Coastal Property & Casualty Insurance Company ("**USCPCIC**" or "the Company") USCPC Holding, Inc. ("**USCPC**"), Cabrillo Coastal General Insurance Agency, Inc. ("**CCGIA**"), Harbor Claims, LLC ("**Harbor**"), Cabrillo Holdings, LLC. Additional affiliated parties are identified in Schedule Y, Part 1. **USCPCIC** is licensed only in Florida and primarily writes homeowners policies. The Company also reported assuming homeowners business from non-affiliates.

On July 27, 2020 **USCPCIC** provided certain information regarding its affiliates. The Company's response on August 27,2020 indicated that a portion of the fees earned by affiliates of **USCPCIC** were earned from entities outside the group. See Section III.8.2 above for a further discussion regarding the composition of the Safe Harbor Group and its relationship to the US Coastal Group.

A copy of the Schedule Y, Part 1 organization chart from the 2019 Annual Statement of US Coastal Property & Casualty Insurance Company showing **USCPCIC** and its affiliates is provided below.

US Coastal Property & Casualty Insurance Company



The operations of **USCPCIC** are performed by Cabrillo Coastal General Insurance Agency, LLC ("**CCGIA**") pursuant to an MGA Agreement. **CCGIA** produced all of the premiums written by the Company in 2017, 2018 and 2019. **Harbor** serves as a claims administrator for **USCPCIC**. The Company is also a party to a Cost Allocation Agreement with various affiliates, and a Tax Allocation Agreement USCPC, its parent company. **USCPCIC** did not pay any dividends in 2017, 2018 or 2019. The Company received capital contributions and issued surplus notes totaling $6.4 million during that time period. In addition, fee adjustments of $2,216,000 increased the surplus of the Company during the three-year time period.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

US Coastal Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$14,710,246	$20,365,484	$26,248,406
Claims Administration Fees	$196,000	$246,000	$663,000
Commissions to Affiliates	$1,634,000	$1,337,000	$4,184,661
Other Affiliated Fees			
Total Affiliated Fees	$1,830,000	$1,583,000	$4,847,661
Affiliated Fees % of Gross Premiums Written	12.44%	7.77%	18.46%
MGA Fees Waived	$0	$1,543,000	$500,000
Claims Fees Waived	$0	$173,000	$0
Capital Contributions / Surplus Notes	$1,500,000	$900,000	$4,000,000
Dividends	$0	$0	$0
Policies In Force	Not Provided		

The Company reported net losses in 2017 and 2018, with a net income of $391,000 in 2019. In total **USCPCIC** reported a net loss of $3.1 million during the three-year period. The Affiliated Fees % of Gross Written Premium is deceptively low as a result of fee adjustments made by Harbor Claims and CCGIA during 2018 and 2019. **Safe Harbor** and **USCPCIC** both utilize the same MGA and claims administrator. Without further detail regarding the source of the profits of the MGA and Harbor Claims (whether from **Safe Harbor** or **USPCIC**) a direct comparison of the profitability of **Safe Harbor** and **USCPCIC** with its affiliates is not possible. However, in the aggregate, **Safe Harbor** and **USCPCIP** collectively reported a net loss of $5.2 million, while **CCIGGA** and Harbor Claims reported net income of $9.9 million. Note that some of the information regarding the net income of the affiliates was submitted to the Office as a “Trade Secret”.

III.15.2 Recommendations Regarding Affiliated Fees

1. See **Safe Harbor** recommendation 1 in Section III.8.2 of this report.
2. See **Safe Harbor** recommendation 2 in Section III.8.2 of this report.
3. See **Safe Harbor** recommendation 3 in Section III.8.2 of this report.
4. Consider requesting additional information regarding disbursements to US Coastal Insurance Company by **USCPCIC**.

III.16 Vault Reciprocal Exchange

III.16.1 Summary

Vault Reciprocal Exchange ("**VRE**" or "the Company") is organized under a reciprocal organization structure. The Company is organized by individuals, known as subscribers, who participate in an interexchange of reciprocal agreements of indemnity. The Company is governed by a Subscribers' Advisory Committee and managed by the Vault Risk Management Services, LLC ("**VRM**") Board of Directors as the Attorney in Fact ("**AIF**"). **VRM** is a limited liability company organized under the laws of Florida.

VRM's sole member is Vault Holdings, LLC, a Florida limited liability company which is owned approximately 80% by Allied World Investment Company, a Delaware Corporation, and 20% by other persons. Allied world Assurance Company Holdings, AG ("**Allied World**"), a Swiss domiciled holding corporation served as the holding company and ultimate parent until it was acquired by Fairfax Financial Holdings Limited ("**Fairfax**"), a Canadian corporation, on July 6, 2017.

On October 27, 2020, Vault Holdings, LLC ("Sellers") entered into a Master Transaction Agreement with Plutus Co-Invest LLC ("Buyer"), a Delaware limited liability company, Allied World Investment Company and Allied World Insurance Company. Under the terms of this agreement and through a series of transactions, the Buyer purchased from the Sellers certain issued and outstanding membership interests of Vault Holdings, LLC, and thereby the control of the Company. Immediately following the contributions and sale the ownership of the Company shall be as follows:

	Percentage Ownership Following the Contributions and Sale *
Allied World	10.0%
Buyer	80.7%
Hudson	4.8%
Management	4.5%

* Contemporaneously with the transactions, the buyer contributed additional capital to Vault Holdings, LLC thereby diluting Allied World's Ownership to 3.3%.

This transaction was reviewed and approved by the Office on February 28, 2021 and closed on March 1, 2021.

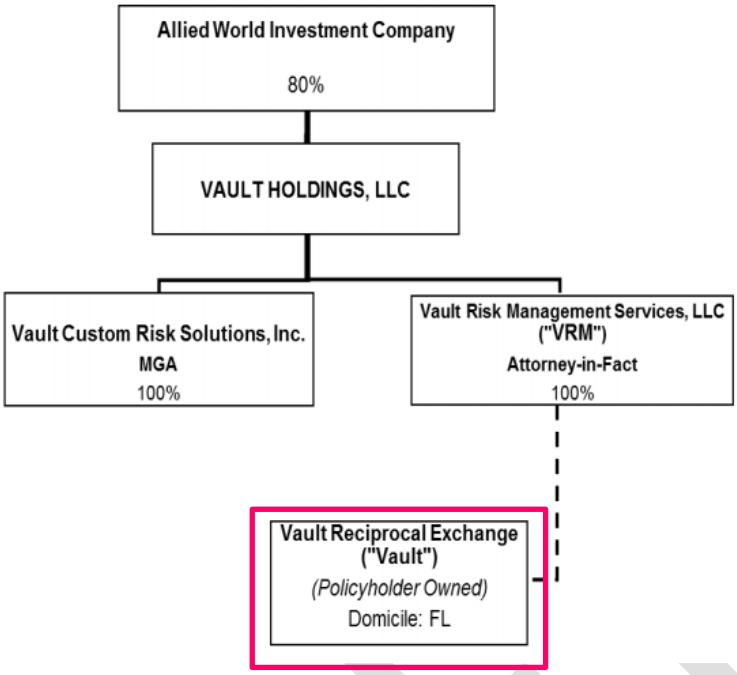
As part of the transaction, the subordinated surplus note issued by Vault Reciprocal Exchange in the principal amount of $27,000,000 was transferred to Vault Holdings, LLC. The transferred subordinated surplus note was subsequently consolidated with other surplus notes transferred to Vault Holding, LLC as part of the sale and an amended and restated surplus note was issued to Vault Holdings, LLC in the principal amount of $50,000,000, which replaced all previously issued surplus notes. This transaction was approved by the OIR and was effective March 1, 2021.

The Company entered into an Attorney-In-Fact Agreement ("AIF Agreement") with **VRM** on September 1, 2017 to provide certain management services. The AIF Agreement continues in force for a term of five years and is automatically renewed for one-year terms at the end of the five years. The Company reimburses **VRM** with commissions at a rate of 17.5% of the direct premiums written for underwriting and general and administrative expenses and 5% for claim handling expenses.

Effective September 1, 2017 VRM entered into a service agreement with AWAC Services Company ("**AWAC Services**"), an Allied World affiliated company. Under the agreement **AWAC Services** or one or more of its affiliates provides administrative services including but not limited to policy services, reinsurance services, accounting services, asset management, human resources, external auditors, and information technology.

The Company entered into an agreement with Hamblin Watsa Investment Counsel, Ltd ("**HWIC**"), a subsidiary of **Fairfax**, on April 1, 2018. **HWIC** provides investment management services to **VRE** which includes investment portfolio management and investment administration services. **VRE** pays **HWIC** a fee of 0.30% of the market value of the portfolio, subject to a performance benchmark of 200+ basis points above actual annual S&P performance. If the actual performance is less than this benchmark, the fee is 90% of the base fee. For every 100 basis points in excess of the benchmark **VRE** pays **HWIC** an additional 10 basis points. This agreement was terminated in 2021 with a change in control of the Company.

The Company is authorized to write Homeowners Multi-Peril, Inland Marine, Other Liability, Private Passenger Auto Liability, Private Passenger Auto Physical Damage, Allied Lines, Earthquake, Boiler and Machinery, and Ocean Marine. It is licensed to write business in 40 states, but as of December 31, 2019 was only writing business in Connecticut, Florida, Georgia, New Jersey, Pennsylvania, South Carolina and Texas.



Fairfax is a very large holding company with hundreds of subsidiaries worldwide. Therefore, a simplified organizational chart from the Financial Examination Report as of December 31, 2019 is included above.

On October 10, 2017 the Company issued a Subordinated Surplus Note in the amount of $27,500,000 to **AWIC**. The surplus note has a perpetual maturity and the interest rate is a floating semi-annual rate equal to the applicable three-month U.S. Dollar LIBOR plus 2.00%. There was no interest accrued or paid on the Surplus note during the period under review. The Company has several other surplus notes outstanding, for a total of $50,000,000.

Note 10C of **VRE's** Annual Statement indicates that **VRM** handles the day-to-day operations of the Company and **VRE** reimburses for this by paying **VRM** a commission of 17.5% of direct premiums written for underwriting and general administrative expenses and 5% for claim handling expenses.

The Company paid no dividends and received no capital contributions during the period under review.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Vault Reciprocal Exchange			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$305,432	$16,488,811	$41,637,779
Other Affiliated Fees – Service Agreement	$0	$21,690	$14,302
Other Affiliated Fees- Investment Management	$0	$36,726	$150,350
Other Management Fees	$0	$2,861,514	$7,477,671
Other Affiliated Fees		$824,440	$2,081,889
Total Affiliated Fees	$0	$3,744,370	$9,724,212
Affiliated Fees % of Gross Premiums Written	0.0%	22.7%	23.35%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

The Company had a net loss all years under review, for a three-year net loss of $(6,517,143).

III.16.2 Recommendations Regarding Affiliated Fees

1. The Office should consider requesting additional information regarding intercompany agreements and income of affiliates to further assess whether fees paid are fair and reasonable.
2. Based on the operational results of the Company, the Office should consider meeting with the Company to discuss the long-term viability of the current business plan and potentially require a new business plan. The Office may also wish to consider enhanced monitoring of the Company.

AFFILIATED FEE ANALYSIS MEMORANDUM

****INFORMATION CONTAINED HEREIN IS CONSIDERED CONFIDENTIAL AND/OR TRADE SECRET PURSUANT TO SECTIONS 624.4212 AND 624.4213, FLORIDA STATUTES****

TO: Virginia Christy
Director, Property and Casualty Financial Oversight

FROM: Jan Moenck

DATE: March 31, 2022

SUBJECT: Affiliated Fee Analysis – Phase 3

I. Overview

While some insurers doing business in Florida perform most or all of the functions necessary to the operation of an insurance company utilizing their own employees, a significant number of insurers contract one or more of the those functions to affiliated entities or to a third party. The contracted functions may incude any of the following: accounting, actuarial, management of investments, information technology administration, policy issuance and administration, underwriting, reinsurance intermediary services, claims investigation and settlement. The National Association of Insurance Commissioners Statutory Statement of Accounting Principles No. 25 reads in part:

1. Related party transactions are subject to abuse because reporting entities may be induced to enter into transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its policyholders. As such, related party transactions require specialized accounting rules and increased regulatory scrutiny.

The purpose of this analysis was to undertake a comprehensive review of the fees paid in material related party transactions by a sample of insurers writing homeowners policies in the State of Florida. Administrative Rule 69O-143.047, Florida Administrative Code, sets certain standards regarding material transactions between an insurer and its affiliates and reads in part:

"(1) Material transactions by registered insurers with their affiliates shall be subject to the following standards:
(a) The terms shall be fair and reasonable;
(b) Charges or fees for services performed shall be reasonable;
(c) Expenses incurred and payment received shall be allocated to the insurer in conformity with customary insurance accounting practices consistently applied;

(d) The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the precise nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties;"

Administrative Rule 69O-143.047, Florida Administrative Code, also requires that all management agreements, service contracts, tax allocation agreements, cost-sharing arrangements and any material transactions which the Office determines may adversely affect the interests of the insurer's policyholders be submitted to the Office for review. Agreements with related parties are not required to utiliize any specific form or any standard method for determining compensation to a related party. Florida domestic insurers have used a variety of methods of determining compensation for affiliated and non-affiliated agreements including the following:

- Percentage of written premium;
- Percentage of earned premium;
- Precentage of written or earned based on losses incurred;
- Hourly rate of compensation based on specific tasks;
- Yearly or quarterly fee payment schedules;
- Scheduled bonus payments;
- Commissions;
- Commissions based on multiple criteria;
- Any combination of one or more of the methods listed above, and in some cases, a forgiveness of fees due under the terms of an agreement.

The list above is not exhaustive of all compensation arrangements. In considering whether the fees paid by an insurer are in fact "fair and reasonable" it would be logical to focus on the types of services provided to an insurer in order to compare the fees paid. However, in many cases an affiliate may provide multiple types of services with only a single contractual method to compute compensation. Insurers that contract with affiliates for services typically have an agreement directly with an affiliate. However, a number of affiliates further subcontract the services to other affiliates of the insurer adding further complexity to understanding whether the compensation for the services is "fair and reasonable". Further complicating an understanding of the reasonableness of fees paid to affiliates, is the practice of some affiliates of "forgiving" or "waiving" fees due from an insurer.

The NAIC provides some further guidance regarding the "fair and reasonable" standard in its Financial Analysis Handbook. That guidance is focused on the use of a market rate, or the allocation of the actual costs of the services provided as methodologies for determining whether fees paid by an insurer meet the "fair and reasonable" standard.

This memorandum summarizes the initial results for eleven (11) insurers as part of the Office's analysis of the reasonableness of the fees paid by certain insurers writing homeowners policies in the State of Florida during calendar years 2017, 2018 and 2019. In order to form a basis for comparison, the following elements, common to all insurers in the sample were utilized:

- The amount of gross written premiums
- The total amount of fees paid to affiliates
- The percentage of fees paid to affiliates of gross written premiums
- The number of policies in force at the end of each calendar year
- The net income of the insurers
- The net income of affiliates
- Capital contributions
- Forgiveness or waiver of fees owed to affiliates
- Dividends

The analysis was performed at a high level utilizing financial statements and other related documents on file with or requested by the Office. Some of the insurers reviewed in this analysis had agreements in place with affiliates that provided for fees based on an allocation of actual costs. For purposes of this analysis and report, initial conclusions and recommendations regarding the fairness and reasonableness of fees paid to affiliates were based on the following thresholds:

- Fees for affiliated agreements paid by an insurer or insurers may be fair and reasonable on an individual basis, however, when considered with all other fees paid by an insurer or insurers to affiliates may not be fair and reasonable;
- Fees initially determined to be fair and reasonable by the Office based on the information provided by an insurer or insurers, over time may no longer be fair and reasonable based on additional or revised affiliated agreements, or changes in the market;
- The calculation of the net income of affiliated entities for analyzing whether affiliated fees are fair and reasonable should be determined excluding fees earned from non-affiliated entities;
- If the combined net income of the affiliated entities derived from the fees paid by the insurer or insurers is less than the greater of $2 million per year or 110% of the combined net income of the insurers, those fees are presumed to be fair and reasonable;
- If the combined net income of the affiliated entities derived from the fees paid by the insurers in the group is more than the greater of $2 million per year or 110% of the combined net income of the insurers, but less than 115% of the combined net income of the insurers, additional information is required in order to determine if the fees are fair and reasonable;

- If the combined net income of the affiliated entities derived from the fees paid by the insurers in the group is more than the greater of $2 million per year or 115% of the combined net income of the insurers, those fees are presumed not to be fair and reasonable;

A number of the documents utilized were filed with the Office by an insurer as a "Trade Secret". As such, information regarding any of the individual companies discussed in this report may not be released without approval of the Director.

II. Summary

The analysis presented in **Section III** of this report provides details regarding eleven (11) Florida domestic insurers either individually or as a part of a group of insurers. The analysis considered a three-year period (2017-2019) in order to avoid an unusual result based on the results of a single year. The documents available for the analysis differ by insurer, as well as the basis of presentation utilized by the insurers in preparing the various documents. In preparing this analysis, adjustments were made to eliminate the impact of agreements between affiliates that would provide misleading results. Importantly, no adjustment was made to convert GAAP financial information to a statutory basis. As such, the numbers presented in a company specific analysis below should be considered to be materially correct, but not exact.

The fair and reasonable thresholds detailed in **Section I** above were utilized to determine potential follow-up actions for the eleven (11) insurers analyzed. Other actions may be appropriate if the thresholds were set differently.

The chart below provides a summary for the insurers reviewed in the sample. Those insurers reported a total of approximately $2.6 million in net income over the 2017-2019 time period. The affiliates providing services to those insurers recorded approximately $397.3 million in net income. Financial information for some affiliates that provided services to the insurers in the sample was not available at the time this analysis was conducted. As a result, the net income of the affiliates may be understated. In some cases, the net income of an affiliate included debt service expense for funds provided to an insurer.

Totals All Sample Insurance Company / Affiliates	Insurance Company Net Income				Affiliates Net Income			
	2017	2018	2019	Total	2017	2018	2019	Total
All Sample Companies	(20,093,026)	41,651,522	(18,942,442)	2,616,054				
All Sample Companies Affiliates					135,002,124	(213,770,418)	476,099,790	397,331,496
All Capital Contributions / Fee Forgiveness / Surplus Notes	75,296,446	59,371,441	62,643,139	197,311,026				
All Dividends	18,000,000	15,000,000	14,000,000	47,000,000				
Surplus Note Payments to Parent / Affiliates	0	(9,000,000)	0	(9,000,000)				

The information available also shows that the affiliates made capital contributions, forgave or waived fees due under agreements with the insurers in the sample or provided cash by way of surplus notes in the amount of approximately $197 million. $47 million in dividends were paid by insurers during the 2017-2019 time period which reduced the capital of one insurer.

The financial results, including the need for capital contributions or the forgiveness of fees, differed significantly among insurers.

In formulating potential follow-up actions, the Office may also want to consider the following issues which were present in the financial statement of some insurers:

1. Three (3) insurers received capital contributions or issued surplus notes to affiliates to increase their surplus. This may have been done to meet minimum surplus requirements, attain a higher Risk-Based Capital ratio, secure a solvency rating from a rating organization, or to avoid a potential regulatory action.
2. In some cases where the fees shown in this summary were presumed to not be fair and reasonable, that presumption was based on the fees paid after debt service. In those cases, the disparity between the net income of the insurer and the net income of the affiliates would be greater than indicated in the analysis.
3. A number of agreements are 10 or more years old and as such may need to be updated or replaced.

