

IN THE CIRCUIT COURT OF THE SECOND JUDICIAL CIRCUIT,  
IN AND FOR LEON COUNTY, FLORIDA

State of Florida, ex rel., the Department  
of Financial Services of the State of Florida,  
Relator

vs.

CASE NO.: 2019 CA 002328

Florida Specialty Insurance Company,  
Respondent

AFFIDAVIT OF SUSAN J. PATSCHAK

STATE OF FLORIDA

COUNTY OF SARASOTA

**BEFORE ME**, the undersigned authority, personally appeared Susan J. Patschak, who after being duly sworn, deposes and says:

1. I, Susan J. Patschak, am over the age of eighteen (18), sui juris, and I am competent to testify to and have personal knowledge of the facts contained herein.

Background

2. I am an insurance executive, with over thirty (30) years of experience in the insurance industry. Since 2015, I have served as the Chief Executive Officer and as a member of the board of directors of Florida Specialty Insurance Company ("FSIC" or the "company").<sup>1</sup> FSIC operates from offices located at One S. School Avenue, Sarasota, Florida.

3. FSIC has been a provider of property insurance products and related services to some 92,000 Floridians. The company's property insurance products offer affordable insurance

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<sup>1</sup> On October 2, 2019, this Court entered a Consent Order Appointing the Florida Department of Financial Services as Receiver of Florida Specialty Insurance Company for Purposes of Liquidation, Injunction, and Notice of Automatic Stay (the "Order"). The Order terminated "All officers, directors, trustees, administrators, agents and employees."

coverages, enabling homeowners, condo owners, renters and manufactured home owners to explore a range of coverage options for their properties.

4. At all times relevant hereto, I have served, and continue to serve, as the Chief Executive Officer and as a member of the board of directors of Florida Specialty Holdings, Inc., a Delaware corporation ("FSH"). FSH owns all of the issued and outstanding shares of FSIC.

5. At all times relevant hereto, I have served, and continue to serve, as the Chief Executive Officer of Florida Specialty Managing General Agency, LLC, a Florida limited liability company ("FSMGA"). FSMGA has been and remains a subsidiary of FSH and, as such, has been an affiliate of FSIC. FSMGA employs some twenty-eight (28) Floridians to provide various services to FSIC, such as customer service, claims adjudication, accounting, IT, reinsurance negotiation, reporting, and various other activity required for FSIC to service its policies in a lawful and otherwise compliant manner.

6. Before my positions with the Florida Specialty companies, I held the position of Chief Executive Officer of the two Canopus Bermuda ("Canopus") operations: Canopus Bermuda Limited and Canopus Underwriting Bermuda Limited. I held these positions since October 2007. I was instrumental in the start-up of the Bermuda operation. These positions gave me insight into the Florida insurance market.

7. Prior to joining Canopus, I was with Endurance Specialty Insurance, Ltd. ("Endurance") in Hamilton, Bermuda where I was an Executive Vice President and the Chief Operating Officer of the Bermuda operation. In addition, I served on both Endurance Holding's Executive Team and Loss Reserve Committee which oversaw the liability levels for the entire group.

8. Prior to joining Endurance, I was the Global Chief Actuary for the ACE Group of Companies in Hamilton, Bermuda ("ACE"). I held this position from July 2002 until June 2004. In this role, I was responsible for leading, coordinating and consolidating all actuarial functions in the company encompassing the efforts of over one hundred (100) actuaries employed world-wide throughout the organization. Foremost among those functions was the quarterly evaluation of the overall loss reserve position of ACE.

9. Prior to joining ACE, I worked for over seventeen (17) years with Tillinghast – Towers Perrin ("Tillinghast"). During that time, I held a number of senior management positions including Property/Casualty sector leader for North America and Managing Director of Latin America and Asia/Pacific. I also served as the liaison between Tillinghast and Towers Perrin Reinsurance, promoting joint marketing of services for these two divisions of Towers Perrin. I also had administrative responsibility for a staff of two hundred fifty (250) employees.

10. I have been a Fellow of the Casualty Actuarial Society since 1992 and have been a Member of the American Academy of Actuaries since 1989. I earned a Bachelor of Science in mathematics from the University of Maryland in 1982.

#### The OIR Affidavit

11. On or about October 2, 2019, a vendor advised an employee of FSMGA that the Florida Department of Financial Services ("Petitioner" or "DFS") filed a "request" with the Leon County circuit court to appoint Petitioner as receiver of FSIC. On our own, we reviewed the listing of filings recently made with the Clerk of Court and found this matter. From the docket, we were able to retrieve the Petition for Consent Order Appointing the Florida Department of Financial Services as Receiver of Florida Specialty Insurance Company for Purposes of Liquidation, Injunction, and Notice of Automatic Stay, apparently filed on or about September 30, 2019 (the

“Petition”). The DFS never served the Petition on me directly, and I never received service – in my roles as the Chief Executive Officer and as the Secretary of FSIC – from the State’s Chief Financial Officer as the registered agent for FSIC. To my knowledge, the Petition was not served on, or otherwise provided to, FSMGA or FSH, or the lawyers for any of the Florida Specialty companies.

12. The Petition is based on the Affidavit of Virginia A. Christy, Director of the Property and Casualty Oversight business unit of the Florida Office of Insurance Regulation (“OIR”). Ms. Christy apparently executed the Affidavit in Monroe County on or about September 16, 2019 (the “OIR Affidavit”). A copy of the OIR Affidavit is attached to the Petition, and attached hereto as Exhibit 1.

13. With direct knowledge of the facts in this matter, I am compelled to provide facts to correct the OIR Affidavit so that, to the extent required, the Petition and resulting Order are founded upon accurate information. Such correction is vital to the interests of me personally; FSIC; the FSIC board; FSH and its officers, directors and stakeholders; FSMGA, its officers and directors, and each and every one of its some twenty-eight (28) Florida employees; and the 92,000 policyholders directly affected by this matter.

14. My Affidavit is particularly required for the record in this matter as the OIR Affidavit alleges that FSIC engaged in willful violations of law which the press has readily repeated as if such allegations were uncontroverted fact. The Order was entered before anyone had a chance to correct the record.