Specifically, with respect to item 2 above, the Office may want to consider whether the provisions of Rule 69O-141.002(2)(q), Florida Administrative Code regarding criteria for determining unsound condition, or which render the continuance of business hazardous to the public or insureds, are applicable (…:has had to rely on frequent substantial capital contributions,…). If so, and an insurer's fees are presumed to not be fair and reasonable, the Office may be able to require revision to those affiliated agreements.

The chart below summarizes the potential follow-up actions for the insurers reviewed.

Report Reference	Company	Potential Follow-up Actions
III.1	Capitol Preferred Insurance Company	Not Reviewed
III.2	Cypress Property and Casualty Insurance Company	Revise Current Affiliated Agreements
III.2	First Community Insurance Company	Obtain Affiliate Fee Data for Further Analysis
III.4	Florida Farm Bureau Casualty Insurance Company	Obtain Affiliate Fee Data for Further Analysis
III.5	Florida Farm Bureau General Insurance Company	Obtain Affiliate Fee Data for Further Analysis
III.6	Homeowners Choice Property and Casualty Insurance Company	Revise Current Affiliated Agreements
III.7	Main Street American Protection Insurance Company	Obtain Affiliate Fee Data for Further Analysis
III.8	Old Dominion Insurance Company	Obtain Affiliate Fee Data for Further Analysis
III.9	Privilege Underwriters Reciprocal Exchange	Revise Current Affiliated Agreements
III.10	Southern Fidelity Insurance Company	Not Reviewed
III.11	Typtap Insurance Company	Review Business Model, Enhanced Monitoring

The recommendations in the table above are further detailed in the sections below.

III. Individual Company Information and Recommendations

III.1 Capitol Preferred Insurance Company

In 2019, Southern Fidelity Property and Casualty Inc. was merged into its affiliate Capitol Preferred Insurance Company ("**Capitol Preferred**"). In August 2020, **Capitol Preferred** was merged into its affiliate, Southern Fidelity Insurance Company ("**Southern Fidelity**"). **Southern Fidelity** received $70 million in capital contributions in 2020, $50 million from its former parent company Southern Fidelity Holding, and $20 million from its current parent Gulf & Atlantic Insurance Companies. Gulf & Atlantic is part of Hudson Structured Capital Management that acquired a majority ownership of Southern

Fidelity in November 2020. Given the change in control and organizational structure in 2019 and 2020, the companies were not reviewed.

III.2 Cypress Property and Casualty Insurance Company

III.2.1 Summary

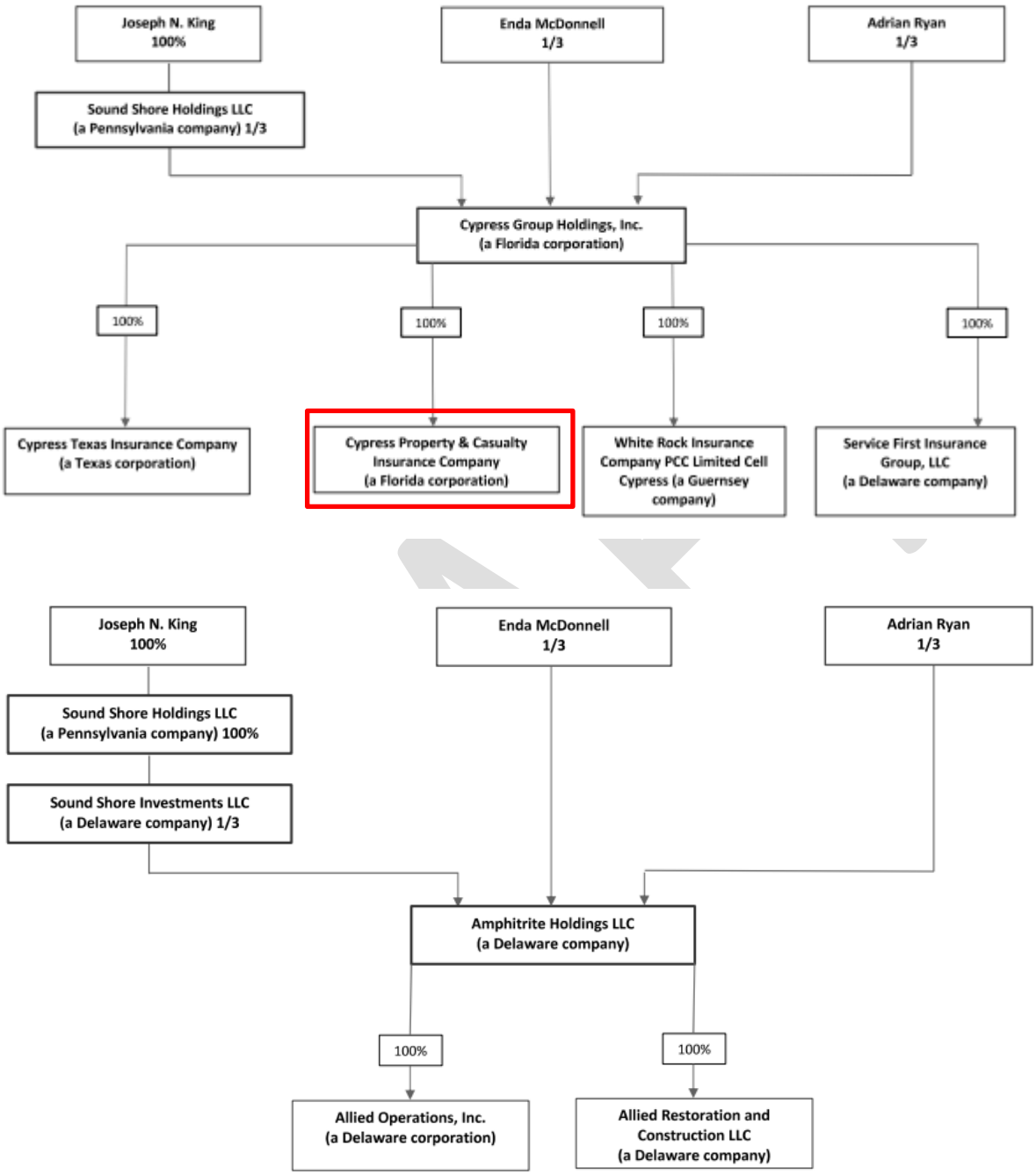
Cypress Property and Casualty Insurance Company ("**Cypress P&C**" or the "Company) is a property and casualty insurance company domiciled in the state of Florida and is a wholly owned subsidiary of Cypress Group Holdings, Inc. ("**Cypress Group**"). Cypress Group wholly owns Cypress Texas Insurance Company ("**Cypress Texas**"), a Texas domiciled insurer, White Rock Insurance Company POCC, a Guernsey domiciled reinsurer, and Service First Insurance Group ("**Service First**"), a managing general agency ("MGA"), that provides marketing and other services for the Company. **Cypress Group** is 1/3 owned and controlled by three individuals; Joseph King, (through Sound Shore Holdings), Edna McDonnell and Adrian Ryan.

During 2020, the three individuals contributed their respective interests in Access Home Holdings LLC (owner of Access Home Insurance Company), Property Claims Professional and Access Home Holdings Ltd to Cypress Group. **Cypress Texas** was merged into **Cypress P&C** and Access Home Insurance Company, a Louisiana domestic, become a wholly own subsidiary of Cypress P&C. As of December 31, 2020, **Cypress Group** wholly owned Property Claims Professionals, **Cypress P&C**, Horseshoe Re Limited (Bermuda), Access Home Managers and Service First. On December 31, 2020, InSure Homes Corporation ("**InSure Corp**") acquired 9.9% ownership in **Cypress Group**, reducing the three individual co-owners share to 30.03%. The individual co-owners each hold an 8.61% share of Insure Homes Holding LLC ("**InSure Holdings**"), the upstream parent of **InSure Corp**, while control rests with 70.35% co-owners Scott Warren, John Shoemaker and Adam Curtin through a series of companies. **InSure Holdings,** now owns 100% of **Allied** through a series of companies.

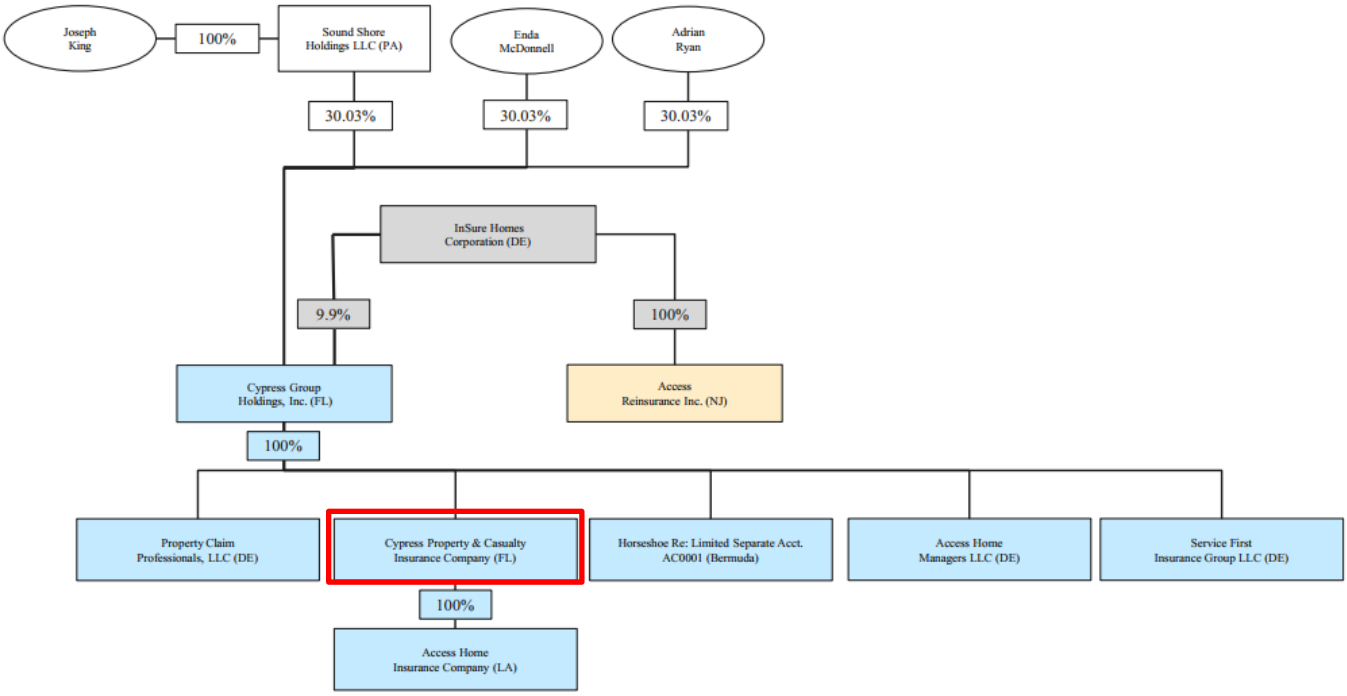
Lines of business written by the Company as of December 31, 2019 included Fire, Allied Lines, Homeowners, Inland Marine, and Other Liability. **Cypress P&C** is only licensed in Florida.

The three individuals that control Cypress Group are owners and joint owners of several insurance and non-insurance entities that provide services for **Cypress P&C**, including Allied Restoration and Construction, LLC ("**Allied**"). Therefore, portions of the organizational chart of the **Cypress Group** as depicted in **Cypress P&C's** December 31, 2019 Annual Statement is listed below:

Organizational Chart as of December 31, 2019



Organizational Chart as of December 31, 2020



During December 2021 the Office requested certain information from **Cypress P&C** regarding its affiliates. Cypress responded in January 2022.

Effective January 1, 2017, **Cypress P&C**, **Cypress Group**, **Service First** and **Cypress Texas** participate in an Agreement to Pay Allocation of Charges. The agreement is marked confidential and trade secret. The agreement automatically renews annually and covers a variety of overhead expenses, such as Accounting, IT, Office Space, HR, and Management. Allocated charges are based on actual costs so that no participant realizes a profit or loss under the agreement.

Cypress P&C entered in an Amended MGA Agreement with **Service First** on July 1, 2017. The agreement is marked "confidential and trade secret". The agreement remains in effect until terminated. MGA Fees were 19% of premiums due on premium due on personal lines and 25% on commercial lines. **Service First** is eligible for additional fees if the **operative commission rates** exceed the rates specified in the agreement for personal lines and commercial lines. Claims administration services were included in the agreement. Claims administration fees were 0.75% of premiums due plus a per claim Claims Handling Fee. If a third party adjusts the claim, **Service First** receives a per claim Third Party Quality Assurance Fee. Effective January 1, 2018, Claim Handling Fees were broken down by activity (desk, field, and quality assurance) and insurance product (HO, GL and Other). **Service First** also collects subrogation for **Cypress P&C** and receives a percentage of gross collections.

The 2017 Amended MGA agreement above was replaced in 2018 to remove the Segregated Trust Account definition and requirement and the arbitration clause. The commission schedule was expanded to cover commission rates by county and address differing rates for independent and two unaffiliated insurer captive agents. The Claims Handling Fee was also adjusted to lower fees to **Service First** if external TPA's are utilized for desk and field adjusting services. **Cypress P&C** paid **Service First** $15,209,622, $18,635,978, and $16,324,381, in 2017, 2019 and 2019, respectively.

Cypress P&C also has a referral agreement with **Allied** to provide claim related mitigation, remediation, and repairs. Allied is not exclusive to **Cypress P&C** and provides services to Cypress Texas and other non-affiliated entities. **Cypress P&C** paid Allied $1,196,469, $2,598,925, and $2,878,825 in 2017, 2018, and 2019, respectively.

During 2018, **Cypress P&C** converted $9 million in surplus notes to contributed capital. In 2020 the OIR approved a $2 million capital contribution to be reflected at year end 2019 in accordance with SSAP 72. As of December 31, 2019, **Cypress P&C** had an outstanding surplus note to the Florida State Board of Administration. Principal and interest payments made on the surplus note were $618,385 in 2017, $615,292 in 2018, and $600,887 in 2019. No dividends were paid in 2017, 2018 or 2019.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Cypress Property & Casualty Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$72,110,752	$70,778,446	$75,389,619
Affiliated MGA Fees	$15,309,622	$15,247,940	$13,217,147
Commission to Affiliates	$0	$0	$0
Other Affiliated Fees	Not Provided	**$0**	**$0**
Total Affiliates Fees		**$15,247,940**	**$13,217,147**
Affiliated Fees % of Gross Premiums Written	**0.00%**	**21.54%**	**17.53%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$9,000,000	$2,000,000
Surplus Note[1,2]	$0	($9,000,000)	$0
Dividends	$0	$0	$0
Policies In Force		Not Provided	

[1]The Company has one or more surplus notes due to the State Board of Administration of Florida which is excluded from this analysis.

[2]Cypress Insurance Company holds a surplus note to its affiliate in the amount of $2,800,000.

III.2.2 Recommendations Regarding Affiliated Fees

1. **Cypress P&C** reported a net loss for two of the three years under review, its total net loss for the period was $(3,920,174). The net income of the affiliates of $32.8 million over the three-year period,

as reported in "Trade Secret" documents, exceeded $2 million and 115% of the combined net income of **Cypress P&C**. This level of fees is presumed not to be fair and reasonable. The Office should consider requiring **Cypress P&C** to refile revised affiliated agreements or replace its affiliated agreements and provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

2. For years under review there were inconsistencies between the amounts reported as expenses paid to affiliates on the companies Underwriting and Investment Exhibit page 11, Notes to Financial Statements Note 10.B., Schedule Y part 2 and Audited Financial Statements Note 9. If the analyst finds material inconsistencies in the review of the 2021 Annual Statement, the analyst should ask the Company for an explanation for the inconsistencies.
3. The Analyst should obtain more information from the Company regarding changes to MGA fees based upon Operative Commission Rates as stated in Cypress P&C's Amended MGA Agreement with Service First.

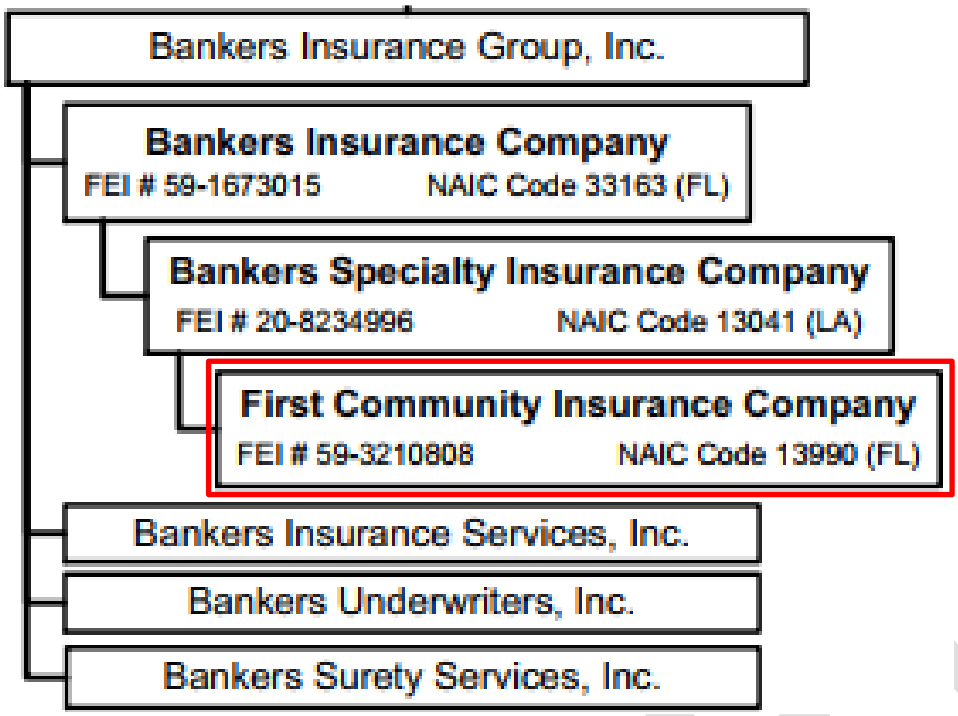
III.3 First Community Insurance Company

III.3.1 Summary

First Community Insurance Company ("**First Community**" or "the Company") is a member of the Bankers International Financial Corporation ("**Bankers International**"). **Bankers International** owns 100% of Bankers Financial Corporation ("**Bankers Financial**"). **Bankers International** executed a Disclaimer of Control by which the officers and directors of **Bankers International** agree they will not exercise control over the activities of **Bankers Financial**. No individual or entity has control of 10% or more over **Bankers Financial**. **Bankers Financial** owns 100% of Bankers Insurance Group ("**Bankers Group**"), that owns 100% of Florida domiciled Bankers Insurance Company ("**Bankers Insurance**"). **Bankers Insurance** owns 100% of Louisiana domiciled Bankers Specialty Insurance Company ("**Bankers Specialty**"), that owns a 100% of **First Community**.

Lines of business written by the Company as of December 31, 2019 included Fire, Allied Lines, Homeowners, Commercial Multi-Peril, Inland Marine, Other Liability and Surety. **First Community** is licensed in 14 states and writes business in nine states, the vast majority of premium is written in Florida.

An excerpt of the organizational chart of the **Bankers Group** as depicted in **First Community's** December 31, 2019 Annual Statement is listed below:



During December 2021 the Office requested certain information from **First Community** regarding its affiliates. **First Community** responded in December 2021.

The Company and several affiliates participate in an Intercompany Affiliated Service Provider and Cost Allocation Agreement with **Bankers Financial**. The agreement is dated 2011, remains in effect until terminated, and covers services and facilities shared by the group. Services include Accounting Tax and Auditing, Underwriting, Claims, Investments and Functional Support Services (Legal, IT, HR, Marketing, Internal Audit and Executive Management). Services are provided at cost and without a profit factor.

The Company and several affiliates participate in a Master Agency Agreement with **Bankers Insurance Services**. The agreement is dated July 31, 2000, remains in effect until terminated, and covers agent, agency and claim services. The Company pays a 12% commission on homeowners net written premiums on new and renewal business under the agreement. The commission rate has not changed since inception of the agreement. The Company paid **Bankers Insurance Services** $193,000, $188,000, and $231,011 for services in 2017, 2018, and 2019, respectively.

The Company has a Managing General Agency Agreement with **Bankers Underwriters**. The agreement is dated August 27, 2010 and remains in effect until terminated. The agreement provides for policy administration, claim administration, accounting, and facultative reinsurance. The Company pays up to 4% commission on net written premiums on new and renewal business under the agreement. Covered lines include artisan, builders' risk, businessowners, commercial general liability,

fire, excess flood, homeowners, and workers' compensation. The Company paid **Bankers Underwriters** $4,856,000, $4,350,000, and $4,370,548 for services in 2017, 2018, and 2019, respectively.

The Company has a General Agency Agreement with **Bankers Surety Services**. The agreement is dated January 1, 2009 and remains in effect until terminated. The agreement provides for policy administration, bonds, and renewals. The Company pays 6% commission on direct written premiums for state and federal bail bonds and immigration bonds. The Company paid **Bankers Surety Services** $1,210,000, $1,003,000, and $911,734 for services in 2017, 2018, and 2019, respectively.

The Company has an Administration Services Agreement with **BinTech Partners**, a wholly owned subsidiary of **Bankers Financial**. The agreement is dated April 1, 2012 and automatically renews annually. The Company pays a 3% commission on homeowners, excess flood, and business owners, and 5% on builder risk and commercial general liability on gross written premiums on new and renewal business under the agreement. Fees cover policy and claim administration and are capped at 115% of BinTech expenses incurred. Based on the information provided, we were unable to determine fees paid to **BinTech Partners** for the periods under review.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

First Community Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$123,153,058	$114,208,085	$122,784,535
Commission to Affiliates	$6,258,124	$5,541,605	$5,513,293
Other Affiliated Fees	$2,222,051	$2,901,559	$3,384,385
Total Affiliates Fees	$8,480,175	$8,443,164	$8,897,678
Affiliated Fees % of Gross Premiums Written	6.89%	7.39%	7.25%
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

First Community reported net losses in all years under review, $(2,117,292) in 2017, $(7,186,902) in 2018, and $(350,349) in 2019, for a total net loss over the three-year period of $(9,654,543). During the same period, **First Community** affiliates providing services to the Company reported a combined net income of $51,545. Affiliates providing services to **First Community** are not exclusive and provide services to other members of the **Bankers Group**. Based on the information provided, we were unable to determine if these affiliates provided services outside of the **Bankers Group**.

III.3.2 Recommendations Regarding Affiliated Fees

1. First Community is one of many Bankers Group affiliates that pay fees, and receive services, from affiliated companies. As a result, we were unable to determine if fees paid to affiliates are fair and reasonable based on combined net income of the affiliated entities providing services. The Office should consider requesting additional information regarding fees **First Community** paid to **BinTech Financial** during the period under review to determine fees are fair, reasonable and consistent with the agreement.

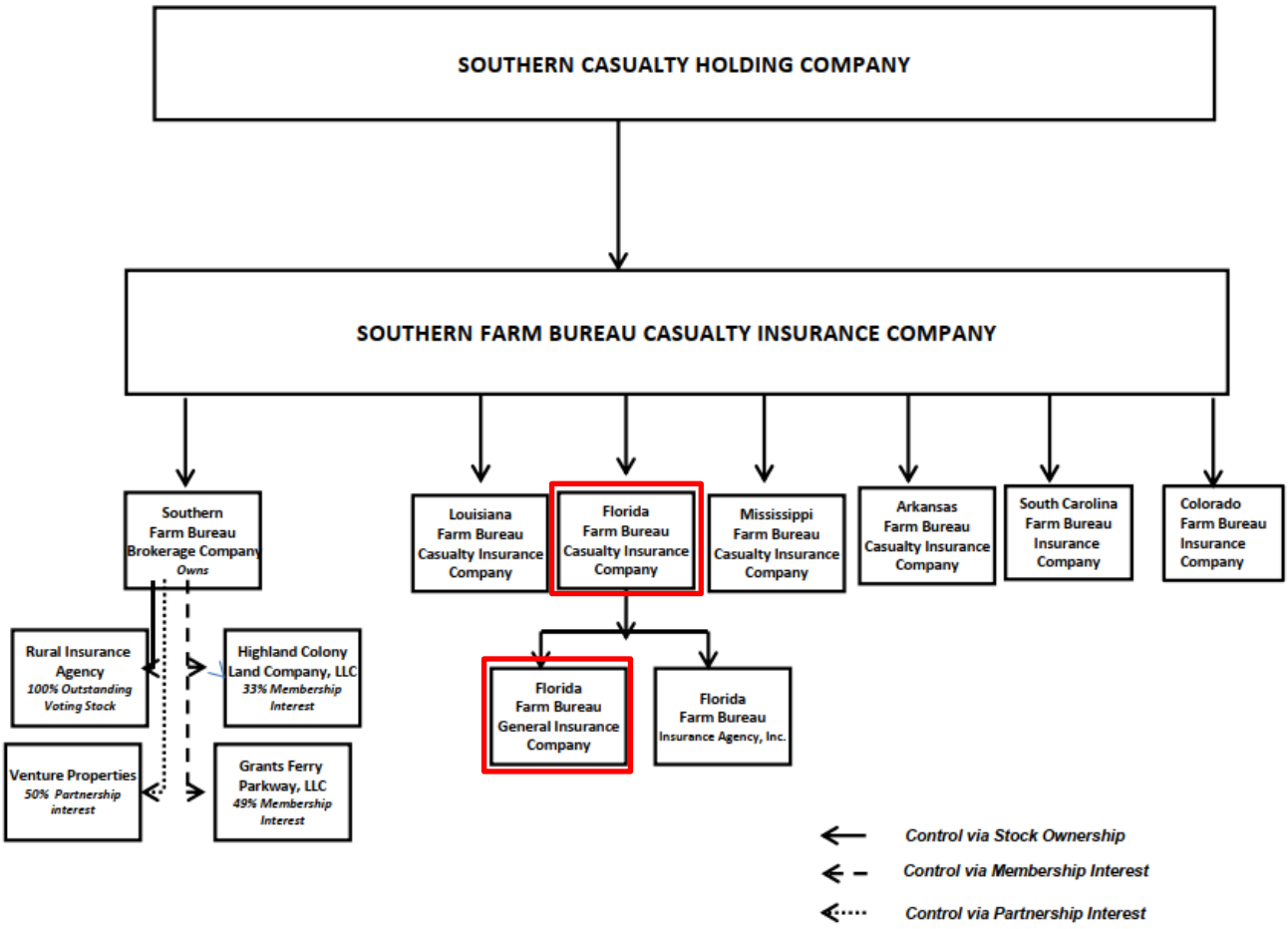
III.4 Florida Farm Bureau Casualty Insurance Company

III.4.1 Summary

The Florida Farm Bureau Casualty Insurance Company ("**FFB Casualty**") is 100% owned by Mississippi domiciled Southern Farm Bureau Casualty Insurance Company ("**Southern FB Casualty**"). **Southern FB Casualty** is 100% owned by Southern Casualty Holding Company ("**Southern Casualty Holding**"). Florida Farm General Insurance Company ("**FFB General**") and Florida Farm Bureau Insurance Agency ("**FFB Agency**") are 100% owned by **FFB Casualty**. **Southern Casualty Holding** is owned/controlled by six Farm Bureau federations/organizations in Arkansas, Colorado, Florida, Louisiana, Mississippi, and South Carolina.

FFB Casualty and **FFB General** are only licensed in Florida. Lines of business written by both entities as of December 31, 2019 included Fire, Allied Lines, Homeowners Multi-Peril, Commercial Multi-Peril, Mobile Home Multi-Peril, Inland Marine, Burglary and Theft, Glass, Commercial Auto, Private Passenger Auto, Other Liability and Fidelity. **FFB General** cedes 100% of its business, net of the Florida Hurricane Catastrophe Fund, to **FFB Casualty**.

An organizational chart of the **Southern Casualty Holding** as depicted in **FFB Casualty** and **FFB General's** December 31, 2019 Annual Statement is listed below:



During December 2021 the Office requested certain information from Florida Farm Bureau regarding its affiliates. Florida Farm Bureau responded in February 2022.

FFB Casualty participates in a Joint Expense Allocation Agreement with **FFB General**. The signed agreement is undated and, pursuant to the February 13, 2009 cover letter, effective when approved by the Florida Insurance Commissioner. Loss Adjustment Expense, Information Technology and other expenses under the agreement are allocated based on claims and policies-in-force. **FFB General** was allocated $12,384,824, $13,096,754 and $12,360,286, in 2017, 2019 and 2019, respectively.

FFB Casualty and **FFB General** participate in a Cost Sharing Service Agreement effective July 1, 2005, with the Florida Farm Bureau Federation ("**FFB Federation**") and its affiliates to share management and operational support. Fee are based on allocations and per month fees depending on service provided. **FFB Federation** reimburses **FFB Casualty** and **FBB General** "timely". Based on the information provided, we were unable to determine fees paid by **FFB Federation** for the periods under review.

FFB Casualty participates in a Cost Sharing Agreement effective July 1, 2005, with **FFB Agency** to share management and operation support. Fee are based on allocations and per month fees depending on service provided. **FFB Agency** reimburses **FFB Casualty** "timely". **FFB Agency** was allocated $510,111, $516,501, and $505,557, in 2017, 2018 and 2019, respectively.

FFB Casualty participates in an Insurance Company Service Fee Agreement effective July 1, 2018, with **FFB Agency**. This agreement replaced a similar agreement dated July 1, 2005. **FFB Agency** pays a service fee to **FFB Casualty** for brokerage business with a variety of non-affiliated insurers. **FFB Agency** paid **FFB Casualty** fees of $1,846,519 (Form B $1,882,125), $1,617,668, and $1,385,737 in 2017, 2019 and 2019, respectively.

FFB Casualty participates in an Expenses Allocation Agreement with **Southern Casualty**. The signed agreement is undated and, pursuant to the February 13, 2009 cover letter, effective when approved by the Florida Insurance Commissioner. **Southern Casualty** home office expenses are allocated to **Southern Casualty**, Mississippi Farm Bureau Casualty Insurance Company and **FFB Casualty** based on policies-in-force. **FFB Casualty** was allocated $3,835,534, $4,216,906 and $4,463,801, in 2017, 2019 and 2019, respectively.

FFB Casualty and **FFB General** participate in a Licensing Agreement with the Florida Farm Bureau Federation to use the Farm Bureau name and logo in which the companies pay 0.87% on direct written premium. Based on the information provided, we were unable to determine fees paid to **FFB Federation** for the periods under review.

FFB Casualty and **FFB General** did not receive capital contributions, issue or hold surplus notes, or pay dividends during the period under review.

Information regarding the fees paid to affiliates and policies in force is presented in the tables below.

Florida Farm Bureau Casualty Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$315,819,002	$333,922,477	$347,021,180
Claims Administration Fees to Affiliates	$0	$0	$0
Commission to Affiliates	$0	$0	$0
Other Affiliated Fees	$3,835,534	$4,216,906	$8,163,359
Affiliated Fee Revenue	($2,356,630)	($2,134,169)	($1,891,294)
Total Affiliates Fees	**$1,478,904**	**$2,082,737**	**$6,272,065**
Affiliated Fees % of Gross Premiums Written	**0.47%**	**0.62%**	**1.81%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	61,656	61,505	59,471

Florida Farm Bureau General Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$209,305,362	$223,090,875	$234,930,164
Claims Administration Fees to Affiliates	$0	$0	$0
Commission to Affiliates	$0	$0	$0
Other Affiliated Fees	$12,384,824	$13,096,754	$12,360,286
Total Affiliates Fees	**$12,384,824**	**$13,096,754**	**$12,360,286**
Affiliated Fees % of Gross Premiums Written	**5.92%**	**5.87%**	**5.26%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	134,493	133,937	128,648

FFB Casualty reported net income in 2017 and 2019 and a net loss in 2019, resulting a total net income of $125,848 for the three-year period under review**. FFB Casualty's** wholly owned subsidiary, **FBB Agency**, reported a net income of $185,911 for the period under review. **FBB General** reported net income in all three years, resulting in a total net income of $1,085,793 for the three-year period under review. **FFB Casualty's** parent company, **Southern Casualty**, reported a net income of $155 million over the same three-year period.

III.4.2 Recommendations Regarding Affiliated Fees

1. NONE - The fees paid to affiliates are presumed to be fair and reasonable. The majority of **FBB Casualty** and **FBB General** expenses are borne by the regulated insurance entities, not through affiliated contracts. The companies do participate in several cost sharing arrangements with affiliates for operational efficiencies. None of the cost sharing arrangements are based on a percentage of premium.

2. The Office should consider requesting additional information regarding fees **FFB Federation** paid to **FB Casualty** and **FB General** under the Cost Sharing Agreement during the period under review to determine fees are fair, reasonable and consistent with the agreement.
3. The Office should consider requesting additional information regarding fees **FFB Federation** paid to **FB Casualty** and **FB General** under the Licensing Agreement during the period under review to determine fees are fair, reasonable and consistent with the agreement.

III.5 Florida Farm Bureau General Insurance Company

Florida Farm Bureau General Insurance Company is a wholly owned subsidiary of Florida Farm Bureau Casualty Insurance Company. See Section III.3 for the review of Florida Farm Bureau Casualty Insurance Company which includes detailed information regarding Florida Farm Bureau General Insurance Company.

III.6 Homeowners Choice Property and Casualty Insurance Company

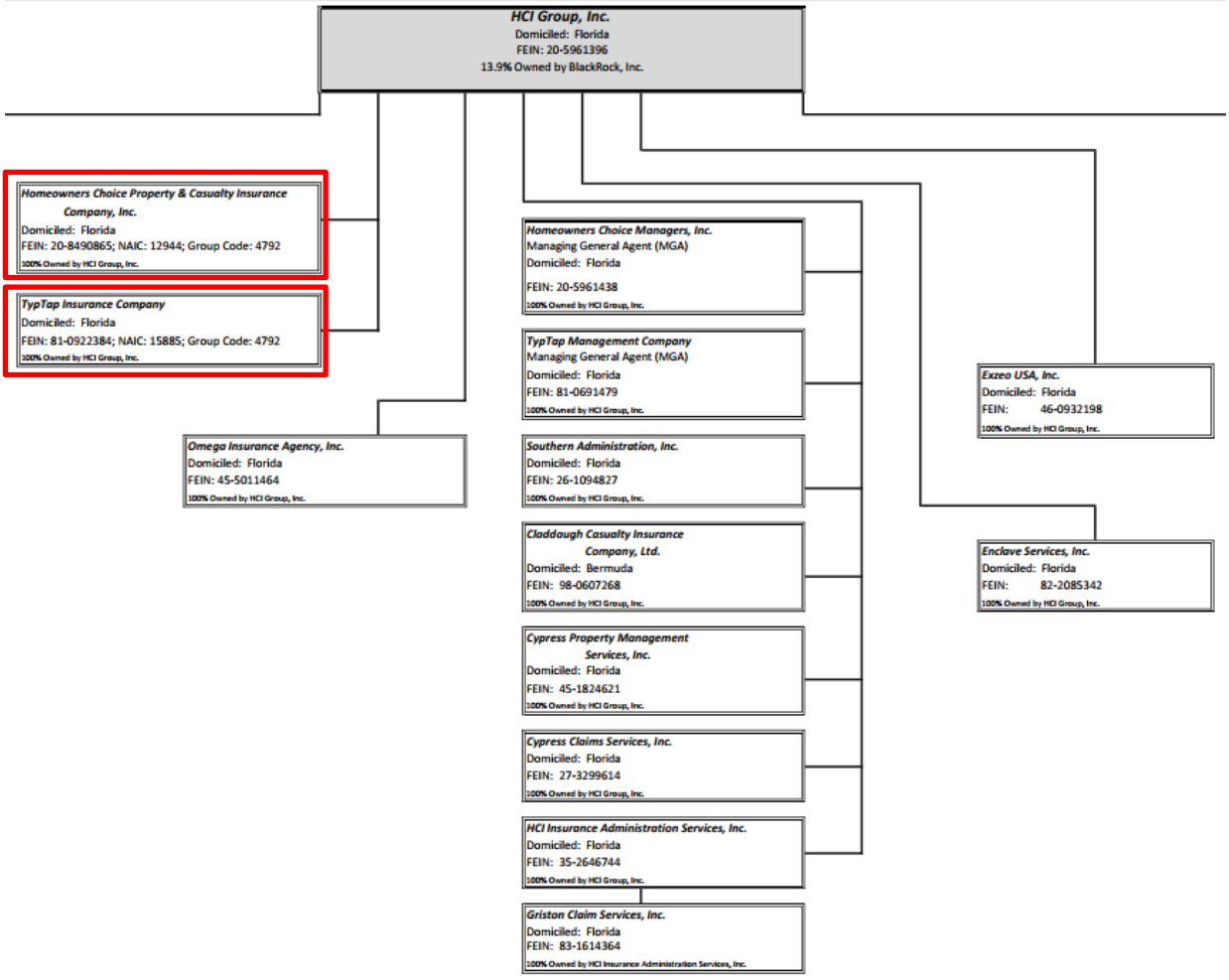
III.6.1 Summary

Homeowners Choice Property and Casualty Insurance Company ("**Homeowners Choice**") is a member of the **HCI Group**. The HCI Group consists of two Florida domiciled insurers, Homeowners Choice and Typtap Insurance Company ("**Typtap**"), and a number of insurance, reinsurance, real estate and information technology related businesses.

Homeowners Choice is licensed in Arkansas, California, Florida, Maryland, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina and Texas. Virtually all premium is written in Florida. **Typtap** is licensed only in Florida.

Homeowners Choice is authorized to write Fire, Allied Lines, Homeowners Multi-Peril, Mobile Home Multi-Peril and Commercial Multi-Peril. **Typtap** is authorized to write Allied Lines and Homeowners Multi-Peril.

A copy of the organization chart from the HCI 2019 Annual Statement showing **Homeowners Choice**, **Typtap** and affiliates is provided below.



During December 2021 the Office requested certain information from Homeowners Choice and Typtap regarding affiliates. Homeowners Choice and Typtap responded in December 2021.

Homeowners Choice and **Typtap** participate in a Cost Apportionment Contract Agreement dated January 4, 2018, with its parent **HCI Group** and several affiliates. Direct costs are paid by the respective entities and shared cost are equitably allocated between all participants. **Homeowners Choice** paid **HCI Group** $3,070,967, $2,473,158 and $2,755,986, and **Typtap** paid HCI $79,847, $225,000, and $864,000 in 2017, 2018 and 2019, respectively.