15. A copy of one such article (attached hereto as Exhibit 2), on the front page of a significant industry publication, stated as follows: “In an affidavit seen by *The Insurance Insider*, the Florida Office of Insurance Regulation (Fleur) claimed the carrier, which is now in liquidation,

was ‘willfully violating Florida law’ by not seeking the regulator’s sign-off for the transaction.” This is untrue, and the allegation upon which it is founded is false.

16. The OIR Affidavit includes disparaging allegations, taken as fact in the Court’s Order, and now published as such to the entire industry including all potential employers. This Affidavit will correct the OIR Affidavit; and, in the process, I will try to defer to the OIR Affidavit where I am able but only as expressly indicated below.

#### FSIC Solvency

17. FSIC is solvent now and was solvent at June 30, 2019. Under the Florida Insurance Code, an insurer is solvent if it is not “insolvent.” The OIR Affidavit describes the criteria for “insolvency” as follows: “An insurer is insolvent if all its assets, if made immediately available, would not be sufficient to discharge all its liabilities.” OIR Affidavit ¶ 32, *citing* § 631.011(14), F.S.

18. In its financial statement for the quarter ended June 30, 2019 (the “Statement”), FSIC listed assets of \$55,532,676. OIR Affidavit ¶ 29. The Statement showed liabilities in the amount of \$45,386,031. OIR Affidavit ¶ 31. Thus, at June 30, assets exceeded liabilities by \$10,146,645.

19. For entities filing according to statutory accounting principles, Statement of Statutory Accounting Principles (“SSAP”) No. 9 outlines when certain events or transactions that occur subsequent to a filing period, but before the filing of a financial statement, may be recognized and recorded on a financial statement for the prior filing period. Subsequent events and transactions that may be recognized and recorded on a financial statement are called “Type I” subsequent events.

20. SSAP No. 72 outlines when a certain event will be considered a Type I subsequent event and states:

Notes or other receivables received as additional capital contributions satisfied by receipt of cash or readily marketable securities prior to the filing of the statutory financial statement shall be treated as a Type I subsequent event in accordance with SSAP No. 9 and as such **shall be considered an admitted asset based on the evidence of collection and approval of the domiciliary commissioner.** To the extent that the notes or other receivables are not satisfied, they shall be nonadmitted. (Emphasis added).

21. Section 624.424(1)(a), Florida Statutes, requires that “quarterly statements covering the periods ending on March 31, June 30, and September 30 shall be filed within 45 days after each such date.” As such, the statute required that the Statement be filed by August 14, 2019. Before that date, FSIC reversed a \$1,500,000 fee payment to FSMGA. Also, before that date, FSIC filed with the OIR a request that the \$1,500,000 be treated as an admitted asset at June 30, in accordance with SSAP Nos. 9 and 72. A copy of FSIC’s request for such accounting treatment, addressed to the affiant in the OIR Affidavit, is attached hereto as Exhibit 3.

22. As indicated in the OIR Affidavit, “The OFFICE approved this request on August 14, 2019, as a Type I subsequent event in accordance with SSAP No. 9 and allowed the \$1,500,000 USD to be recorded on the Statement pursuant to SSAP No. 72.” OIR Affidavit ¶ 27. A copy of the OIR’s approval letter is attached hereto as Exhibit 4. So, to remove the \$1,500,000 is inconsistent and improper.

23. As such, (a) the \$1,500,000 timely reverted to the accounts of FSIC without any residual claim to it by FSMGA, and (b) the OIR expressly approved FSIC’s accounting for these cash funds as an asset of the company as of June 30, 2019. These facts cannot now be changed, in order to achieve a different conclusion – that the company was “insolvent” at June 30, 2019. As these funds did in fact revert to FSIC, they cannot now be subtracted from the accounts of the company.

24. Similarly, FSIC properly recorded, on line 16.1 of the Statement, "Amounts recoverable from reinsurers" in the amount of \$34,143,004. On this line, under statutory accounting principles, FSIC was required to report all amounts recoverable from reinsurers for paid and unpaid claims and claim settlement expenses, including estimated amounts receivable for unsettled claims, claims incurred but not reported, or policy benefits. FSIC reported these amounts and only these amounts on line 16.1 of the Statement. A copy of the Statement is attached hereto as Exhibit 5. Line 16.1 is found on page Q02 of the Statement.

25. There is no indication in the Statement that line 16.1 included an "RI allowance" of \$8,543,816 USD from National Union Fire Insurance Company of Pittsburgh, PA, an affiliate of American International Group, Inc. and Lexington Insurance Company (collectively, "AIG/Lexington"). However, Paragraph 21 of the OIR Affidavit refers to line 16.1 of the Statement for that proposition.

26. I was involved in the preparation of the Statement. Neither AIG/Lexington nor the OIR were involved in the preparation of the Statement.

27. Line 16.1 of the Statement does not otherwise support this indication in the OIR Affidavit. The figure of \$8,543,816 is not reported on line 16.1. Further, any implication that the \$8,543,816 were somehow included in the indicated figure of \$34,143,004 is incorrect. That is because the \$8,543,816 was never included in the \$34,143,004 figure stated on line 16.1.

28. The OIR Affidavit endorses AIG/Lexington for an indication that the \$8,543,816 figure represents an "RI allowance on policies ceded to AIG." OIR Affidavit ¶ 22. As such, the OIR Affidavit indicates that this amount must be non-admitted, causing a reduction of the \$34,143,004 figure by \$8,543,816. However, AIG/Lexington is not saying that this amount was included in the \$34,143,004. In fact, AIG/Lexington cannot be in a position to classify an asset

on an unrelated company's balance sheet. But, again, one can never get to the analysis of how this number should be classified because this number was never included in the \$34,143,004. Thus, there is no \$8,543,816 to non-admit. Correspondingly, there is no \$8,543,816 by which the \$34,143,004 could be reduced.