Homeowners Choice has an exclusive Managing General Agency Agreement with Homeowners Choice Managers ("**HC Managers**") dated March 30, 2007. The initial agreement term was three years, and it renews annually. The agreement was amended December 6, 2016 to allow the MGA to waive its fees due from the Company. The agreement covers all aspects of **Homeowners Choice** operations, including agency, policy services, underwriting, claim handling, and reinsurance. **HC Managers** receives a $25 policy fee, 21.5% of written premium for MGA services, 3.5% of written premium for claim services, 0.5% of written premium for catastrophe response preparation, and 50%

of salvage and subrogation recoveries. Total premium based fees amount to 25.5% of written premium. Additionally, catastrophe claims are eligible for additional fees based on gross loss ranging from $325 to 3% of the gross loss. **Homeowners Choice** paid **HC Managers** $100,277,818, $92,745,633 and $84,796,088 in 2017, 2018 and 2019 respectively.

HC Managers contact with **Southern Administration** for the exclusive policy administration activities of **Homeowners Choice**. **HC Managers** pays **Southern Administration** $40 per policy issued, amounting to $5,423,400, $4,813,240, and $4,248,520 in 2017, 2018 and 2019, respectively.

Homeowners Choice participated in a catastrophe excess of loss reinsurance contracts an affiliated reinsurer, Claddaugh Casualty Insurance Company (Bermuda).

Typtap has an exclusive Managing General Agency Agreement with Typtap Management Company ("**Typtap Management**") dated January 4, 2016. The initial agreement term was three years, and it renews annually. The agreement covers all aspects of **Typtap** operations, including agency, policy services, underwriting, claim handling, and reinsurance. **Typtap** Management receives a $25 policy fee, 21.5% of written premium for MGA services, 3.5% of written premium for claim services, 0.5% of written premium for catastrophe response preparation, and 50% of salvage and subrogation recoveries. Total premium based fees amount to 25.5% of written premium. Additionally, catastrophe claims are eligible for additional fees based on gross loss ranging from $325 to 3% of the gross loss. **Typtap** paid **Typtap** Management $2,348,570, $3,656,115 and $15,122,770 in 2017, 2018 and 2019 respectively.

Typtap Management contracts with affiliates, Omega Insurance Agency for personal and commercial line sales, and Griston Claims Services for claim adjusting service, for **Typtap** business.

Typtap has a software licensing agreement with **Exzeo** USA effective January 4, 2016. **Exzeo** provides SAMS policy administration and claim management software. **Typtap** pays Exzeo $7.50 per policy plus $50,000 per quarter. The quarterly fee is waived when per policy license fees exceed 10,000 policies. **Typtap** paid **Exzeo** $11,258, $70,793 and$ 81,893 in 2017, 2018 and 2019 respectively.

Homeowners Choice did not receive capital contributions or issue or hold surplus notes, during the period under review. **Homeowners Choice** paid dividends to **HCI Group** of $18 million in 2017, $15 million in 2018, and $14 million in 2019.

Typtap did not issue or hold surplus notes or pay dividends, during the period under review. **Typtap** received a $5 million capital contribution from **HCI Group** in 2019.

Information regarding the fees paid to affiliates and policies in force is presented in the tables below.

Homeowners Choice Property & Casualty Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$342,057,959	$324,946,807	$307,337,417
Affiliated MGA Fees	$100,277,818	$92,745,633	$84,796,088
Other Affiliated Fees			
Total Affiliates Fees	**$100,277,818**	**$92,745,633**	**$84,796,088**
Affiliated Fees % of Gross Premiums Written	**29.32%**	**28.54%**	**27.59%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Surplus Note[1]	$0	$0	$0
Dividends	$18,000,000	$15,000,000	$14,000,000
Policies In Force		Not Provided	

Typtap Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$8,848,355	$14,779,969	$60,935,541
Affiliated MGA Fees	$2,348,570	$3,656,115	$15,122,770
Other Affiliated Fees	$11,258	$70,793	$81,893
Total Affiliates Fees	**$2,359,828**	**$3,726,908**	**$15,204,663**
Affiliated Fees % of Gross Premiums Written	**26.67%**	**25.22%**	**24.95%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$5,000,000
Surplus Note[1]	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force		Not Provided	

Homeowners Choice reported a net loss of $(10,511,420) in 2017 and net incomes of $20,758,495 and $18,442,929 in 2018 and 2019, respectively. **Homeowners Choice's** net income for the three-year period under review was $28,690,004. **Tytap** reported net losses of $(796,620) in 2017 and $(5,164,268) in 2019, and a net income of $2,034,150 in 2018. **Tytap's** net loss for the three-year period under review was $(3,926,738) and losses continued in 2020 and 2021.

Homeowners Choice and **Typtap** each utilize MGA's for the majority of policy and claim processing activities. **Homeowners Choice** paid $47 million in dividends during the period under review.

III.6.2 Recommendations Regarding Affiliated Fees

1. **Homeowners Choice** reported a net income for two of the three years under review, its total net income for the period was $28,690,004. The net income of its affiliated MGA of $85,020,421 over the three-year period, as reported in "Trade Secret" documents, exceeded $2 million and 115% of

the combined net income of **Homeowners Choice**. This level of fees is presumed not to be fair and reasonable. The Office should consider requiring **Homeowners Choice** to refile revised affiliated agreements or replace its affiliated agreements and provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

2. Based on **Typtap's** operational results, the Office should consider meeting with the Company to discuss the long-term viability of the current business plan and potentially require a new business plan. The Office may also wish to consider enhanced monitoring of the Company.

III.7 Main Street America

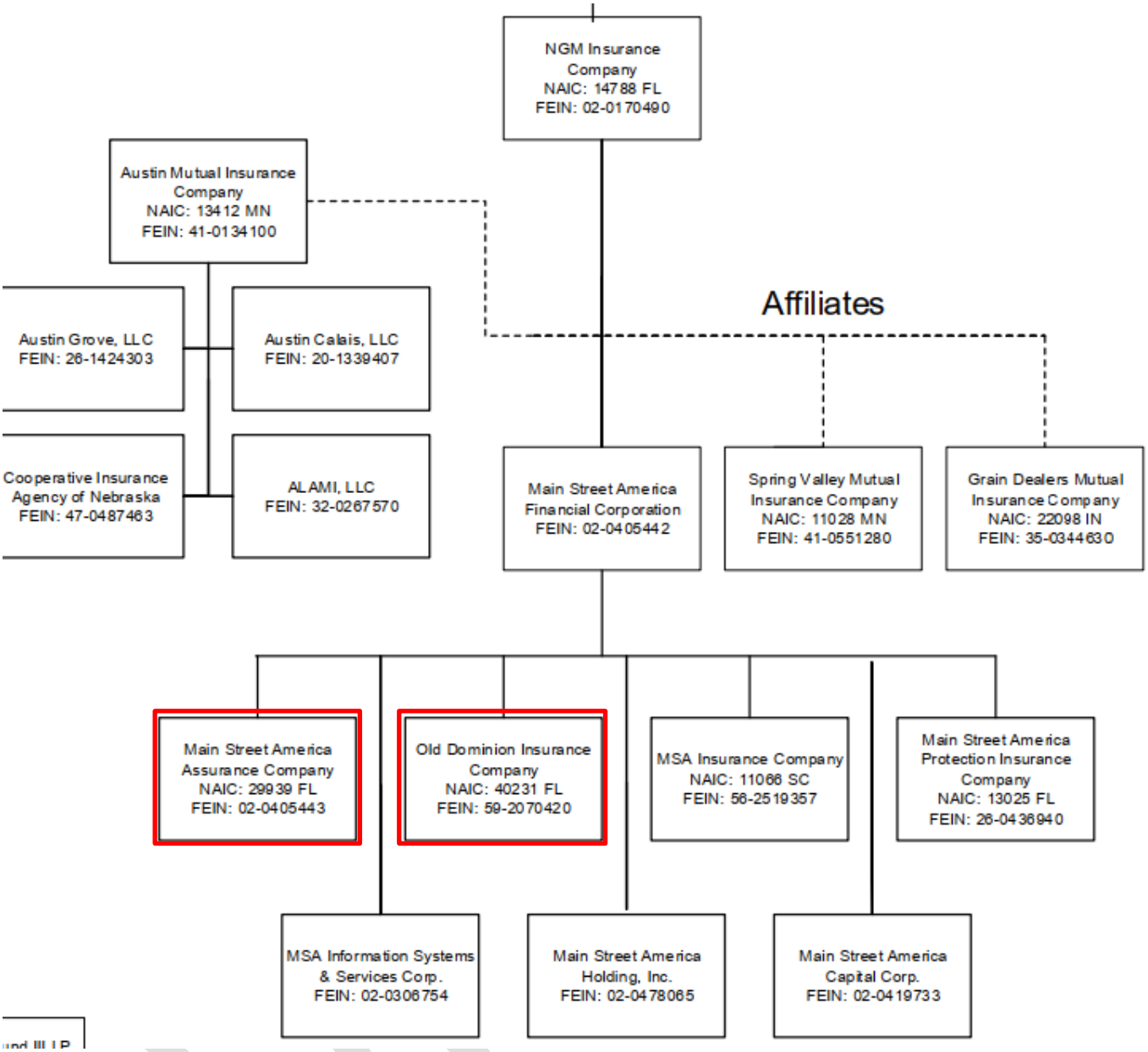
III.7.1 Summary

The Main Street America Protection Insurance Company ("**Main Street**") and Old Dominion Insurance Company ("**Old Dominion**") are wholly owned subsidiaries of Mainstreet America Financial Corporation. ("**Mainstreet Financial**"). Mainstreet Financial is wholly owned by NGM Insurance Company ("**NGM**"), a Florida domiciled insurer. The ultimate parent in the group is the American Family Mutual Holding Company.

During the period under review **Main Street** was authorized to write business in Alabama, Florida, Georgia, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Hampshire, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, and Virginia. Florida represented approximately 35% of **Main Street's** business. **Main Street** was authorized to write Fire, Allied Lines, Burglary and Theft, Commercial Multi-Peril, Fidelity, Surety, Inland Marine, Earthquake, Workers' Compensation, Other Liability, Private Passenger Auto, and Boiler and Machinery.

During the period under review **Old Dominion** was authorized to write business in Connecticut, Delaware, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, and Virginia. Florida represented approximately 40% of **Old Dominion's** business. **Old Dominion** was authorized to write Fire, Allied Lines, Homeowners Multi-Peril, Burglary and Theft, Commercial Multi-Peril, Surety, Inland Marine, Earthquake, Workers' Compensation, Other Liability, Private Passenger Auto, Commercial Auto, Mobile Home Multi-Peril and Glass.

A copy of the organization chart from the **Main Street** 2019 Annual Statement showing **Main Street, Old Dominion** and its affiliates is provided below.



In December 2021 the Office requested certain information from **Main Street** regarding its affiliates. Requested information was provided to the Office in December 2021.

Main Street and **Old Dominion** participate in an intercompany pooling arrangement with NGM Insurance Company. Both companies cede 100% of its premium to **NGM** and report $0 earned premium for the period under review.

Main Street, **Old Dominion** and several affiliates participate in an Intercompany Expense Allocation Agreement with **NGM**, effective June 30, 2007. **NGM** provides a number of administrative and managerial services. **Main Street** and **Old Dominion** both reported $0 management fees paid to

affiliates in the Underwriting and Investment Exhibit Part 3 footnote, "None" for affiliated transactions greater that ½% of admitted assets in Note 10 of the Annual Statement Notes to Financial Statements, and nothing in Schedule Y Part 2 Colum 8 regarding affiliated Management Agreements and Service Contacts.

Main Street and **Old Dominion** did not issue or hold surplus notes or pay dividends during the period under review. **Main Street** received a $7 million capital contribution in 2017 and **Old Dominion** did not receive capital contributions during the period under review.

Information regarding the fees paid to affiliates and policies in force is presented in the tables below.

Main Street America Protection Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$65,855,442	$118,365,171	$198,721,144
Commission to Affiliates	$0	$0	$0
Other Affiliated Fees	$0	$0	$0
Total Affiliates Fees	**$0**	**$0**	**$0**
Affiliated Fees % of Gross Premiums Written	**0.00%**	**0.00%**	**0.00%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$7,000,000	$0	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force		Not Provided	

Old Dominion Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$206,649,401	$202,296,524	$151,456,049
Commission to Affiliates	$0	$0	$0
Other Affiliated Fees	$0	$0	$0
Total Affiliates Fees	**$0**	**$0**	**$0**
Affiliated Fees % of Gross Premiums Written	**0.00%**	**0.00%**	**0.00%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force		Not Provided	

Main Street had a net income totaling $1,123,479 over the three-year period under review. **Old Dominion** had a net loss of $(523,964).

III.7.2 Recommendations Regarding Affiliated Fees

1. NONE - The fees paid to affiliates are presumed to be fair and reasonable. The majority are borne by the regulated insurance entities, not through affiliated contracts. The companies do participate in a cost sharing arrangement with affiliates for operational efficiencies.
2. **Main Street America** and **Old Dominion** did not report any expenses paid to affiliates on the companies Underwriting and Investment Exhibit page 11, Notes to Financial Statements Note 10.B. and Schedule Y part 2. The Office should consider requesting additional information regarding fees **Main Street** and **Old Dominion** paid to **NGM** under the Intercompany Expense Allocation Agreement during the period under review to determine fees are fair, reasonable and consistent with the agreement and why the transactions were not reported in the above exhibits.

III.8 Old Dominion Insurance Company

The Old Dominion Insurance Company ("Old Dominion") is a wholly owned subsidiaries of Mainstreet America Financial Corporation. ("Mainstreet Financial"). Mainstreet Financial is wholly owned by NGM Insurance Company, a Florida domiciled insurer. The ultimate parent in the group is the American Family Mutual Holding Company. See Section III.7 for the review of Main Street America Protection Insurance Company which includes detailed information regarding Old Dominion Insurance Company.

III.9 Privilege Underwriters Reciprocal Exchange

III.9.1 Summary

Privilege Underwriters Reciprocal Exchange ("**PURE**" or "the "Reciprocal") is a non-assessable unincorporated aggregation of subscribers governed by a Subscribers' Advisory Committee ("SAC"), which is similar to a Board of Directors. All of the Reciprocal's operations are managed by its attorney-in-fact, Pure Risk Management ("**Pure Risk**"), that is 100% owned by Privilege Underwriters, Inc. ("**Privilege Underwriters**"). In 2020, **Privilege Underwriters** was sold to HCC Insurance Holdings, a wholly owned subsidiary of Tokio Marine & Nichido Fire Insurance Company, Ltd. ("**Tokio Marine**"). Privilege is now a member of the **Tokio Marine** holding company.

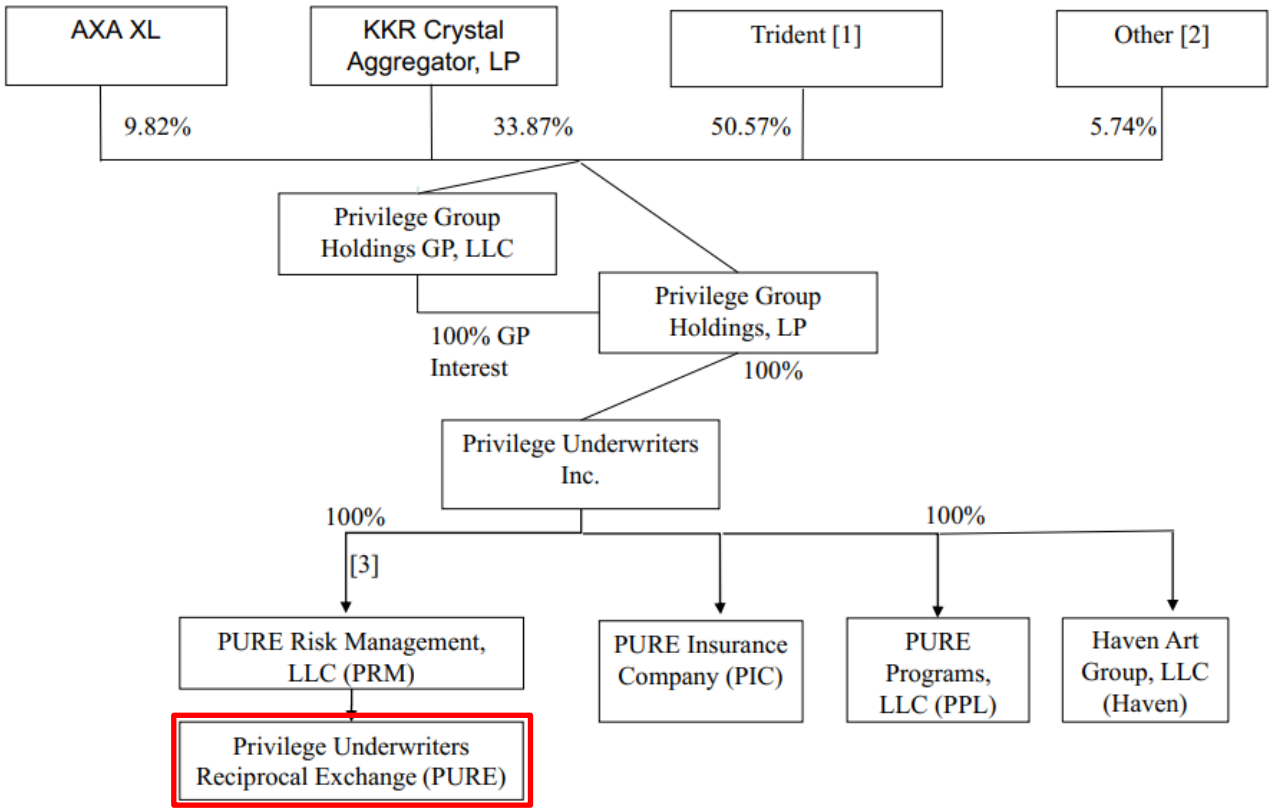
The Reciprocal and **Tokio Marine** entered into a "keep well" agreement in which **Tokio Marine** provided direct and explicit support if the Reciprocals risk-based capital ratio fall below 300%.

Each Reciprocal member makes surplus contributions (10% for homeowners and watercraft policies and 4% for all other policies) for the first five years of their membership.

At year-end 2019, **PURE** was licensed in 49 states (excluding Idaho) and the District of Columbia. It is authorized to write Homeowners Multi-peril, Allied Lines, Workers' Compensation, Ocean Marine, Private Passenger Auto, Commercial Auto, Other Liability, and inland Marine. The majority of premiums is Homeowners written in California, Florida, New York, and Texas. Florida represented approximately 16% of **PURE's** business.

The Reciprocal has six (6) outstanding surplus notes totaling $112,296,512 as of December 31, 2019, with various maturities between 2021 through 2028.

The organizational chart from the 2019 Annual Statement of **PURE** is included below for reference.



1) Represents the combined ownership of four Cayman Islands exempt limited partnerships, which are investment funds managed by Stone Point Capital LLC.
2) Certain individuals, including the management of PUI, collectively own 5.74% of the outstanding voting securities of Privilege Group Holdings GP, LLC. No individual or entity except as otherwise identified, owns 10% or more of the outstanding voting securities of the Group
3) PRM serves as Attorney-in-fact for PURE

In December 2021 the Office requested certain information from **PURE** regarding its affiliates. The requested information was provided to the Office in January 2022.

PURE participates in an attorney-in fact agreement with **Pure Risk** initially effective January 24, 2007, and renewed May 24, 2018. The 2018 version added pro-rata refunds to **PURE** on cancelled policies and **Pure Risk** indemnification provisions. The agreement has an initial term of 5 years and automatically renews annually unless terminated. **Pure Risk** provides all service for the **Reciprocal** and receives 17% of gross written premium for underwriting and marketing services and 5% for claim management service (22% total). Fees for the periods under review were $173,920,071, $205,775,763 and $247,250,789, for 2017, 2018 and 2019, respectively.

PURE participates in a Broker Agency Agreement with **Privilege Underwriters** that was effective April 25, 2007 and remains in effect until terminated. Members or **Privilege Underwriters** chose to have policies issued with or without commissions a 10% commission for all lines. Commissions for the year under review were $1,383,562, $1,775,079, and $1,834,677 in 2017,2018 and 2019, respectively.

PURE received $149 million in capital contributions from its members, as required for reciprocal membership noted above, during the three-year period under review. **PURE** issued a $25 million surplus note in 2017. As of December 31, 2019, **PURE** had surplus notes to the Florida State Board of Administration and various entities. Principal and interest payments made on the surplus note were $6,379,719 in 2017, $13,319,589 in 2018, and $8,508,703 in 2019. **PURE** did not pay any dividends during the period under review.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Privilege Underwriters Reciprocal Exchange			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$781,333,326	$962,930,202	$1,152,767,916
Claims Administration Fees	$35,506,266	$43,100,627	$52,557,785
Commission to Affiliates	$1,383,562	$1,775,079	$1,834,677
Other Affiliated Fees	$138,413,805	$162,675,136	$194,693,004
Total Affiliates Fees	**$175,303,633**	**$207,550,842**	**$249,085,466**
Affiliated Fees % of Gross Premiums Written	**22.44%**	**21.55%**	**21.61%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$43,296,446	$50,371,441	$55,643,139
Surplus Note[1]	$25,000,000	$0	$0
Dividends	$0	$0	$0
Policies In Force	260,638	304,976	342,170

[1]The Company has one or more surplus notes due to the State Board of Administration of Florida which is excluded from this analysis.

III.9.2 Recommendations Regarding Affiliated Fees

1. **PURE** reported a net loss for two of the three years under review, its total net loss for the period was $(9,297,858). The net income of Pure Risk, its attorney-in-fact, of $176,117,543 over the three-year period, exceeded $2 million and 115% of the combined net income of **PURE**. This level of fees is presumed not to be fair and reasonable. The Office should consider requiring **PURE** to refile revised affiliated agreements or replace its affiliated agreements and provide documentation and financial projections that demonstrate that the proposed fees are fair and reasonable.

III.10 Southern Fidelity Insurance Company

In 2019, Southern Fidelity Property and Casualty Inc. was merged into its affiliate Capitol Preferred Insurance Company ("**Capitol Preferred**"). In August 2020, **Capitol Preferred** was merged into its affiliate, Southern Fidelity Insurance Company ("**Southern Fidelity**"). **Southern Fidelity** received $70 million in capital contributions in 2020, $50 million from its former parent company Southern Fidelity Holding, and $20 million from its current parent Gulf & Atlantic Insurance Companies. Gulf & Atlantic is part of Hudson Structured Capital Management that acquired a majority ownership of Southern Fidelity in November 2020. Given the change in control and organizational structure in 2019 and 2020, the companies were not reviewed.

III.11 Typtap Insurance Company

Typtap Insurance Company is a wholly owned subsidiary of the HCI Group. See Section III.6 for the review of Homeowners Choice Property & Casualty Insurance Company which includes detailed information regarding Typtap Insurance Company.

AFFILIATED FEE ANALYSIS MEMORANDUM

****INFORMATION CONTAINED HEREIN IS CONSIDERED CONFIDENTIAL AND/OR TRADE SECRET PURSUANT TO SECTIONS 624.4212 AND 624.4213, FLORIDA STATUTES****

TO: Virginia Christy
Director, Property and Casualty Financial Oversight

FROM: Jan Moenck

DATE: March 31, 2022

SUBJECT: Affiliated Fee Analysis – Phase 4

I. Overview

While some insurers doing business in Florida perform most or all of the functions necessary to the operation of an insurance company utilizing their own employees, a significant number of insurers contract one or more of the those functions to affiliated entities or to a third party. The contracted functions may incude any of the following: accounting, actuarial, management of investments, information technology administration, policy issuance and administration, underwriting, reinsurance intermediary services, claims investigation and settlement. The National Association of Insurance Commissioners Statutory Statement of Accounting Principles No. 25 reads in part:

1. Related party transactions are subject to abuse because reporting entities may be induced to enter into transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its policyholders. As such, related party transactions require specialized accounting rules and increased regulatory scrutiny.

The purpose of this analysis was to undertake a comprehensive review of the fees paid in material related party transactions by a sample of insurers writing homeowners policies in the State of Florida. Administrative Rule 69O-143.047, Florida Administrative Code, sets certain standards regarding material transactions between an insurer and its affiliates and reads in part:

"(1) Material transactions by registered insurers with their affiliates shall be subject to the following standards:
(a) The terms shall be fair and reasonable;
(b) Charges or fees for services performed shall be reasonable;
(c) Expenses incurred and payment received shall be allocated to the insurer in conformity with customary insurance accounting practices consistently applied;

(d) The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the precise nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties;"

Administrative Rule 69O-143.047, Florida Administrative Code, also requires that all management agreements, service contracts, tax allocation agreements, cost-sharing arrangements and any material transactions which the Office determines may adversely affect the interests of the insurer's policyholders be submitted to the Office for review. Agreements with related parties are not required to utiliize any specific form or any standard method for determining compensation to a related party. Florida domestic insurers have used a variety of methods of determining compensation for affiliated and non-affiliated agreements including the following:

- Percentage of written premium;
- Percentage of earned premium;
- Precentage of written or earned based on losses incurred;
- Hourly rate of compensation based on specific tasks;
- Yearly or quarterly fee payment schedules;
- Scheduled bonus payments;
- Commissions;
- Commissions based on multiple criteria;
- Any combination of one or more of the methods listed above, and in some cases, a forgiveness of fees due under the terms of an agreement.

The list above is not exhaustive of all compensation arrangements. In considering whether the fees paid by an insurer are in fact "fair and reasonable" it would be logical to focus on the types of services provided to an insurer in order to compare the fees paid. However, in many cases an affiliate may provide multiple types of services with only a single contractual method to compute compensation. Insurers that contract with affiliates for services typically have an agreement directly with an affiliate. However, a number of affiliates further subcontract the services to other affiliates of the insurer adding further complexity to understanding whether the compensation for the services is "fair and reasonable". Further complicating an understanding of the reasonableness of fees paid to affiliates, is the practice of some affiliates of "forgiving" or "waiving" fees due from an insurer.

The NAIC provides some further guidance regarding the "fair and reasonable" standard in its Financial Analysis Handbook. That guidance is focused on the use of a market rate, or the allocation of the actual costs of the services provided as methodologies for determining whether fees paid by an insurer meet the "fair and reasonable" standard.

This memorandum summarizes the initial results for twelve (12) insurers as part of the Office's analysis of the reasonableness of the fees paid by certain insurers writing homeowners policies in the State of Florida during calendar years 2017, 2018 and 2019. In order to form a basis for comparison, the following elements, common to all insurers in the sample were utilized:

- The amount of gross written premiums
- The total amount of fees paid to affiliates
- The percentage of fees paid to affiliates of gross written premiums
- The number of policies in force at the end of each calendar year
- The net income of the insurers
- The net income of affiliates
- Capital contributions
- Forgiveness or waiver of fees owed to affiliates
- Dividends

The analysis was performed at a high level utilizing financial statements and other related documents on file with or requested by the Office. Some of the insurers reviewed in this analysis had agreements in place with affiliates that provided for fees based on an allocation of actual costs. For purposes of this analysis and report, initial conclusions and recommendations regarding the fairness and reasonableness of fees paid to affiliates were based on the following thresholds:

- Fees for affiliated agreements paid by an insurer or insurers may be fair and reasonable on an individual basis, however, when considered with all other fees paid by an insurer or insurers to affiliates may not be fair and reasonable;
- Fees initially determined to be fair and reasonable by the Office based on the information provided by an insurer or insurers, over time may no longer be fair and reasonable based on additional or revised affiliated agreements, or changes in the market;
- The calculation of the net income of affiliated entities for analyzing whether affiliated fees are fair and reasonable should be determined excluding fees earned from non-affiliated entities;
- If the combined net income of the affiliated entities derived from the fees paid by the insurer or insurers is less than the greater of $2 million per year or 110% of the combined net income of the insurers, those fees are presumed to be fair and reasonable;
- If the combined net income of the affiliated entities derived from the fees paid by the insurers in the group is more than the greater of $2 million per year or 110% of the combined net income of the insurers, but less than 115% of the combined net income of the insurers, additional information is required in order to determine if the fees are fair and reasonable;

- If the combined net income of the affiliated entities derived from the fees paid by the insurers in the group is more than the greater of $2 million per year or 115% of the combined net income of the insurers, those fees are presumed not to be fair and reasonable;

A number of the documents utilized were filed with the Office by an insurer as a "Trade Secret". As such, information regarding any of the individual companies discussed in this report may not be released without approval of the Director.

II. Summary

The analysis presented in **Section III** of this report provides details regarding twelve (12) Florida domestic insurers either individually or as a part of a group of insurers. The analysis considered a three-year period (2017-2019) in order to avoid an unusual result based on the results of a single year. The documents available for the analysis differ by insurer, as well as the basis of presentation utilized by the insurers in preparing the various documents. In preparing this analysis, adjustments were made to eliminate the impact of agreements between affiliates that would provide misleading results. Importantly, no adjustment was made to convert GAAP financial information to a statutory basis. As such, the numbers presented in a company specific analysis below should be considered to be materially correct, but not exact.

The fair and reasonable thresholds detailed in **Section I** above were utilized to determine potential follow-up actions for the twelve (12) insurers analyzed. Other actions may be appropriate if the thresholds were set differently.

The chart below provides a summary for the insurers located in the sample. Those insurers reported a total of approximately $345.5 million in net income over the 2017-2019 time period. The affiliates providing services to those insurers recorded approximately $13.5 billion in net income. Financial information for some affiliates that provided services to the insurers in the sample was not available at the time this analysis was conducted. As a result, the net income of the affiliates may be understated. In some cases, the net income of an affiliate included debt service expense for funds provided to an insurer.

Totals All Sample Insurance Company / Affiliates	Insurance Company Net Income				Affiliates Net Income			
	2017	2018	2019	Total	2017	2018	2019	Total
All Sample Companies	34,911,595	21,356,645	289,243,050	345,511,290				
All Sample Companies Affiliates					2,863,120,087	7,272,887,333	3,334,120,835	13,470,128,255
All Capital Contributions / Fee Forgiveness / Surplus Notes	48,700,000	224,000,000	12,500,000	285,200,000				
All Dividends	99,800,000	150,000,000	239,000,000	488,800,000				
Surplus Note Payments to Parent / Affiliates	0	0	(35,000,000)	(35,000,000)				

The information available also shows that the affiliates made capital contributions in the amount of approximately $285.2 million. $488 million in dividends were paid by insurers during the 2017-2019 time period and $35 million was paid on surplus notes, which reduced the capital of five insurers.

The financial results, including the need for capital contributions differed significantly among insurers.

In formulating potential follow-up actions, the Office may also want to consider the following issues which were present in the financial statement of some insurers:

1. Seven (7) insurers received capital contributions to increase their surplus. This may have been done to meet minimum surplus requirements, attain a higher Risk-Based Capital ratio, secure a solvency rating from a rating organization, or to avoid a potential regulatory action.
2. In some cases where the fees shown in this summary were presumed to not be fair and reasonable, that presumption was based on the fees paid after debt service. In those cases, the disparity between the net income of the insurer and the net income of the affiliates would be greater than indicated in the analysis.
3. A number of agreements are 10 or more years old and as such may need to be updated or replaced.

Specifically, with respect to item 2 above, the Office may want to consider whether the provisions of Rule 69O-141.002(2)(q), Florida Administrative Code regarding criteria for determining unsound condition, or which render the continuance of business hazardous to the public or insureds, are applicable (…:has had to rely on frequent substantial capital contributions,…). If so, and an insurer's fees are presumed to not be fair and reasonable, the Office may be able to require revision to those affiliated agreements.

The chart below summarizes the potential follow-up actions for the insurers reviewed.

Report Reference	Company	Potential Follow-up Actions
III.1	American Bankers Insurance Company of Florida	Obtain Affiliate Net Income and Fee Data for Further Analysis
III.2	American Modern Home Insurance Company	None
III.3	American Southern Home Insurance Company	None
III.4	American Strategic Insurance Corporation	Obtain Affiliate Net Income and Fee Data for Further Analysis
III.5	ASI Assurance Corporation	Obtain Affiliate Net Income and Fee Data for Further Analysis
III.6	ASI Home Insurance Corporation	Obtain Affiliate Net Income and Fee Data for Further Analysis
III.7	ASI Preferred Insurance Corporation	Obtain Affiliate Net Income and Fee Data for Further Analysis
III.8	Auto Club Insurance Company of Florida	Review Inconsistent Annual Statement Data Reporting
III.9	FCCI Insurance Company	Obtain Affiliate Net Income and Fee Data for Further Analysis
III.10	First Floridian Auto and Home Insurance Company	Obtain Affiliate Fee Data for Further Analysis
III.11	Progressive Property Insurance Company	Obtain Affiliate Net Income and Fee Data for Further Analysis
III.12	State Farm Florida Insurance Company	Obtain Affiliate Fee Data for Further Analysis

The recommendations in the table above are further detailed in the sections below.

III. Individual Company Information and Recommendations

III.1 American Bankers Insurance Company of Florida

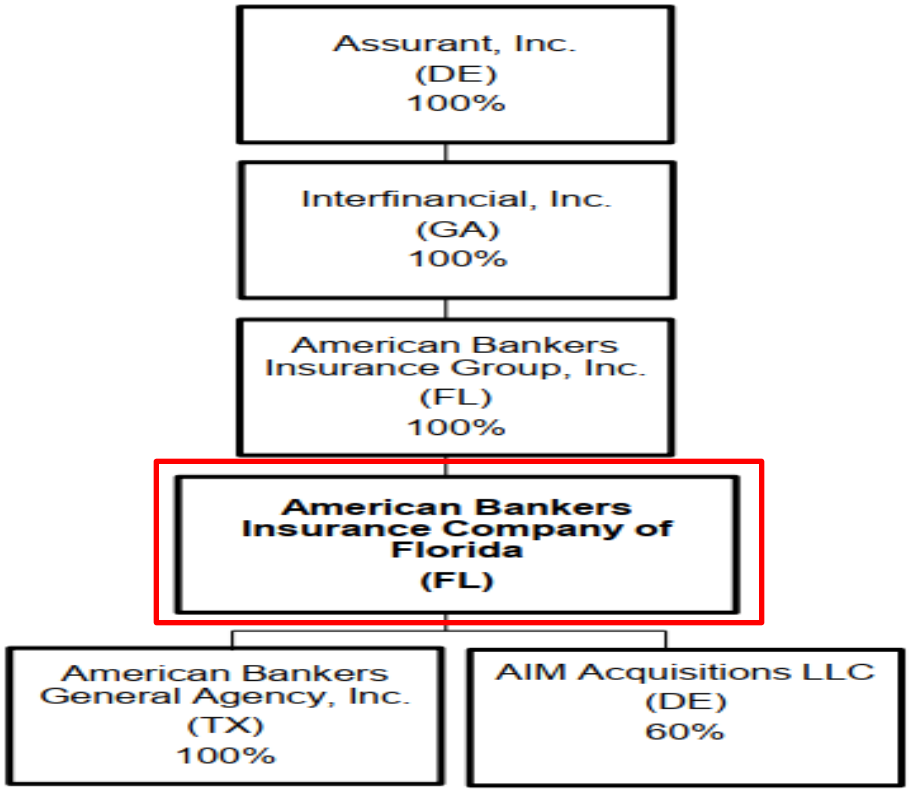
III.1.1 Summary

American Bankers Insurance Company of Florida ("**American Bankers**" or the "Company) is a property and casualty insurance company domiciled in the state of Florida. The Company is a wholly owned subsidiary of American Bankers Insurance Group ("**AB Group**"). **AB Group** is wholly owned by Interfinancial, Inc., which in turn is owned by Assurant, Inc. ("**Assurant**"). The Company has a wholly owned subsidiary, American Bankers General Agency, Inc. ("**AB Agency**"), which controls, through a management agreement, Reliable Lloyds Insurance Company. The Company owns 34% of AIM Acquisitions, LLC and 30% of AIM Real Estate Co-Investment Fund II LP.

American Bankers operated in various property and casualty lines, the most significant of which are mobile device coverage, flood, homeowners, mobile home physical damage, retail and auto warranty and credit insurance programs. Homeowners accounts for approximately 13% of direct written premium.

American Bankers is licensed in all fifty states, District of Columbia, Puerto Rico, U.S. Virgin Islands and Canada.

A simplified organizational chart of **American Bankers** is listed below:



During July 2020 the Office requested certain information from **American Bankers** regarding its affiliates. **American Bankers** responded in August 2020 and declined the request citing administrative rule authority, positive operating results and resources needed to comply. The Company requested the Office accept the Form B in lieu of the specific materials requested.