29. I have made this clear to the OIR on several occasions. The \$8,543,816 figure came from me, in a non-statutory draft spreadsheet proposal to the OIR of a manner in which FSIC could wind down operations in an orderly and solvent manner (the "Plan" or "RunOff Plan"). In the letter that accompanied that spreadsheet, I stated that "the Plan is not intended to be a balance sheet conveying a financial picture as of a fixed point in time." Therefore, the \$8,543,816 figure was never used to increase the assets of the company in the Statement. The Statement was a totally separate document prepared for a totally separate purpose. In a further effort to avoid any confusion on this point, I again indicated in my cover letter with specific respect to the \$8,543,816 figure as follows:

AIG apparently disagrees with FSIC's position as to the additional reinsurance allowance. AIG has presented its position directly to the Office. We feel confident in our position and will litigate that contractual dispute in another forum. For present purposes, please know that FSIC has not carried this allowance as an asset for purposes of demonstrating solvency.

A copy of my letter, delivered to the OIR before the OIR Affidavit was executed, is attached hereto as Exhibit 6.

30. On September 17, 2019, the OIR responded to my letter, repeating my words with emphasis: "*please know that FSIC has not carried this allowance as an asset for purposes of demonstrating solvency.*" The OIR acknowledged that this figure was included in FSIC's RunOff Plan, not as part of the Statement. A copy of the OIR's letter is attached hereto as Exhibit 7. So, the OIR understood my number as part of a cash flow projection, not as an asset on the balance sheet in our Statement.



31. The FSIC and OIR letters were part of a conversation as to how cash flow could work in a runoff proposal. A draft pro forma cash flow discussion, with both parties to the discussion understanding it as such, cannot be recast as a reduction of a properly reported asset in our Statement for the sole purpose of calling the company “insolvent.”

32. Further, the \$8,543,816 figure is irrelevant for any purpose because the OIR rejected the RunOff Plan in which it was contained.

33. The OIR’s misstatement has resulted in the press misstatements. The attached *Insurance Insider* article exclaimed: “Previously, the company had a quota share arrangement in place with AIG unit National Union Fire Insurance Company. However, \$8.5mn that Florida Specialty had accounted for as part of this agreement was disputed by AIG and never paid, tipping the Floridian into insolvency.” (Emphasis added). As the OIR Affidavit incorrectly cast the \$8,543,816 figure as “accounted for” in the Statement, it could not have served as the basis for “tipping the Floridian into insolvency.” This mischaracterization, seeded in the OIR Affidavit, has disparaged me and all employees associated with the Florida Specialty companies.

34. These two items alone are standalone truths which cannot be made untruthful. They are objective facts not subject to interpretation. The \$1,500,000 reversed cash transaction really occurred, and it occurred with the OIR’s approval. It cannot now be removed from the company’s June 30 Statement. The \$8,543,816 AIG RI allowance was not reported on line 16.1 of the Statement. Because it was never on the Statement, it cannot be removed from the Statement. I would know because I, not the OIR or AIG, am the one with first-hand knowledge of these facts.

35. Additionally, as of June 30, 2019, the Statement date, FSIC reported a deferred tax asset in the amount of \$1,470,000 (“DTA”). The valuation of the DTA was based upon the OIR’s

acceptance of previous filings. The OIR Affidavit discusses the classification of the DTA as the basis for its removal as an asset from the Statement. OIR Affidavit ¶¶ 14 through 20.

36. After discussions with the company's auditors, we determined that the more appropriate classification was as an intercompany receivable since the net operating losses of the company could be utilized by FSIC's affiliate FSMGA. This was determined by tax accountants at PricewaterhouseCoopers LLP.

37. As this amount remained an asset of the company as such, it was determined that a restatement of FSIC's financial position was not necessary at that time, and that a reclassification of this asset would suffice.

38. However, after the filing of the June 30 Statement, the OIR disallowed FSMGA to partner with a third-party carrier, adversely affecting FSMGA's financial position. The OIR eliminated an insurer that could permit FSMGA to continue as a going concern, and thereby provide resources to further protect Florida policyholders. As such, this asset was thereafter rendered invalid.

39. In addition, FSMGA as a going concern, was prepared to escrow up to \$4,000,000 over four (4) years to support any adverse development of loss reserves in the company and to pay for the use of the DTA. This offer was also rejected by the OIR. This rejection, by the OIR, reduced the financial security available to the policyholders of the company, which the OIR now uses in the OIR Affidavit. See OIR Affidavit ¶ 10 ("Non-admitting the deferred tax asset reduces the surplus as regards policyholders to \$8,564,909 USD, at June 30, 2019.").

40. Notwithstanding the treatment of the DTA, the OIR Affidavit indicates that FSIC was "*impaired*" (not insolvent) as of June 30, 2019 by \$1,478,907. OIR Affidavit ¶ 28. But, by either the \$1,500,000 cash reversed to FSIC, or the \$8,543,816 which was never listed as a line

16.1 recoverable from AIG, FSIC was not impaired by the standard indicated in Paragraph 28 of the OIR Affidavit. More importantly, FSIC could not be deemed “insolvent” as concluded in Paragraph 33 of the OIR Affidavit.

41. I understand the basis for trying to cast the company as “insolvent.” The Florida Insurance Guaranty Association (“FIGA”) can only guaranty “covered claims” if there is “an order of liquidation with a finding of insolvency [which] has been entered by a court of competent jurisdiction if such order has become final by the exhaustion of appellate review.” § 631.54(7), F.S. However, the facts by which such an order is obtained must be accurate. I notified the DFS as soon as I saw these issues. Nothing occurred thereafter to advise the Court of the inaccurate material facts and, for the reasons discussed above, I am compelled to put accurate information in the record of this case and before the Court.

#### **Purported (Non)renewal of Policies**

##### ***The Renewal Rights Agreement***

42. FSIC complied with Florida law with respect to the Consent Order for Administrative Supervision, filed with the OIR on or about March 20, 2019 (collectively, with a Consent Order Extending Period of Administrative Supervision filed with the OIR on or about July 18, 2019, the “Supervision Consent Order”). A copy of the Supervision Consent Order is attached hereto as Exhibit 8.

43. FSIC voluntarily entered into the Supervision Consent Order, to work collaboratively with the OIR. Paragraph 3 of the Supervision Consent Order specified that “FLORIDA SPECIALTY has been fully cooperative with the OFFICE and agrees to be placed under administrative supervision for a period of 120 days from the date of execution of this

Consent Order.” Under the Supervision Consent Order, FSIC was at all times transparent with the OIR and disclosed to the OIR all activity required of the company beforehand.