American Bankers had in excess of one hundred agreements in force with various affiliates. The primary agreements were intercompany agreements with **Assurant** and **AB Group.** Agreements disclosed in the 2019 Form B include:

- Assurant – Investment Management Agreement effective August 1, 1999
- Assurant / American Bankers Group (performing party) – Inter-company Services Agreements effective October 1, 2004
- American Bankers Group (performing party) – Inter-company Services Agreements effective January 1, 2005
- American Banker Management Company (benefiting party) – Services Agreement effective January 1, 1996
- American Bankers Sales Corp (benefiting party) – Services Agreement effective September 24, 1995
- Bankers Atlantic Reinsurance Company (benefiting party) – Services Agreement effective January 1, 1996
- Consumers Assist Network Association (benefiting party) – Services Agreement effective January 1, 1996
- Federal Warranty Service Corporation (benefiting party) – Services Agreement effective January 1, 1996

- Guardian Investment Services (benefiting party) – Services Agreement effective January 1, 1995
- National Insurance Agency (benefiting party) – Services Agreement effective January 1, 1991
- Assurant Payment Services (benefiting party) – Services Agreement effective February 15, 1999
- Sureway (benefiting party) – Services Agreement effective January 1, 1991
- Voyager Warranty (benefiting party) – Services Agreement effective January 1, 1999
- ABLAC – Reciprocal Easement Agreement for building and property access
- CALAC and CAPIC (benefiting parties) – IT Systems Agreement effective September 20, 2000 (ABIC and ABLAC performing parties)
- American Banker General Agency (benefiting party) – Services Agreement effective January 1, 1996 (ABIC and ABLAC performing parties)
- Assurant Services Canada (benefiting party) – Services Agreement effective March 24, 1995 (ABIC and ABLAC performing parties)
- Multiple affiliates – Lease of Computer Equipment effective September 1, 2004 (ABIC and ABIG performing parties)
- Insureco Agency and Insurance services (performing party) – General Agency Agreement effective January 1, 2008
- The Signal LP – General Agency Agreement effective October 1, 2008, amended October 1, 2008 and June 1, 2013
- ABLAC – Inter-Company Services Cost Reimbursement and Payment Intermediary Agreement effective September 30, 2008 (ABIC and ABLAC are both performing and benefiting parties)
- Voyager Indemnity (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective June 30, 2008, amended June 30, 2008
- Assurant – Prefunding Payroll Agreements effective 30, 2008
- United Service Protection (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008, amended January 1, 2008 and January 1, 2010
- United Service Protection (performing party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008, amended January 1, 2008
- American Bankers Management Company (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008, amended January 1, 2008
- Federal Warranty Service Company (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008, amended November 1, 2008, January 1, 2009 and January 1, 2010
- American Security (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008, amended November 1, 2008, January 1, 2008 and January 1, 2010
- National Insurance Agency (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008, amended January 1, 2008
- Sureway (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008, amended January 1, 2008 and January 1, 2010
- CALAC (benefiting party) – Inter-Company Payment Intermediary Agreement effective January 1, 2008, amended January 1, 2008
- CAPIC – Inter-Company Services and Payment Intermediary Agreement effective July 1, 2018
- Assurant Reinsurance of Turks & Caicos (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2009
- Assurant Services Canada (benefiting party) – Inter-Company Payment Intermediary Agreement effective January 1, 2009, amended January 1, 2009 and July 1, 2019
- Bankers Atlantic (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2009
- Standard (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008

- TrackSure Insurance Agency – Inter-Company Services and Payment Intermediary Agreement effective July 1, 2018
- United Service Protection Corporation (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008, amended January 1, 2008
- United Service Protection Corporation (performing party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2008, amended January 1, 2008
- Bankers Insurance Services Limited (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2009, amended January 1, 2009
- Multiple – Multi-cedent Catastrophe Reinsurance Allocation Agreement effective January 1, 2008
- American Bankers Insurance Group (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2009
- American Memorial (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2014
- Reliable LIC (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2010
- United Service Protection Corporation and United Service Protection Inc. National Insurance Agency (performing parties) – Inter-Company Agreement effective January 1, 2009
- Assurant Life Canada (benefiting party) – Inter-Company Services Agreement effective January 1, 2009, amended January 1, 2009, January 1, 20110, July 1, 2010, January 1, 2011, January 1, 2012, and January 1, 2014
- USIC (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective February 15, 2011
- American Security and Consumer Assist Network Association – Net Rate Agreement effective April 30, 2009
- Consumer Assist Network Association – Membership Program Agreement effective June 1, 2009
- JLIC – Inter-Company Services and Payment Intermediary Agreement effective September 1, 2010
- American Security and American Bankers Agency – Insurance Services Agreement effective November 1, 2012
- American Bankers Insurance Group – Option Agreement effective January 1, 2014
- New Ventures – Inter-Company Services and Payment Intermediary Agreement effective August 1, 2018
- Broadtech LLC – Inter-Company Services and Payment Intermediary Agreement effective February 1, 2015, amended May 1, 2017, August 1, 2017, July 3, 2018, and October 18, 2019
- Coast to Coast Dealer Services and 9167-1990 Quebec – Inter-Company Services and Payment Intermediary Agreement effective March 1, 2016
- Assurant Captive Insurance Company – Inter-Company Services and Payment Intermediary Agreement effective December 1, 2016
- Consumer Assist Network Association – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2017
- Interfinancial – Inter-Company Services and Payment Intermediary Agreement effective January 1, 2017
- Assurant Service Protection – Inter-Company Services and Payment Intermediary Agreement effective March 6, 2017
- Assurant Insurance Agency (fka Green Tree Insurance Services) – Inter-Company Services and Payment Intermediary Agreement effective February 1, 2017
- CWork Solutions and Broadtech (suppliers) – Inter-Company Device Collection & Equipment Sales Agreement effective July 1, 2018
- Assurant Japan KK – Inter-Company Agreement for the Sale and Purchase of Equipment effective December 1, 2018

- Assurant Services Italia - Inter-Company Agreement for the Sale and Purchase of Equipment effective December 1, 2018
- Lifestyle Services Group Limited – Inter-Company Agreement for the Sale and Purchase of Equipment effective December 1, 2018
- VSC (benefiting party) – Inter-Company Services and Payment Intermediary Agreement effective April 1, 2019

American Bankers received a capital contribution of $40,000,000 in 2018 and did not issue or hold surplus notes during the period under review. **American Bankers** paid dividends of $90 million in 2017, $141.5 million in 2018, and $239 million in 2019.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

American Bankers Insurance Company of Florida			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$5,605,837,069	$4,791,190,187	$4,385,037,189
Affiliated MGA Fees	$0	$0	$0
Commission to Affiliates	**Amounts not disclosed in A/S**		
Other Affiliated Fees	**Amounts not disclosed in A/S**		
Total Affiliates Fees	**$0**	**$0**	**$0**
Affiliated Fees % of Gross Premiums Written	**0.00%**	**0.00%**	**0.00%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$40,000,000	$0
Surplus Note	$0	$0	$0
Dividends	$90,000,000	$141,500,000	$239,000,000
Policies In Force	Not Provided		

American Bankers reported net income in 2017, 2018 and 2019, resulting a total net income of $493,135,173 for the three-year period under review**. American Bankers** did not provide financial statements for the affiliates that provide services for the group. As a result, no conclusions could be drawn on the reasonableness of affiliated fees or profitability of **American Bankers** compared to affiliated service providers.

III.1.2 Recommendations Regarding Affiliated Fees

1. The Office should consider requesting **American Bankers** provide additional detail regarding affiliated fees and provide financial statements for affiliated service providers as requested to assess the reasonableness of fees and the insurer / affiliated provider profitability.

III.2 American Modern Home Insurance Company of Florida

III.2.1 Summary

American Modern Home Insurance Company ("**American Modern Florida**" or the "Company) is a property and casualty insurance company domiciled in the state of Florida. The Company is a wholly owned subsidiary of Florida domiciled American Southern Home Insurance Company ("**American Southern**"). **American Southern** is wholly owned by Ohio domiciled American Modern Home Insurance Company ("**American Modern Home**"). **American Modern Home** is owned by American Modern Home Group ("**American Modern Group**") which is owned by Midland-Guardian, and in turn owned by Munich-American Holding Corporation ("**Munich-American**"). **Munich-American** is owned by the ultimate parent, Munchener Ruckversicherung AG, Munchen ("**Munich Re"**) domiciled in Germany.

American Modern Florida is authorized to write multiple lines. The primary line of business written by the Company as of December 31, 2019 was Homeowners Multi-Peril. **American Modern Florida** is only licensed in Florida.

American Southern is authorized to write multiple lines. The primary lines of business written by the Company as of December 31, 2019 were Homeowners Multi-Peril, Ocean Marine, Auto Physical Damage and Other Liability. **American Southern** is licensed in all 50 states and the District of Columbia. The majority of business is written in Florida, Louisiana, South Carolina, Oklahoma, and New York, with Florida being the largest premium state.

American Modern Florida and **American Southern** are participants in an intercompany pooling arrangement with the **American Modern Group**. 100% of **American Modern Florida** and **American Southern's** business is ceded to **American Modern Home**, which in turn cedes a portion of the pooled business to unaffiliated reinsurers, and companies affiliated with **American Modern Home's** ultimate parent, **Munich Re**. The business net of this reinsurance is then ceded by **American Modern Home** back to the pool participants, including **American Modern Florida** and **American Southern**, in accordance with the pooling percentages. Specifically, **American Modern Florida** and **American Southern** assume 2% and 4% of the net business, respectively.

Affiliated reinsurance arrangements include the payment to reimburse **American Modern Home,** and its pooled affiliates, for underwriting expenses incurred to underwrite the business ceded. Further, certain non-insurance affiliates to the **American Modern Group** render services to the insurance company pool and are shared via an expense allocation as part of the pooling arrangement.

In short, **American Modern Florida** and **American Southern** do not receive services directly from, nor render services directly to, affiliates outside of the **American Modern Group** pooled group of companies, but only indirectly as a participant of the insurance pool.

A simplified organizational chart of **Munich Re** as of December 31, 2019 is listed below:

Company Name	**Domicile**
Munich Re, AG	Germany
Munich-American Holding Corporation	Delaware
The Midland Company	Ohio
Midland-Guardian Company	Ohio
American Modern Insurance Group, Inc.	Ohio
American Modern Home Insurance Company	Ohio
American Modern Property & Casualty Insurance Company	Ohio
American Western Home Insurance Company	Oklahoma
American Southern Home insurance Company	Florida
American Modern Insurance Company of Florida, Inc.	Florida
American Modern Select Insurance Company	Ohio
Lloyds Modern Corporation, Attorney in Fact for:	Texas
American Modern Lloyds Insurance Company	Texas
American Family House Insurance Company	Florida

During November 2021 the Office requested certain information from **American Modern Florida** and **American Southern** regarding its affiliates. The companies responded in December 2021.

American Modern Florida, American Southern and several affiliates participate in a General Services and Cost Allocation Agreement with their parent **Munich Re** and **Munich-American**. The September 27, 2017 agreement supersedes the prior September 1, 2009 agreement and automatically renews on an annual basis. Services include Accounting Tax and Auditing, Underwriting, Claims, and Functional Support Services. Services are provided at actual cost of services and capital.

American Modern Florida, American Southern and several affiliates participate in an IT Framework Agreement with their parent **Munich Re** effective January 1, 2015, amended and restated October 21, 2019.

American Modern Florida has a Service Agreement with **Midland Guardian** dated August 1, 2005. **American Southern** has a Service Agreement with **Midland Guardian** dated June 3, 1982.

Upstream parent **American Modern Group** participates in an Investment Management Agreement with **MEAG New York Corporation** effective May 28, 2008, 7th amendment October 1, 2019. **American Modern Group** paid $965,000, $856,000, and $564,000 in 2017, 2018 and 2019, respectively.

Midland-Guardian provides all benefit plan services and are allocated based on percentage of salaries. Total pool company allocations were $26,329,000, $27,447,000 and $28,855,000 in 2017, 2018, and 2019, respectively.

American Southern has non-affiliated Managing General Agent ("MGA") agreements with Embrace Pet Insurance Agency and Community Association Underwriters of America.

American Modern and **American Southern** did not issue or hold surplus notes or pay dividends during the period under review. **American Modern** received capital contributions of $1.5 million in 2017 and $5 million in 2018. **American Southern** did not receive capital contributions during the period under review.

Information regarding the fees paid to affiliates and policies in force are presented in the tables below.

American Modern Insurance Company of Florida			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$26,344,999	$25,995,344	$28,923,039
Affiliated MGA Fees	$0	$0	$0
Commission to Affiliates	$0	$0	$0
Other Affiliated Fees	**Amounts not disclosed in A/S**		
Total Affiliates Fees	**$0**	**$0**	**$0**
Affiliated Fees % of Gross Premiums Written	**0.00%**	**0.00%**	**0.00%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$1,500,000	$5,000,000	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

American Southern Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$131,343,757	$129,337,792	$125,661,621
Affiliated MGA Fees	$0	$0	$0
Commission to Affiliates	$0	$0	$0
Other Affiliated Fees	**Amounts not disclosed in A/S**		
Total Affiliates Fees	**$0**	**$0**	**$0**
Affiliated Fees % of Gross Premiums Written	**0.00%**	**0.00%**	**0.00%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

American Modern Florida reported net losses in 2017, 2018 and 2019, resulting a total net loss of $(1,581,899) for the three-year period under review**. American Southern** reported net income in 2017 and 2019 and a net loss in 2018, resulting a total net income of $237,760 for the three-year period under review**.** As a member of the **American Modern Group** pool, the fortunes of **American Modern Florida** and **American Southern** mirror pool results. The pool lead, **American Modern Home,** reported net losses in 2017 and 2018 and a net income in 2019, resulting in a total net loss of $(28,407,019) for the three-year period under review.

III.2.2 Recommendations Regarding Affiliated Fees

1. NONE

III.3 American Southern Home Insurance Company

American Southern Home Insurance Company is a wholly owned subsidiary of the **Munich Re**. See Section III.2 for the review of **American Modern Florida** which includes detailed information regarding **American Southern**.

III.4 American Strategic Insurance Corporation

III.4.1 Summary

American Strategic Insurance Corporation ("**American Strategic**"), ASI Assurance Company ("**ASI Assurance**"), ASI Home Insurance Company ("**ASI Home**"), ASI Preferred Insurance Company ("**ASI Preferred**") and Progressive Property Insurance Company ("**Progressive Property**" fka Ark Royal Insurance Company) are property and casualty insurance companies domiciled in the state of Florida (collectively "**ASI Florida**"). With the exception of **ASI Preferred**, all companies are owned by ARX Holding Corp ("**ARX Holding**"). **ASI Preferred** is 40% owned by **American Strategic** and 60% by **ARX Holding**. **ARX Holding** also owns Managing General Agents ("MGA") Ark Royal Underwriters, LLC ("**Ark Royal**"), ASI Underwriters Corporation ("**ASI Underwriters**"), which in turn owns e-Ins, LLC ("**e-Ins**"). **ARX Holding** is 87.06% owned by the The Progressive Corporation. ("**Progressive Corporation**") and 12.13% by John F. Auer.

Lines of business and territory as of December 31, 2019 are listed in the chart below:

Company	Lines of Business	Territory
American Strategic	Homeowners multi-peril, fire, allied lines, inland marine, and other liability	46 states (excludes CA, IN, LA, NY), DC and is an accredited reinsurer in TX.
ASI Assurance	Homeowners multi-peril, fire, allied lines, inland marine, and other liability	Florida and Massachusetts, currently not writing new business
ASI Home	Homeowners multi-peril, fire, mobile home multi-peril, fire, allied lines, and other liability	Florida and Georgia, currently not writing new business
ASI Preferred	Homeowners multi-peril, fire, allied lines, inland marine, and other liability	Florida and Massachusetts, with the vast majority of business in Florida
Progressive Preferred	Homeowners multi-peril, fire, allied lines, inland marine, and other liability	Florida, Louisiana and Texas, with the vast majority of business in Louisiana

ASI Florida companies write business through their affiliated MGA's, **ASI Underwriters**., **Ark Royal** and **e-INS** to provide policy management services, including underwriting and claim administration, for all lines of business.

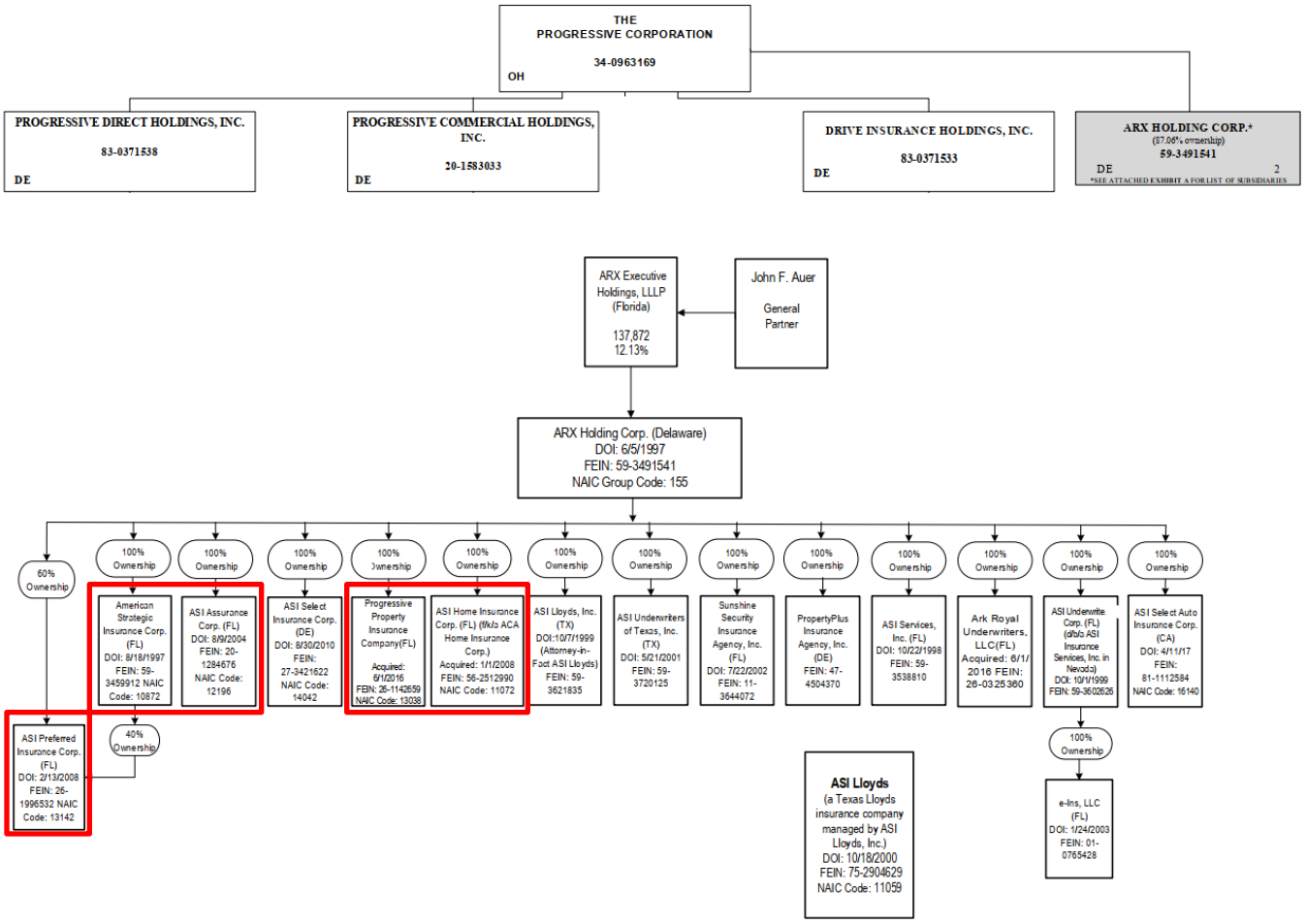
Prior to January 1, 2019, various **ASI Florida** members had various quota share agreements with **American Strategic**. Effective January 1, 2019, the **ASI Florida** companies, Texas domiciled ASI Lloyds Inc. ("**ASI Lloyds – TX**"), and Delaware domiciled ASI Select Insurance Corporation ("**ASI Select - DE**") participated in an intercompany pooling arrangement (collectively "**ASI Pool**"). Pool percentages are noted below.

American Strategic	**76.5%**
ASI Assurance	**0.5%**
ASI Home	**2.0%**
Progressive Property	**2.0%**
ASI Lloyds - TX	**17.0%**
ASI Select - DE	**2.0%**

Each company's property/casualty business, net of external reinsurance, is pooled and retroceded to participating affiliates. **ASI Preferred** is not a member of the pool and has a 90% quota share agreement with **American Strategic**.

In February 2020, **ARX Holdings**, including employees holding vested stock options, signed a new stock purchase agreement with Progressive. The new agreement brought Progressive Corporation's ownership stake to 100%.

A simplified organizational chart of the **Progressive Corporation** as of December 31, 2019 is listed below:



NOTE: ARX Holding Corporation is 87.06% owned by The Progressive Corporation and 12.13% by ARX Executive Holdings, LLP. John F. Auer was a General Partner of ARX Executive Holdings, LLP at December 31, 2019.

During November 2021 the Office requested certain information from **ASI Florida** regarding its affiliates. **ASI Florida** partially responded in December 2021.

American Strategic has an MGA Agreement with **ASI Underwriters** to provide underwriting, claim processing and premium collection. **ASI Assurance, ASI Home and ASI Preferred** paid fees but were not parties to the agreement provided. The agreement is dated September 10, 2000 and automatically renews for consecutive one-year terms. **Progressive Property** was added to the agreement effective October 1, 2019. **ASI Florida** companies pays **ASI Underwriters** 8% commission on premiums written for all lines, plus a $25 per policy fee for Florida policies. Claim processing fees are 5% of non-catastrophe paid losses and 1% of catastrophe paid losses. **ASI Florida** companies also pays **ASI Underwriters** a claim adjuster service fee at the market rate for independent adjusters. Amounts paid to **ASI Underwriters** for the years under review were:

Company	2017	2018	2019*
American Strategic	$5,130,423	$86,813,494	$120,855,431
ASI Assurance	$8,396,000	$10,474,277	n/a
ASI Home	$278,782	$267,497	n/a
ASI Preferred	$25,620,351	$25,751,129	$43,741,923
Progressive Property	See Ark Royal agreement below		n/a

*2019 American Strategic fees include all six members of the ASI Pool.

*The above MGA agreement between **ASI Florida** and **ASI Underwriters** was replaced January 1, 2021 with a Joint Servicing (Cost Allocation) Agreement.*

American Strategic has a Full-Service Vendor Agreement with **e-INS**, to provide policy issuance, premium billing, return premiums, commission payments and collection services for flood business. The agreement is dated April 1, 2008 and remains in effect until terminated. **American Strategic** pays **e-INS** 5% commission on flood net premiums written. **American Strategic** paid **e-INS** $4,237,881, $4,403,136, and $6,197,633 in 2017, 2018 and 2019, respectively. *This agreement was replaced with a Joint Servicing (Cost Allocation) Agreement effective September 1, 2020.*

Progressive Property has an MGA Agreement with **Ark Royal** for the production, servicing and acceptance of business written in the State of Florida. **Ark Royal**, in turn, contracts with **ASI Underwriters** to issue policies. The agreement is dated September 4, 2007 and was terminated October 1, 2019. **Progressive Property** pays **Ark Royal** 21% commission on premiums written for all lines, plus a $25 per policy fee for Florida policies. **Progressive Property** was added to the **American Strategic** and **ASI Underwriters** MGA agreement effective October 1, 2019. **Progressive Property** paid **Ark Royal** $21,794,445, $19,927,206, and $10,447,749 in 2017, 2018 and 2019, respectively.

Progressive Property has a Claims Management Services Agreement with **ASI Underwriters** for claim administration and management services. The agreement is dated October 3, 2007 and was terminated October 1, 2019. **Progressive Property** pays **ASI Underwriters** a monthly commission of 5% of non-catastrophe paid losses and 1% of catastrophe paid losses for claim processing. **Progressive Property** also pays **ASI Underwriters** a claim adjuster service fee at the market rate for independent adjusters. **Progressive Property** paid **ASI Underwriters** $6,662,053 and $4,483,395, in 2017 and 2018, respectively. **Progressive Property** joined the **ASI Florida** companies MGA Agreement noted above effective October 1, 2019 and separate fees for 2019 were not reported.

American Strategic, ASI Assurance, ASI Home, ASI Preferred and other non-Florida affiliates participate in an Investment Management Agreement with Progressive Capital Management

("**Progressive Capital**"), a wholly own subsidiary of the **Progressive Corporation**. **Progressive Property** paid fees but was not a party to the agreement provided. The agreement dated January 1, 2016 has a five-year term and automatically renews for consecutive five year terms. **Progressive Capital** manages the companies investment portfolios in accordance with each companies investment guidelines. The agreement also provided that **Progressive Capital** will provide investment accounting services and assist in preparing the companies statutory Schedule D. Management fees are assessed based on a percentage of the value of the investment portfolio as of the last trading day of the month. Amounts paid to **Progressive Capital** for the years under review are noted below:

Company	2017	2018	2019*
American Strategic	$719,164	$837,723	$1,507,383
ASI Assurance	$94,000	$98,421	n/a
ASI Home	$14,041	$13,044	n/a
ASI Preferred	$67,311	$61,950	$73,249
Progressive Property	$62,274	$55,050	n/a

*2019 American Strategic fees include all six members of the ASI Pool.

ARX Holding, **American Strategic, ASI Assurance, ASI Home, ASI Preferred**, and several affiliates participate in a Joint Servicing (Cost Allocation) Agreement with Progressive Casualty Insurance Company ("**Progressive Casualty**"), an Ohio domiciled insurance affiliate. The agreement is dated January 1, 2016 and automatically renews for consecutive one-year terms. **Progressive Property** was added to the agreement June 1, 2016. **ASI Florida** companies are provided and/or provides various underwriting, claims and other functional and administrative services at cost. Amounts paid to **Progressive Casualty** for the years under review were:

Company	2017	2018	2019*
American Strategic	$97,556	$2,798,087	$5,858,192
ASI Assurance	$0	$13,335	n/a
ASI Home	$0	$1,599	n/a
ASI Preferred	$590,313	$1,533,104	$2,637,486
Progressive Property	$61,519	$430,792	n/a

*2019 American Strategic fees include all six members of the ASI Pool.

This agreement was replaced with a Joint Servicing (Cost Allocation) Agreement effective September 1, 2020.

American Strategic, ASI Assurance, ASI Home, ASI Preferred and other non-Florida affiliates participate in an Intercompany Settlement Agreement with **ARX Holding**. The agreement is dated May 31, 2013 and automatically renews annually. **Progressive Property** was added to the agreement June 1, 2016. The agreement states that the companies are related parties through common ownership with **ARX Holding** and that in the ordinary course of business it may become feasible to one company to pay expenses on behalf of another company. The companies mutually agree to submit a bill once a month for any expenses incurred of another and shall remit in full no later than 90 days after receipt. The agreement is intended to satisfy the requirement of SSAP 96. There are no fees associated with this agreement. *This agreement was replaced with a Joint Servicing (Cost Allocation) Agreement effective September 1, 2020.*

The six **ASI Pool** companies participate in a Management (Cost Allocation) Agreement with **ASI Preferred**. The agreement is dated January 1, 2019 and remains in effect until terminated. The purpose of the agreement is to fairly distribute the cost associated with overhead across companies. The agreement provides for reinsurance services, functional services (actuarial, financial reporting, data processing, statistical and accountings services), and personnel services. There are no fees associated with this agreement. **ASI Pool** companies incurred $30,453,089 in 2019. *This agreement was replaced with a Joint Servicing (Cost Allocation) Agreement effective September 1, 2020.*

ASI Florida participates in an Intercompany Cash Management Agreement with **Progressive Casualty** and other affiliates. The agreement is dated January 1, 1998 and remains in effect until terminated. The companies joined the agreement January 18, 2018. There are no fees associated with this agreement.

American Strategic, ASI Home and **ASI Preferred** participate in a non-exclusive agency agreement with the Sunshine Security Insurance Agency, a wholly owned subsidiary of **ARX Holding**. Commissions paid for the years under review were:

Company	2017	2018	2019
American Strategic	$1,970,462	$2,910,425	$4,769,208
ASI Home	$0	$6,676	$0
ASI Preferred	$921,527	$1,679,084	$2,864,941

American Strategic, ASI Home and **ASI Preferred** participate in a non-exclusive agency agreement with the Progressive Advantage Insurance Agency, a wholly owned subsidiary of **Progress Corporation**. Commissions paid for the years under review were:

Company	2017	2018	2019
American Strategic	$5,678,350	$19,298,664	$34,463,256
ASI Home	$0	$6,676	$0
ASI Preferred	$813,810	$1,792,148	$2,722,506

ASI Florida did not issue or hold surplus notes during the period under review. **American Strategic** received capital contributions of $45 million in 2017 and $169.5 million in 2018. **ASI Home** received a capital contribution of $5 million in 2019 and paid a dividend of $1.5 million in 2018. **ASI Preferred** received capital contributions of $1.2 million in 2017, $7 million in 2018, and $7.5 million 2019. **Progressive Property** received a capital contribution of $2.5 million in 2018 and paid a $4 million dividend in 2017.

Information regarding the fees paid to affiliates and policies in force are presented in the tables below.

American Strategic Insurance Corporation			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$900,788,654	$1,193,242,845	$1,910,536,102
Affiliated MGA / Claim / Adjuster Fees[1]	**$69,368,304**	**$91,216,630**	**$127,053,064**
Commission to Affiliates[1]	**$7,648,812**	**$22,209,089**	**$39,232,464**
Other Affiliated Fees[1]	**$816,720**	**$3,635,810**	**$37,818,664**
Total Affiliates Fees	**$77,833,836**	**$117,061,529**	**$204,104,192**
Affiliated Fees % of Gross Premiums Written	**8.64%**	**9.81%**	**10.68%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$45,000,000	$169,500,000	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force		Not Provided	

ASI Assurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$87,290,397	$90,024,214	($3,870,657)
Affiliated MGA / Claim / Adjuster Fees[1]	**$8,396,000**	**$10,474,277**	**$0**
Commission to Affiliates[1]	$0	$0	$0
Other Affiliated Fees[1]	**$94,000**	**$111,756**	**$0**
Total Affiliates Fees	**$8,490,000**	**$10,586,033**	**$0**
Affiliated Fees % of Gross Premiums Written	**9.73%**	**11.76%**	**0.00%**
MGA Fees Waived			
Capital Contributions	$0	$0	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force		Not Provided	

ASI Home Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$2,042,993	$2,219,129	$115,274,136
Affiliated MGA / Claim / Adjuster Fees[1]	**$278,782**	**$267,497**	**$0**
Commission to Affiliates[1]	**$0**	**$15,421**	**$0**
Other Affiliated Fees[1]	**$14,041**	**$14,643**	**$0**
Total Affiliates Fees	**$292,823**	**$297,561**	**$0**
Affiliated Fees % of Gross Premiums Written	**14.33%**	**13.41%**	**0.00%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$5,000,000
Surplus Note	$0	$0	$0
Dividends	$1,500,000	$0	$0
Policies In Force		Not Provided	

ASI Preferred Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$166,036,114	$197,701,835	$387,393,492
Affiliated MGA / Claim / Adjuster Fees	**$25,620,351**	**$25,751,129**	**$43,741,923**
Commission to Affiliates	**$1,735,337**	**$3,471,232**	**$5,587,447**
Other Affiliated Fees	**$657,624**	**$1,595,054**	**$2,710,735**
Total Affiliates Fees	**$28,013,312**	**$30,817,415**	**$52,040,105**
Affiliated Fees % of Gross Premiums Written	**16.87%**	**15.59%**	**13.43%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$1,200,000	$7,000,000	$7,500,000
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force		Not Provided	

Progressive Property Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$96,152,508	$88,258,409	$116,731,426
Affiliated MGA / Claim / Adjuster Fees[1]	**$28,456,498**	**$24,410,601**	**$10,447,749**
Commission to Affiliates[1]	$0	$0	$0
Other Affiliated Fees[1]	**$123,793**	**$485,842**	**$0**
Total Affiliates Fees	**$28,580,291**	**$24,896,443**	**$10,447,749**
Affiliated Fees % of Gross Premiums Written	**29.72%**	**28.21%**	**8.95%**
MGA Fees Waived			
Capital Contributions	$0	$2,500,000	$0
Surplus Note	$0	$0	$0
Dividends	$4,000,000	$0	$0
Policies In Force		Not Provided	

[1]2019 American Strategic fees include all six members of the ASI Pool, including ASI Lloyds (TX) and ASI Select (DE).

ASI Florida companies reported combined net losses in 2017, 2018 and 2019, resulting a total net loss of $(102,272,716) for the three-year period under review**.** The only net income reported were **ASI Home** and **Progressive Property** (2017) and **ASI Preferred** (2018) and **ASI Assurance** (2019). **ASI Florida** did not provide financial statements for the affiliates that provided services for the group. As a result, no conclusion could be drawn on the profitability of the **ASI Florida** compared to affiliated service providers.

III.4.2 Recommendations Regarding Affiliated Fees

1. The Office should consider requiring **ASI Florida** to provide financial statements for affiliated service providers to assess the reasonableness of insurer / affiliated provider profitability.
2. For all companies and years under review there were inconsistencies between the amounts reported as expenses paid to affiliates on the Underwriting and Investment Exhibit page 11, Notes to Financial Statements Note 10, Schedule Y Part 2 and Audited Financial Statements Note 4. If the analyst finds material inconsistencies in the review of the 2021 Annual Statement, the analyst should ask the Company for an explanation for the inconsistencies.
3. The Office should consider requesting **ASI Florida** provide:
    a. documentation supporting that **ASI Assurance, ASI Home and ASI Preferred** are parties to the September 10, 2000 MGA Agreement with **ASI Underwriters**;
    b. the May 21, 2019 version of the Full Service Vendor Agreement between **American Strategic** and **e-INS** (referenced in the 2020 Joint Servicing Agreement);
    c. the January 1, 2016 version of the Joint Servicing (Cost Allocation) Agreement with **Progressive Casualty**;
    d. documentation supporting that **Progressive Property** is a party to the January 1, 2016 Investment Management Agreement with **Progressive Capital;**
    e. Agency agreements between **American Strategic, ASI Home** and **ASI Preferred** and Sunshine Security Insurance Agency and Progressive Advantage Insurance Agency.

III.5 ASI Assurance Corporation

ASI Assurance is a wholly owned subsidiary of the **ARX Holding** that is majority owned by **Progressive Corporation**. See Section III.4 for the review of Progressive Group which includes detailed information regarding **ASI Assurance**.

III.6 ASI Home Insurance Corporation

ASI Home is a wholly owned subsidiary of the **ARX Holding** that is majority owned by **Progressive Corporation**. See Section III.4 for the review of Progressive Group which includes detailed information regarding **ASI Home**.

III.7 ASI Preferred Insurance Corporation

ASI Preferred is a wholly owned subsidiary of the **ARX Holding** that is majority owned by **Progressive Corporation**. See Section III.4 for the review of Progressive Group which includes detailed information regarding **ASI Preferred**.

III.8 Auto Club Insurance Company of Florida

III.8.1 Summary

Auto Club Insurance Company of Florida ("**Auto Club Florida**" or the "Company) is a property and casualty insurance company domiciled in the state of Florida. **Auto Club Florida** is owned by Auto Club Insurance Holdings, LLC ("**Auto Club Holdings**"). **Auto Club Holdings** is 91.67% owned by the Auto Club Insurance Association ("**Auto Club Association**"), a Michigan domiciled reciprocal inter-insurance exchange, and 8.33% by The Auto Club Group ("**Auto Club Group**").

Auto Club Florida is only licensed in Florida and is authorized to write Homeowners Multi-peril, Inland Marine, Other Liability, and Private Passenger Auto.

A simplified 2019 organizational chart of **Auto Club Florida** is included below for reference.

(1) ACICF is owned 91.67% by Auto Club Insurance Association and 8.33% by The Auto Club Group

In November 2021 the Office requested certain information from **Auto Club Florida** regarding its affiliates. The requested information was provided to the Office in December 2021.

Auto Club Florida participates in an Administration Agreement with **Auto Club South** that was effective September 1, 2006 and amended and restated effective June 1, 2007. The agreement automatically renews every 5 years. **Auto Club South** provides executive and managerial services, underwriting services, policyholder services, accounting and financial services, marketing and Product development, producer management, IT support, personnel services, procurement support and other administrative and support services. Services are reimbursed at cost. Fees for the years under review were $9,611,241, $9,995,062, and $8,556,634 in 2017,2018 and 2019, respectively.

Auto Club Florida participates in a Consulting Agreement with **Auto Club South**, a Florida domiciled insurer and wholly owned subsidiary of **Auto Club Group**, that was effective June 1, 2007 and automatically renews annually. **Auto Club South** provides executive and managerial services, claim

management oversight, product management and other administrative services. Services are reimbursed at cost. Fees for this agreement are included in the Administrative Agreement fees above.

Auto Club Florida participates in a Consulting Services Agreement with **Auto Club Services** that was effective June 1, 2007 and automatically renews annually. **Auto Club Services** provides executive and managerial services, product distribution services, customer service methods and product design and other consulting services. Services are reimbursed at cost. Fees for this agreement are included in the Administrative Agreement fees above.

Auto Club Florida participates in an Investment Management Agreement with **Auto Club Services,** a wholly owned subsidiary of **Auto Club Group**, that was effective March 3, 2010 and remains in effect until terminated. The fee schedule was amended January 1, 2019 to increase fees from 6 basis points to 10 basis points. Fees for the years under review were $211,249, $215,241, and $405,028 in 2017, 2018 and 2019, respectively.

Auto Club Florida participates in a Call Center Services Agreement with **Auto Club South** and **Auto Club Association** that was effective December 11, 2007 and remains in effect until terminated. **Auto Club Association** provides after hours and holiday claim call. No fees were reported during the periods under review. The agreement was terminated January 1, 2020.

Auto Club Florida participates in an Agency Agreement with **ACG South Insurance Agency**, a wholly owned subsidiary of **Auto Club Group,** that was effective December 1, 2014 and remains in effect until terminated. **ACG South Insurance Agency** is a non-exclusive agency authorized to solicit, bind, execute and service policies and endorsements. Commission for the years under review were $26,090,258, $27,173,292, and $27,045,452 in 2017, 2018 and 2019, respectively. The agreement was terminated January 1, 2020.

Auto Club Florida participates in a Royalty Agreement with **Auto Club Group** that was effective January 1, 2020 and remains in effect indefinitely. **Auto Club Florida** pays **Auto Club Group** 1.5% of premiums earned for the use of its membership list and marketing right to **Auto Club Group** members.

Auto Club Florida did not receive capital contributions, issue or hold surplus notes, or pay dividends during the period under review.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

Auto Club Insurance Company of Florida			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$226,083,963	$234,689,307	$233,023,664
Affiliated MGA Fees	$0	$0	$0
Commission to Affiliates	$26,090,258	$27,173,292	$27,045,452
Other Affiliated Fees	$9,832,101	$10,220,298	$8,970,229
Total Affiliates Fees	**$35,922,359**	**$37,393,590**	**$36,015,681**
Affiliated Fees % of Gross Premiums Written	**15.89%**	**15.93%**	**15.46%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force		Not Provided	

Auto Club Florida reported a net loss in 2017 and net income in 2018 and 2019, resulting a total net income of $32,278,123 for the three-year period under review**.** During the same period, **Auto Club Florida** affiliates providing services to the Company reported a combined net income of $562 million. Affiliates providing services to **Auto Club Florida** are not exclusive and provide services to other members of the group.

III.8.2 Recommendations Regarding Affiliated Fees

1. For years under review there were inconsistencies between the amounts reported as expenses paid to affiliates on the Underwriting and Investment Exhibit page 11, Notes to Financial Statements Note 10, Schedule Y Part 2 and Audited Financial Statements Note K. If the analyst finds material inconsistencies in the review of the 2021 Annual Statement, the analyst should ask the Company for an explanation for the inconsistencies.