44. The OIR Affidavit argues that FSIC violated the Supervision Consent Order by entering into a renewal rights agreement as the basis to support its claim of a willful violation of Florida law. OIR Affidavit ¶¶ 45 & 46.

45. However, the OIR Affidavit also indicates that the Renewal Rights Agreement was with an “affiliate” of FSIC. OIR Affidavit ¶ 46. The OIR does not purport, and cannot allege, that the Renewal Rights Agreement was with FSIC. That is because the Renewal Rights Agreement was with FSMGA, a company over which the OIR had no jurisdiction. This is a substantive distinction because the right to renew these policies was vested in FSMGA and not FSIC. If FSIC were not available to continue on these policies, FSMGA legally could place these policies with another insurer.

46. The Supervision Consent Order required that “FLORIDA SPECIALTY shall obtain prior written consent from the OFFICE before conducting any of the activities enumerated in Section 624.83, Florida Statutes.” Supervision Consent Order ¶ 5. The OIR Affidavit alleges that FSIC violated Section 624.83(9). OIR Affidavit ¶ 45. That section provided that: “The office may provide that the insurer may not conduct the following activities during the period of supervision, without prior approval by the office: ... Terminate, surrender, forfeit, convert, or lapse any insurance policy, certificate, or contract of insurance, except for nonpayment of premiums due.”

47. The OIR Affidavit indicates that “The OFFICE has worked with FSIC during the period of Administrative Supervision to review and evaluate multiple proposals, acquisition offers, renewal rights agreements, and other agreements that would facilitate a transfer of its

policyholders to reliable insurers. No proposal submitted has proved to be viable.” OIR Affidavit ¶ 9 (emphasis added). The agreement to which the OIR Affidavit refers was one such “renewal rights agreement.”

48. On April 9, 2019, FSIC filed with the OIR a Renewal Rights Agreement between People’s Trust Insurance Company and FSMGA (“**Renewal Rights Agreement**”). A copy of the Renewal Rights Agreement is attached hereto as Exhibit 9. Pursuant to the Renewal Rights Agreement, subject to obtaining necessary governmental approvals, FSMGA would send non-renewal notices to certain of FSIC’s policyholders and People’s Trust would offer those policyholders a People’s Trust policy upon the expiration of their current FSIC policy.

49. Also, on April 9, 2019, the OIR acknowledged receiving this filing and indicated that “We will review this agreement in the context of the larger objective to determine if it is in the best interests of policyholders. The agreement requires approval by the Office under the terms of the Order for Administrative Supervision.” A copy of this written acknowledgement is attached hereto as Exhibit 10.

50. The OIR never told me that the Renewal Rights Agreement violated the Supervision Consent Order. Nothing nefarious occurred.

51. Regardless, the transactions contemplated by the Renewal Rights Agreement were subject to a condition precedent. Section 2.1(a) of the Renewal Rights Agreement expressly indicated that it was “subject to any approvals required of applicable Governmental Authorities.” This was one of the proposals which the OIR found not to be viable. OIR Affidavit ¶ 9. Therefore, no activity contemplated by Section 624.83(9) ever occurred.

52. Further, the activity envisioned under the Renewal Rights Agreement was not prohibited by Section 624.83(9). The Renewal Rights Agreement was not intended for FSIC to,

nor did it contemplate that FSIC, engage in the termination, surrender, forfeiture, conversion, or lapse any insurance policy. Under the Renewal Rights Agreement, when a FSIC policy would expire at the end of the policy's term, People's Trust could "send the policyholder 'a written quote' (the 'Replacement Quote') to issue a new policy upon the expiration of the In-Force Policy (the 'Replacement Policy')." Renewal Rights Agreement, § 2.1(a). No coverage was to be terminated while in force (active); rather, People's Trust would have the right to offer coverage to a FSIC policyholder for a new term under a policy issued by People's Trust. The title of the instrument, "Renewal Rights Agreement," captured this concept.

53. For this Renewal Rights Agreement to work, FSIC would have to notify policyholders that it would not be renewing their policies for another term. Section 627.4133(2)(b), Florida Statutes, required that FSIC notify its policyholders of FSIC's intent not to renew their policies for another term. As the OIR did not approve the Renewal Rights Agreement, FSIC did not issue nonrenewal notices in furtherance of the Renewal Rights Agreement. FSIC thus continued these policies, per the OIR's instructions under Exhibit 10 and as seemingly acknowledged by Paragraph 49 of the OIR Affidavit.

54. As such, FSIC could not have willfully violated Florida law with respect to the unconsummated Renewal Rights Agreement.

***FSIC's Obligation to Continue Policies Until Notice Expiration***

55. Among the allegations that FSIC willfully violated Florida law, Paragraph 49 of the OIR Affidavit states as follows:

Section 626.9541(1)(w)1., Florida Statutes, provides that no director or officer of an insurer who knows or reasonably should know that the insurer is insolvent or impaired shall authorize or permit the insurer to solicit or accept new or renewal insurance risks in this state. "Impaired" for purposes of this provision includes impairment of capital or surplus, as defined in Section 631.011 (12) and (13), Florida Statutes.

56. There are no facts stated in connection with this legal assertion. As mentioned above, the OIR Affidavit puts forth evidence that FSIC tried to avoid any mischaracterization that any officer or director of FSIC violated this statute, by way of the Renewal Rights Agreement. Thus, this legal criterion cannot be considered a willful violation of FSIC and I reject any implication that I violated this statute. If there were any doubt in this respect, the OIR told me in writing that I could not issue nonrenewal notices without the OIR's approval, after FSIC tried to notify policyholders that it would not be renewing their policies. The OIR's instruction is attached hereto as Exhibit 11.

57. FSIC stopped writing new business, though no officer or director knew the company to be insolvent or impaired when it did so. Policies were only continued in accordance with Florida law, which required that "The insurer shall give the first-named insured written notice of nonrenewal, cancellation, or termination at least 120 days before the effective date of the nonrenewal, cancellation, or termination." § 627.4133(2)(b), F.S. So, if the implication is that FSIC continued policies during the 120-day notice period, the company was required to do so in order to comply with this statute. As such, FSIC could not have willfully violated Florida law in this respect. Again, I am guessing at the implication of OIR Affidavit Paragraph 49 because the OIR Affidavit does not tell me or the Court how this statute could have been willfully violated.

#### Number of Officers

58. FSIC had only one executive officer on August 14, 2019, to sign the jurat page for the June 30 Statement. OIR Affidavit ¶ 48. The other officer of the company departed from the company before August 14. After his departure the company was not inclined to engage in the fallacy of appointing someone as an executive officer for the sole purpose of a second signature to the jurat page.

59. This is not a case in which an officer refused to sign the Statement. Simply, the company had one executive officer on August 14, and that executive officer was me. This fact was truthfully reported on the jurat page of the Statement. A copy of the *entire* version of the Statement, inclusive of jurat page, is attached hereto as Exhibit 5.

60. Various biographical material must be filed with the OIR in order to add a person as an executive officer of a domestic insurance company. § 628.261, F.S. Given the extraordinary circumstance of FSIC being in administrative supervision, it would be impossible to attract an executive officer to the company at that time. Further, an exceptional salary would be required to lure a qualified executive officer from another company to a potentially short-term proposition. The company should not be forced to pay such a salary for purposes of adding a second signature to a jurat page, particularly if the OIR were concerned about FSIC's financial condition.

61. FSIC did not consciously have only one executive officer sign the jurat page for the purpose of violating Florida law. Simply, all executive officers of the company signed the jurat page of the company's Statement. This cannot be a willful violation of Florida law as asserted in Paragraphs 47 and 48 of the OIR Affidavit.

62. It was not until I obtained a copy of the OIR Affidavit that I found out that the OIR considered the number of signatures on a jurat page to be a willful violation of Florida law, requiring that FSIC be immediately liquidated and 92,000 residential insurance policies be cancelled during hurricane season. Perhaps something less drastic, and for the protection of these policyholders, could have cured the lack of a second signature on a jurat page. A receivership for purposes of rehabilitation would have given the company notice of the issue, and time to retain a second executive officer, to cure this deficiency.



63. Section 624.424(1)(a) is a procedural statute, guiding insurers as to the timing and manner in which financial statements are to be filed with the OIR. FSIC timely filed its Statement. Section 624.418(2)(a) and 624.4211, Florida Statutes, provide the OIR with discretionary authority to suspend or revoke the certificate of authority of an insurer, or fine an insurer, if the OIR were to find that the insurer “violated any lawful order or rule of the office or commission or any provision of this code.” The process by which the OIR must take such action is governed by the Florida Administrative Procedures Act (“APA”). Section 120.569(1) of the APA provides that “The provisions of this section apply in all proceedings in which the substantial interests of a party are determined by an agency.” (Emphasis added). FSIC never waived its right to notice of this purported violation. FSIC never received notice of the OIR’s determination of this purported violation.

64. Section 120.569(1), Florida Statutes, mandates the following of the OIR:

Parties shall be notified of any order, including a final order. Unless waived, a copy of the order shall be delivered or mailed to each party or the party’s attorney of record at the address of record. Each notice shall inform the recipient of any administrative hearing or judicial review that is available under this section, s. 120.57, or s. 120.68; shall indicate the procedure which must be followed to obtain the hearing or judicial review; and shall state the time limits which apply.

If the OIR had complied with the APA, the company could have requested a hearing to determine a lawful remedy before an independent administrative law judge. Any petition for error concerning the number of persons signing a jurat page must be exhausted through the administrative process, not as an allegation in a Petition before this Court which does not avail FSIC of its right to contest the allegation or the penalty commensurate with a proven allegation.

#### The FHCF Contract

65. The OIR Affidavit utilizes almost 1-1/2 pages to discuss FSIC’s responsibilities under the company’s Reimbursement Contract, effective June 1, 2019, with “the State Board of

Administration of the State of Florida ('SBA') which Administers the Florida Hurricane Catastrophe Fund ('FHCF')" (the "FHCF Contract"). OIR Affidavit ¶¶ 38 through 43. The OIR Affidavit concludes that, "Based on the above, the OFFICE has determined that FSIC is operating in an unsound condition that is hazardous to policyholders, creditors, stockholders, and the public." OIR Affidavit ¶ 44, with the FHCF Contract attached to the OIR Affidavit as Exhibit 9 thereto. This conclusion is inapplicable because the predicate upon which it is based is false.

66. Paragraph (2)(b) of Article X of the FHCF Contract (page 16) provides as follows:

If the Company is under administrative supervision, or if any control or oversight of the Company has been transferred through any legal or regulatory action to a state regulator or court appointed receiver or rehabilitator (referred to in the aggregate as "state action"):

1. The full annual provisional Reimbursement Premium as billed and any outstanding balances will be due and payable on August 1, or the date that such State action occurs after August 1 of the Contract Year.
2. Failure by such Company to pay the full annual provisional Reimbursement Premium as specified in subparagraph 1. by the applicable due date shall result in the 45% Coverage Level being deemed for the complete Contract Year regardless of the level selected for the Company through the execution of this Contract and regardless of whether a Covered Event occurred or triggered coverage.
3. Subparagraphs 1. and 2. do not apply if the state regulator, receiver, or rehabilitator provides a letter of assurance to the FHCF stating that the Company will have the resources and will pay the full Reimbursement Premium for the Coverage Level selected through the execution of this Contract.

67. It was a mutual understanding that the administrative supervision proceedings were to remain confidential. The OIR stated to me in writing that "Administrative supervision is confidential as provided in Section 624.82, Florida Statutes, unless otherwise specified within that Section." Supervision Consent Order ¶ 12. As such, FSIC could not communicate to the FHCF that it was in administrative supervision, for the FHCF to determine FSIC's Reimbursement Premium liability under the FHCF Contract.

68. FSIC communicated with the OIR as to this issue. As indicated in Subparagraph 3 above, the OIR could have communicated with FHCF to maintain the company's current payment plan if the OIR were concerned about the company's short-term cash position. However, the OIR declined to do so.

69. After disclosing to the OIR its plan to work with the FHCF directly on this issue, the company and the FHCF were able to agree on the final balance of the Reimbursement Premium. As a result, FHCF invoiced the company and the cash in the company's reserves was available to pay the outstanding balance due on September 27, 2019.