III.9 FCCI Insurance Company

III.9.1 Summary

FCCI Insurance Company ("**FCCI**" or the "Company) is a property and casualty insurance company domiciled in the state of Florida and is a wholly owned subsidiary of FCCI Group Inc. ("**FCCI Group**"). **FCCI Group** is 100% owned by FCCI Mutual Insurance Holding Company ("**FCCI Mutual**").

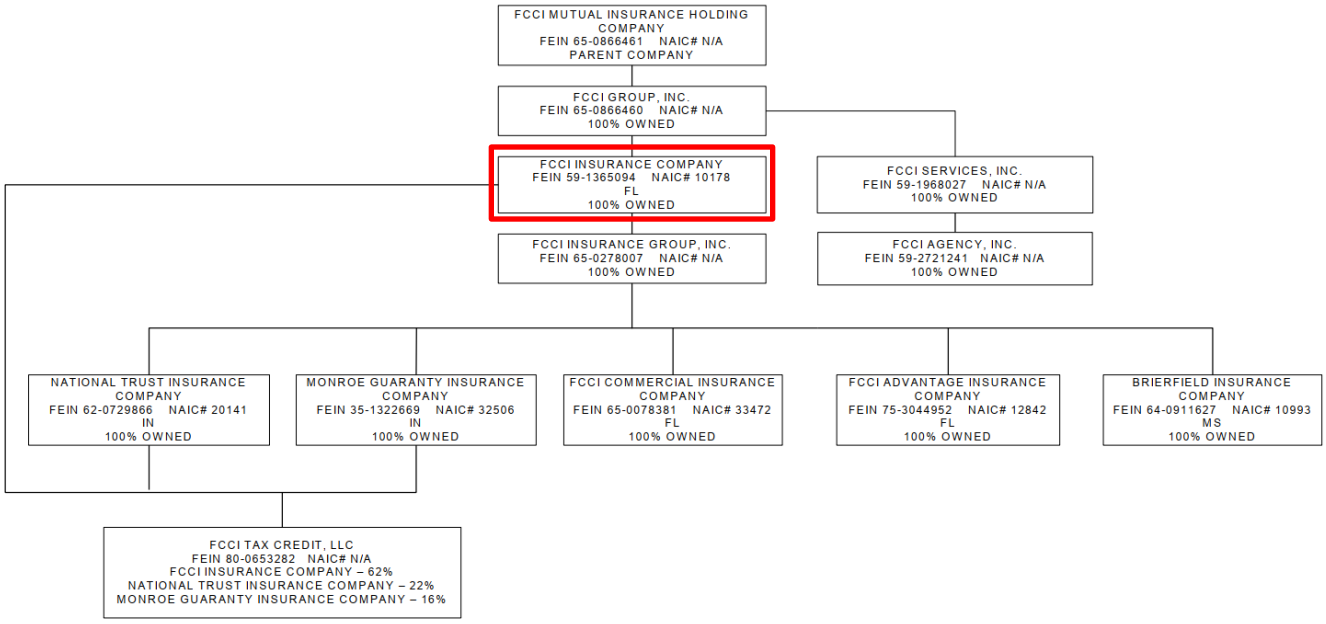
Lines of business written by the Company as of December 31, 2019 included Allied Lines, Boiler and Machinery, Burglary and Theft, Commercial Auto, Commercial Multi-Peril, Earthquake, Farmowners Multi-Peril, Fidelity, Fire, Glass, Inland Marine, Other Liability, Private Passenger Auto Physical

Damage, Surety and Workers' Compensation. The majority of business is Commercial Multi-Peril, Workers' Compensation and Commercial Auto.

FCCI is licensed in 34 states and the District of Columbia. Florida is the largest premium state.

FCCI's wholly owned subsidiary, **FCCI Insurance Group**, owns five insurance companies; Monroe Guaranty Insurance Company (IN), National Trust Insurance Company (IN), FCCI Commercial Insurance Company (FL), FCCI Advantage Insurance Company (FL) and Brierfield Insurance Company (MS). **FCCI** has a series of loss portfolio transfer and quota share reinsurance contracts with these affiliated reinsures where FCCI assumes 100% of the exposure.

An organizational chart as depicted in **FCCI's** December 31, 2019 Annual Statement is listed below:



During November 2021 the Office requested certain information from **FCCI** regarding its affiliates. **FCCI** responded in December 2021.

FCCI participates in a Management Services Agreement with FCCI Services, Inc. ("**FCCI Services**"), a wholly owned subsidiary of **FCCI Group**. The January 1, 2007 agreement was not provided. **FCCI Services** provides insurance and general management services, including, but not limited to: underwriting, premium formulation, collection services, loss control, claims management, portfolio investment management, actuarial services, accounting services, internal auditing, treasury and banking services, legal services, regulatory affairs, internal operations, personnel, information systems, marketing, facilities management, tax services, reinsurance services, corporate governance, and other

services. Fees for the years under review were $101,244,927, $108,762,684, and $114,834,658 in 2017, 2018 and 2019, respectively.

FCCI Agency Inc., a wholly owned subsidiary of **FCCI Services**, provides brokerage services for **FCCI** and its affiliates and for independent agents who have not directly contracted with **FCCI. FCCI Agency** earned fees of $21,183, $20,423, and $24,977 in 2017, 2018 and 2019, respectively.

FCCI did not issue or hold surplus notes during the period under review and received a capital contribution of $1 million in 2017. **FCCI** reported $131.75 million in outstanding debt with the Federal Home Loan Bank. Interest payments were $2,903,550 in 2017, $3,363,307 in 2018, and $3,646, 349 in 2019. No dividends were paid during the period under review.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

FCCI Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$827,937,428	$842,129,028	$847,162,649
Affiliated MGA Fees	$0	$0	$0
Commission to Affiliates	$21,183	$24,977	$20,423
Other Affiliated Fees	$101,244,927	$108,762,684	$114,834,658
Total Affiliates Fees	**$101,266,110**	**$108,787,661**	**$114,855,081**
Affiliated Fees % of Gross Premiums Written	**12.23%**	**12.92%**	**13.56%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$1,000,000	$0	$0
Surplus Note	$0	$0	$0
Dividends	$0	$0	$0
Policies In Force	Not Provided		

FCCI reported net income in 2017, 2018 and 2019, resulting a total net income of $78,794,339 for the three-year period under review. **FCCI** did not provide financial statements for the affiliates that provided services for the group. As a result, no conclusions could be drawn on the reasonableness of affiliated fees or profitability of **FCCI** compared to affiliated service providers.

III.9.2 Recommendations Regarding Affiliated Fees

1. The Office should consider requesting **FCCI** to provide financial statements for affiliated service providers.
2. During all years under review there were inconsistencies between the amounts reported as expenses paid to affiliates on the companies Underwriting and Investment Exhibit page 11, Notes to Financial Statements Note 10 and Schedule Y part 2. If the analyst finds material inconsistencies

in the review of the 2021 Annual Statement, the analyst should ask the Company for an explanation for the inconsistencies.

3. The Office should consider requesting **FCCI** provide the January 1, 2007 Management Service Agreement with **FCCI Services**.

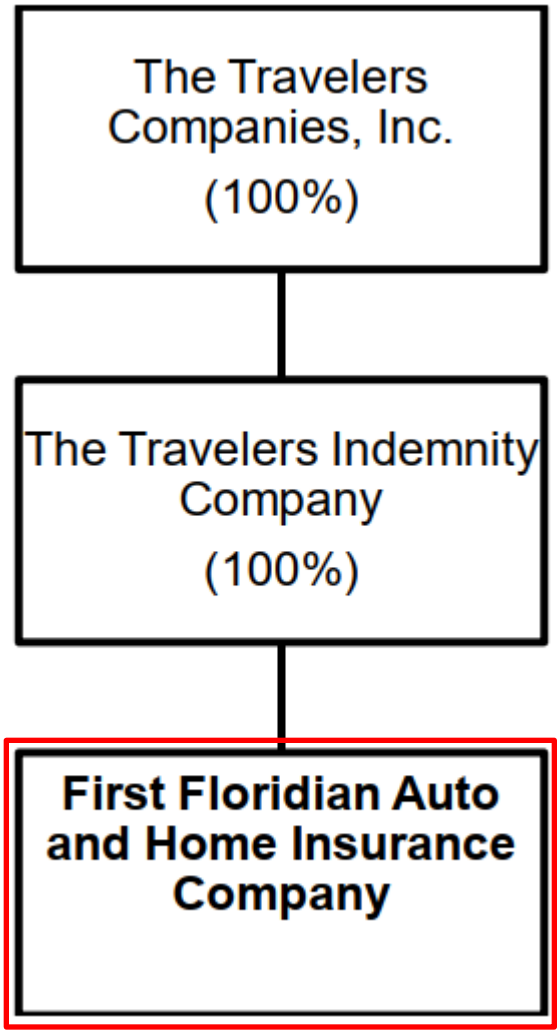
III.10 First Floridian Auto and Home Insurance Company

III.10.1 Summary

First Floridian Auto and Home Insurance Company ("**First Floridian**" or the "Company) is a property and casualty insurance company domiciled in the state of Florida and is a member of The Travelers Companies, Inc. ("**Travelers Inc.**"). First Floridian is 100% owned by The Travelers Indemnity Company ("**Travelers Indemnity**"), which is 100% owned by Travelers Insurance Group Holdings ("**Travelers Group**"), which is 100% owned by Travelers Property Casualty Corporation ("**Travelers PC**"). The ultimate parent is the publicly traded **Travelers Inc.**

Lines of business written by the Company as of December 31, 2019, included Homeowners Multi-Peril, Private Passenger Auto, Inland Marine, Earthquake, and Other Liability. **First Floridian** is only licensed in Florida.

A simplified organizational chart of the **First Floridan** as of December 31, 2019, is listed below:



During December 2021 the Office requested certain information from **First Floridian** regarding its affiliates. **First Floridan** responded in December 2021.

First Floridian participates in an Amended and Restated Corporate Services Agreement with **Travelers Indemnity**. The agreement was effective May 1, 2017 and remains in effect for a period not to exceed five (5) years. **Travelers Indemnity** provides for policy processing and servicing, financial management, operational management, accounting, treasury, property management, payroll, internal audit, human resource management, benefit services, tax, transportation risk management, legal, investment management and advisory, regulatory and government relations, records management and data processing, the acquisition of equipment, software and office space, benefits administration and support, product management, vendor management, claim handling and administration, billing and collection, business processing and agency administration. Services are provided at actual cost with the intent of no party realizing profit or loss. The agreement was amended January 1, 2020, to add a 4% administrative fee and a 5% claim handling fee on earned annual

premium. Fees for the years under review were not reported in the Annual Statement or Audited Financial Statements.

First Floridian participates in an Amended Reinsurance Allocation Agreement with **Travelers Indemnity**. The agreement was effective January 1, 2013 and automatically renews annually. The agreement was not provided. The agreement sets forth the allocation methodology for ceded premiums, ceded losses, and reinstatement premiums when external reinsurance agreements did not include an allocation by and between reinsurance pool insurers and non-pool insurers (**First Floridan**). The agreement was amended January 1, 2020, and Amended and Restated January 1, 2021. The agreement does not contain a fees provision, but rather relies on various cost sharing and allocation agreements between affiliates.

First Floridan did not receive capital contributions or issue or hold surplus notes period under review and paid dividends of $4.3 million in 2017 and $8.5 million in 2018.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

First Floridian Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$52,411,284	$48,767,133	$46,482,402
Affiliated MGA Fees	$0	$0	$0
Commission to Affiliates	$0	$0	$0
Other Affiliated Fees	**Amounts not disclosed in A/S**		
Total Affiliates Fees	**$0**	**$0**	**$0**
Affiliated Fees % of Gross Premiums Written	**0.00%**	**0.00%**	**0.00%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Surplus Note	$0	$0	$0
Dividends	$4,300,000	$8,500,000	$0
Policies In Force	Not Provided		

First Floridian reported net income in 2017, 2018 and 2019, resulting a total net income of $6,930,729 for the three-year period under review**. Travelers Indemnity** also reported net income for all three years under review, totaling $2.6 billion.

III.10.2 Recommendations Regarding Affiliated Fees

1. For years under review there were inconsistencies between the amounts reported as expenses paid to affiliates on the companies Underwriting and Investment Exhibit page 11, Notes to Financial Statements Note 10.B., Schedule Y part 2 and Audited Financial Statements Note 9. Virtually all of **First Floridian** operations are done through a contract with **Travelers Indemnity**, yet no

affiliated expenses are reported in any financial filings. If the analyst finds material inconsistencies in the review of the 2021 Annual Statement, the analyst should ask the Company for an explanation for the inconsistencies.

2. The Office should consider requesting **First Floridan** provide the January 1, 2013 Amended Reinsurance Allocation Agreement with **Travelers Indemnity**.

III.11 Progressive Property Insurance Company

Progressive Property is a wholly owned subsidiary of the **ARX Holding** that is majority owned by **Progressive Corporation**. See Section III.4 for the review of Progressive Group which includes detailed information regarding **Progressive Property**.

III.12 State Farm Florida Insurance Company

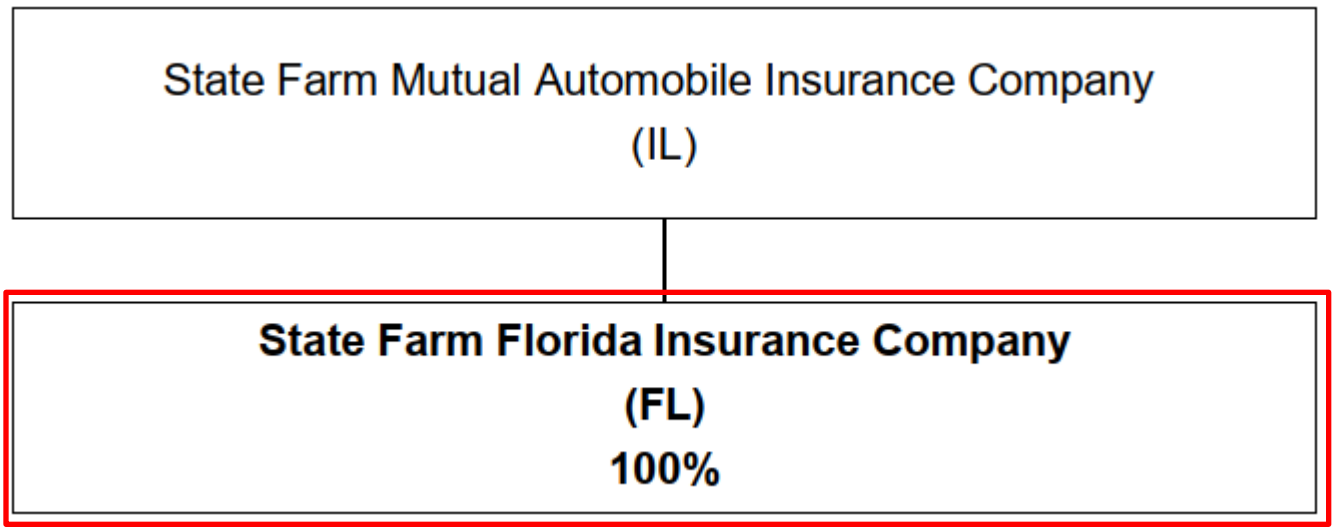
III.12.1 Summary

State Farm Florida Insurance Company ("**State Farm Florida**" or the "Company) is a property and casualty insurance company domiciled in the state of Florida and is a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company ("**State Farm Mutual**"), the ultimate parent.

Lines of business written by the Company as of December 31, 2019, included Homeowners Multi-Peril, Earthquake, Commercial Multi-Peril, Other Liability, Inland Marine, and Medical Malpractice. **State Farm Florida** is only licensed in Florida and Illinois. All premium is written in Florida.

State Farm Florida issued surplus notes in the amount of $250,000,000 and $500,000,000 to **State Farm Mutual** in 2004. **State Farm Florida** paid $35,000,000 in the surplus note principal in 2019, leaving a balance of $715,000,000. Surplus note interest payments in 2017, 2018 and 2019 were $172,500,000, $172,500,000, and $153,750,000, respectively.

A simplified organizational chart of **State Farm Florida** as of December 31, 2019, is listed below:



During November 2021 the Office requested certain information from **State Farm Florida** regarding its affiliates. **State Farm Florida** responded in December 2021.

State Farm Florida and several affiliates participate in an Amended and Restated Services and Facilities Agreement with **State Farm Mutual**, effective January 1, 2013. Services include underwriting, policy issuing and billing, internal audit, premium collection, office space, personnel, investments, information technology, marketing, legal and other services requested. **State Farm Florida** reimburses all reasonable expenses incurred and allocated by **State Farm Mutual** to the performance and provision of the services and facilities on an equitable and reasonable basis in conformity with statutory accounting principles consistently applied. Fees for the years under review were not reported in the annual statement or audit report for the years under review. The agreement was replaced January 1, 2021.

State Farm Florida and several affiliates participate in a Common Clearing Account Agreement with **State Farm Mutual**, effective January 1, 2016. The Agreement implements a comprehensive cash balance system for depositing premium payment and other cash receipts and for disbursing funds; it also allows the operation centers to have more than one account for these purposes. In addition, it enables the parties to accept electronic bill payments form their customers. No fees are charges nor cost incurred between the participating companies.

State Farm Florida and several affiliates participate in a Short-term Investment Pooling Agreement with the State Farm Liquidity Pool, LLC ("**Pool**"), effective March 15, 2001. The **Pool** is a Delaware limited liability company and **State Farm Mutual** serves as the **Pool** manager. This arrangement allows for the transaction of all business related to participation in permitted investments as specified in the pooling agreement. The pool provides liquidity for the affiliated companies to serve each pool

participant's short-term investment needs. Actual expense incurred by the pool are allocated to members.

Information regarding the fees paid to affiliates and policies in force is presented in the table below.

State Farm Florida Insurance Company			
Type of Fees Paid	**2017**	**2018**	**2019**
Gross Premiums Written	$697,656,330	$753,573,999	$738,357,895
Affiliated MGA Fees	$0	$0	$0
Commission to Affiliates	$0	$0	$0
Other Affiliated Fees	**Amounts not disclosed in A/S**		
Total Affiliates Fees	**$0**	**$0**	**$0**
Affiliated Fees % of Gross Premiums Written	**0.00%**	**0.00%**	**0.00%**
MGA Fees Waived	$0	$0	$0
Capital Contributions	$0	$0	$0
Surplus Note[3]	$0	$0	$35,000,000
Dividends	$0	$0	$0
Policies In Force	Not Provided		

State Farm Florida reported net losses in in 2017 and 2018, and a net income in 2019, resulting a total net loss of $(152,262,945) for the three-year period under review**. State Farm Mutual** reported net income for all three years under review, totaling $10.3 billion.

III.12.2 Recommendations Regarding Affiliated Fees

1. For years under review there were inconsistencies between the amounts reported as expenses paid to affiliates on the companies Underwriting and Investment Exhibit page 11, Notes to Financial Statements Note 10.B., Schedule Y part 2 and Audited Financial Statements Note 9. **State Farm Florida** operations are conducted through a service contract with **State Farm Mutual**, yet no affiliated expenses are reported in any financial filings. If the analyst finds material inconsistencies in the review of the 2021 Annual Statement, the analyst should ask the Company for an explanation for the inconsistencies.
2. The Office should consider requesting **State Farm Florida** provide affiliated fee data relating to the January 1, 2013 Amended and Restated Services and Facilities Agreement with **State Farm Mutual**.