70. However, the OIR instructed FSIC not to pay the invoice at that time.

71. FSIC did not breach the FHCF Contract. The FHCF Contract contained a self-executing provision in the event that a company were not to make the full Reimbursement Premium by August 1, 2019. Subparagraph 2 above provided that failure to pay by August 1 would "result in the 45% Coverage Level being deemed for the complete Contract Year regardless of the level selected for the Company."

72. Thus, none of the points in the OIR Affidavit on this item relate to the company's solvency. Further, as coverage was procured and maintained through the FHCF as required by law, for all times relevant hereto, FSIC cannot plausibly be said to have been "operating in an unsound condition that is hazardous to policyholders, creditors, stockholders, and the public." This allegation has no basis in fact, particularly if to demonstrate to the Court the immediate need to liquidate the company and cancel insurance coverage (backed by the FHCF as required) for 92,000 Floridians during hurricane season.

### Consent to Receivership

73. After about a month of very intense discussion with the OIR about a course of action which would best protect Florida consumers, the FSIC board relented to the OIR's request that the FSIC board provide the OIR with a Consent to Order of Receivership (the "Consent"). A copy of the Consent is attached hereto as Exhibit 12.

74. In the Consent, the FSIC board consented to the process of receivership. The Consent was carefully crafted to avail the DFS of the receivership process by consent alone. The Consent was based on the understanding that, by consent alone, the OIR/DFS would be relieved of the arduous task of putting together various factual assertions to build a case against FSIC, which FSIC could contest at trial. At the time, and with assurances of an uncontested matter beforehand, the board determined in its business judgment that litigation would not be the best use of company funds. So, the board consented to the process.

75. The FSIC board never consented to the facts asserted in the OIR Affidavit. The board never made a knowing or informed consent to these factual indications. The board had not heard several of these indications before it saw them in the OIR Affidavit as attached to the Petition. Other statements of fact were characterized in a materially different manner than the facts as we knew them.

76. The OIR Affidavit was effectuated after we signed the Consent. If we knew that the OIR intended for the Consent to be ascribed to facts not yet developed or memorialized at the time of our Consent, we would never have given our Consent.

77. The Consent was sufficient for the stated purpose for which it was given at the time, initiating a receivership proceeding. The true facts at that time arguably could support placing the company into receivership for purposes of rehabilitation. After that, in the event that the DFS

were unable to lawfully rehabilitate the company for the benefit of policyholders as a matter of fact, then the DFS could make an appropriate filing with the Court to convert the process of one for rehabilitation to one for liquidation and the attachment of FIGA to guaranty the payment of "covered claims" in accordance with Sections 631.54(4) and 631.57(1), Florida Statutes.

78. The facts simply did not support a conclusion of "insolvency." Because the company was "solvent," which we knew to be the case, we knew that the company was in a position to address liabilities as they came due. Further, most of these policies were reinsured by the AIG/Lexington 100% quota share agreement upon which Paragraph 22 of the OIR Affidavit relies.

79. My Affidavit is submitted with facts consistent with the board's Consent. I have not changed my position to now "contest the initiation of delinquency proceedings by the DFS in the Circuit Court of the Second Judicial Circuit, in and for Leon County, Florida." Consent ¶ 3.

80. The board never waived my or its right to make this Affidavit or cause it to be filed in this matter. In fact, Section 631.391(3), Florida Statutes, anticipates my right to do so without this filing being interpreted as a form of non-cooperation. That section provides that "This section does not prohibit any person from seeking legal relief from a court when aggrieved by the petition for liquidation or other delinquency proceeding or by other orders." I will continue to cooperate with the DFS and the OIR with respect to this proceeding, in full compliance with Section 631.391, Florida Statutes.

### **Conclusion**

81. FSIC was not "insolvent" as alleged in the OIR Affidavit. FSIC never willfully violated Florida law as alleged in the OIR Affidavit. FSIC consented to the initiation of a

receivership proceeding, but never consented to facts developed for purposes of supporting the Petition or a finding of “insolvency.”

82. For these and other reasons I would ask that the DFS be required to reconsider its Petition with particular attention to the facts upon which that Petition is based. At best, as the board thought would be the case, the Petition should be for purposes of rehabilitation so that the DFS can assess the true financial position of the company with respect to an accurate accounting of its liability. Further, a case in rehabilitation will save FSIC’s 92,000 policyholders from having to find coverage for their homes during hurricane season. As such, a rehabilitation will be in the best interests of Florida consumers, for an orderly wind down with the DFS in the same position and authority as receiver. FSMGA employees can be retained by the receiver for continuity of service and historic knowledge.

83. Throughout this process it has always been my understanding that liquidation would be a last resort. Various cases in this area, across the country, are instructive on this process. In a case in Pennsylvania, the court indicated as follows:

Liquidation is a remedy of last resort. The rehabilitator may not file a liquidation petition unless he has “reasonable cause to believe” that one of the two elements of the liquidation standard is met. If he files a petition for liquidation, the rehabilitator bears the burden of proof. The rehabilitator first must prove insolvency as of the date the petition for liquidation was filed. Next, the rehabilitator must demonstrate that continued rehabilitation would either (i) “substantially increase the risk of loss to creditors, policy and certificate holders, or the public,” or (ii) “be futile.”

*Consedine v. Penn Treaty Network Am. Ins. Co.*, 63 A.3d 368, 440 (Pa. Cmwlth. 2012), citing *Koken v. Legion Ins. Co.*, 831 A.2d 1196, 1230 (Pa. Cmwlth. 2003). See, e.g., *Grode v. Mutual Fire, Marine & Inland Ins. Co.*, 132 Pa.Cmwlth. 196, 572 A.2d 798, 803 (1990) (“[T]he benefits of rehabilitation, its flexibility and avoidance of inherent delays, are preferable to the static and cumbersome procedures of statutory liquidation.”); *Mutual Fire*, 531 Pa. at 614, 614 A.2d at 1094.

It is my understanding that this principle is followed in most jurisdictions that have enacted an insurer insolvency statute.<sup>2</sup>

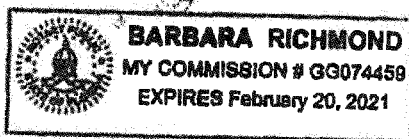
**FURTHER AFFIANT SAYETH NOT.**


  
\_\_\_\_\_  
Susan J. Patschak

STATE OF FLORIDA

COUNTY OF SARASOTA

The foregoing was sworn to and subscribed before me this 8<sup>th</sup> day of October, 2019, by Susan J. Patschak.



  
\_\_\_\_\_  
(Signature of the Notary)  
Barbara Richmond  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification \_\_\_\_\_

Type of Identification Produced N/A

My Commission Expires February 20, 2021

<sup>2</sup> See, e.g., *Carpenter v. Pacific Mut. Life Ins. Co. of Cal.*, 74 P.2d 761, 775 (Cal. 1937) ("The public has a grave and important interest in preserving the business [of the insolvent insurer] if that is possible. Liquidation is the last resort."); *In re Executive Life Ins. Co.*, 38 Cal.Rptr.2d 453, 459 (Cal.Ct.App. 1995) ("[W]hile the Commissioner . . . has the power either to rehabilitate the insolvent insurer or to liquidate it, liquidation is a last resort.") (citations omitted); *Kueckelhan v. Federal Old Line Ins. Co.*, 418 P.2d 443, 453 (Wash. 1966), superseded by rule as stated in *State v. WWJ Corp.*, 980 P.2d 1257 (Wash. 1999) ("[I]t should be remembered that the process of insurer rehabilitation is preferred to that of liquidation"); *State ex rel. Pope v. Xantus Healthplan of Tenn., Inc.*, No. M2000-00120-COA-RIO-CV, 2000 WL 630858, at \*11. (Tenn.Ct.App. May 17, 2000) ("Rehabilitation is preferred over liquidation because of the public interest in insurance."); cf. *Mueller v. Beamalloy, Inc.*, 994 S.W.2d 855, 859 (Tex.App. 1999) (stating that under Texas Business Corporation Act, liquidation only allowed as a "last resort" when less harsh remedies such as rehabilitation are inadequate).

# **EXHIBIT 1**



2019 CA 002328

AFFIDAVIT OF VIRGINIA A. CHRISTY

STATE OF FLORIDA

COUNTY OF Duval

**BEFORE ME**, the undersigned authority, personally appeared Virginia A. Christy, who after being duly sworn, deposes and says:

1. I, Virginia A. Christy, am over the age of eighteen (18), sui juris, and I am competent to testify to and have personal knowledge of the facts contained herein.

2. I have been employed by the Florida Office of Insurance Regulation (hereinafter referred to as "OFFICE") since July 2012. From July 2012 to August 2014, I served as Assistant General Counsel. From September 2014 to August 2017, I served as Chief Assistant General Counsel for the OFFICE. In that position, I supervised the Legal Division's Regulatory Section, which provided legal representation to several business units in the OFFICE, including Property & Casualty Financial Oversight.

3. Since September 2017, I have held the position of Director of the Property & Casualty Financial Oversight business unit. In this position, I supervise a team of over fifty employees, including twenty persons specifically assigned to financial analysis of insurance companies licensed to do business in Florida.

4. I have a Bachelor of Science degree in Business Administration with a major in Accounting from Missouri Southern State College and a Juris Doctor from Florida Coastal School of Law. I am a member of the Florida Bar.

5. Florida Specialty Insurance Company (hereinafter referred to as "FSIC") holds a license as a Florida domestic Property and Casualty insurer and is authorized to write in the lines

of (010) Fire, (020) Allied Lines, (9040) Homeowners Multi-Peril, (090) Inland Marine, (170) Other Liability, (540) Mobile Home Multi-Peril, and (550) Mobile Home Physical Damage, pursuant to Part III of Chapter 624, Florida Statutes.

6. As a licensed insurer, FSIC is subject to the regulation of the OFFICE pursuant to the Florida Insurance Code.

7. On March 20, 2019, FSIC and the OFFICE executed Consent Order 242640-19-CO ("Supervision Consent Order"). Pursuant to the Supervision Consent Order, FSIC was placed in Administrative Supervision for the purposes of protecting its assets and the interests of its insureds. A true and correct copy of the Supervision Consent Order is attached hereto as Exhibit 1.

8. On July 18, 2019, FSIC and the OFFICE executed Consent Order 244368-19-CO ("Extension Consent Order"), which extended the Administrative Supervision of FSIC through and including November 15, 2019. The Extension Consent Order did not amend or supplement the Supervision Consent Order in any other manner. A true and correct copy of the Extension Consent Order is attached hereto as Exhibit 2.

9. The OFFICE has worked with FSIC during the period of Administrative Supervision to review and evaluate multiple proposals, acquisition offers, renewal rights agreements, and other agreements that would facilitate a transfer of its policyholders to reliable insurers. No proposal submitted has proved to be viable.

10. The OFFICE has now determined that grounds exist for the Department of Financial Services ("DEPARTMENT") to petition for an order, under Section 631.051 or 631.061, Florida Statutes, directing the DEPARTMENT to initiate delinquency proceedings against FSIC. The four bases for this determination are summarized as follows:

**BASIS ONE: FSIC IS IMPAIRED AND INSOLVENT  
OR ABOUT TO BE INSOLVENT**

Authority: §§ 631.051(1) & 631.061(1), Fla. Stat.

11. On August 15, 2019, the OFFICE received FSIC's June 30, 2019, second quarter 2019 financial statement ("Statement"). A true and correct copy of the Statement is attached hereto as Exhibit 3.

12. In the Statement, FSIC reported surplus as regards policyholders totaling \$10,034,909 United States Dollars ("USD") (see line 37, page Q03, Exhibit 3).

13. FSIC is required by the Florida Insurance Code to maintain at all times a minimum surplus of \$10,000,000 USD.

14. FSIC included in its reported surplus a deferred tax asset in the amount of \$1,470,000 USD (see line 18.2, page Q02, Exhibit 3).

15. Statement of Statutory Accounting Procedures ("SSAP") No. 101 provides that a reporting entity that projects a tax loss in the applicable realization period cannot admit a deferred tax asset related to the loss, even if the loss could offset taxable income of other members in the consolidated group and the reporting entity could expect to be paid for the tax benefit pursuant to its allocation agreement. Only adjusted gross deferred tax assets that are "more likely than not to be realized" shall be considered admitted.

16. The notes to the Statement include a "going concern" opinion stating that "[h]istorical operating results indicate substantial doubt exists related to the [FSIC]'s ability to continue as a going concern given the current market environment in the state of Florida." (see Note 1 D, page Q06, Exhibit 3).

17. As reflected in the Statement, FSIC has not realized positive income through the second quarter of Fiscal Year 2019.

18. It is more likely than not that the FSIC will not have positive income during taxable period 2019. Pursuant to SSAP No. 101, the \$1,470,000 USD must be non-admitted.

19. Non-admitting the deferred tax asset reduces the surplus as policyholders to \$8,564,909 USD, at June 30, 2019.

20. FSIC failed to maintain the minimum required surplus and is impaired at June 30, 2019.

21. FSIC also reported in the Statement as part of its surplus amounts recoverable from reinsurers in the amount of \$34,143,004 USD (see line 16.1, page Q02, Exhibit 3). Included with this amount is a receivable of \$8,543,816 USD from National Union Fire Insurance Company of Pittsburgh, PA, ("Lexington/AIG Group").

22. On September 4, 2019, Lexington/AIG Group represented in writing to the OFFICE that

FSIC has been fully paid for the RI allowance on policies ceded to AIG. AIG paid 23.45% against the UEP at inception and 23.45% of written premium during the 12-month term, which would cover the earned premium during the 6/1-6/1 period plus the earned premium during the runoff period on the covered policies that ran off post 6/1/19.

23. The \$8,543,816 USD receivable is not available because it is disputed by, and not likely recoverable from, Lexington/AIG, and must be non-admitted.

24. Non-admitting this recoverable reduces surplus as to policyholders further from \$8,564,909 USD, as adjusted above, to \$21,093 USD, at June 30, 2019.

25. For this additional reason, FSIC is impaired at June 30, 2019.

26. On August 13, 2019, two days before the Statement was due to be submitted, FSIC requested OFFICE approval to amend its "MGA Waiver of Commission Agreement." This waiver was to allow the Managing General Agency, Florida Specialty Managing General Agency, LLC

("MGA"), to waive \$1,500,000 USD in fees already paid to MGA by FSIC as of June 30, 2019, which would result in the return of \$1,500,000 USD to FSIC after June 30, 2019.

27. The OFFICE approved this request on August 14, 2019, as a Type I subsequent event in accordance with SSAP No. 9 and allowed the \$1,500,000 USD to be recorded on the Statement pursuant to SSAP No. 72.<sup>1</sup>

28. For this additional reason, FSIC was impaired on June 30, 2019 by a negative \$1,478,907 USD (\$21,093 USD, as adjusted above, - \$1,500,000 USD = -1,478,907 USD).

29. In the Statement, FSIC lists total assets of \$55,532,676 USD.

30. The adjustments noted above substantially reduce FSIC assets as set forth below:

Total Assets: \$55,532,676 USD

Less: \$1,470,000 USD (deferred tax asset)

\$8,543,816 USD (non-admitted receivable)

\$1,500,000 USD (MGA refund)

Net Assets: \$44,018,860 USD

31. In the Statement FSIC lists recorded liabilities of \$45,386,031 USD (see line 28, page Q03, Exhibit 3).

32. An insurer is insolvent if all its assets, if made immediately available, would not be sufficient to discharge all its liabilities. § 631.011(14), Fla. Stat.

33. FSIC is insolvent at June 30, 2019.

---

<sup>1</sup> Insurers are required to file financial statements prepared in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual (SSAP). SSAP No. 9 outlines when certain events or transactions that occur subsequent to a filing period, but before the filing of a financial statement, may be recognized and recorded on a financial statement for the prior filing period. Subsequent events and transactions that may be recognized and recorded on a financial statement are called "Type I" subsequent events. SSAP No. 72 outlines when a certain event will be considered a Type I subsequent event.

**BASIS TWO: FURTHER TRANSACTION OF INSURANCE IS HAZARDOUS  
TO POLICYHOLDERS, CREDITORS, STOCKHOLDERS, OR THE PUBLIC**

**Authority: §631.051(3), Fla. Stat.**

34. As documented in the Statement, FSIC has experienced a sudden and significant decrease in surplus and profitability. FSIC policyholder surplus declined by \$14,520,024 USD in one year. This is a 59.1% decrease as compared to second quarter 2018 financial results. A true and correct copy of the 2018 financial results is attached hereto as Exhibit 4.

35. FSIC reported on its 2018 annual financial statement FIVE-YEAR HISTORICAL DATA page, attached hereto as Exhibit 5, loss reserve development for the past two (2) years as follows:

One-Year Loss Reserve Development:	2017: \$1,056,000 USD 2018: \$4,451,000 USD (line 74, page 18, Exhibit 5).
Two-Year Loss Reserve Development:	2017: \$462,000 USD 2018: \$1,213,000 USD (line 76, page 18, Exhibit 5).

36. This adverse loss reserve development pattern reflects that FSIC has been consistently underestimating its actual losses and failing to establish adequate reserves for those losses.

37. On August 16, 2019, Demotech, Inc., announced the downgrade of FSIC's Financial Stability Rating ® from an A designation, which is Exceptional, to an M designation, which is Moderate.

38. On or about January 30, 2019, FSIC entered into a Reimbursement Contract with the State Board of Administration of the State of Florida ("SBA"). This contract is hereinafter referred to as the "FHCF Reimbursement" and is attached hereto as Exhibit 6.

39. Article X (2)(b) of the FHCF Reimbursement (see page 11, Exhibit 6) states that if FSIC is under administrative supervision, the full annual provisional reimbursement premium as billed and any outstanding balances will be due and payable on August 1 of the contract year.

40. FSIC reported in its Statement (see line 5, page Q02, Exhibit 3), cash in the amount of \$6,912,669 USD. FSIC's initial estimated premium was calculated and reported as payable for the FHCF Reimbursement in the amount of \$10,769,112 USD. FSIC did not have cash on hand to pay the full premium amount on June 30, 2019.

41. On July 29, 2019, FSIC paid a first installment in the amount of \$3,589,704 USD, leaving a balance of \$7,179,408 USD due on August 1, 2019, as required by the FHCF Reimbursement. FSIC did not pay the remaining balance on August 1, 2019.

42. Pursuant to the FHCF Reimbursement (see Article X (2)(b), page 11, Exhibit 6), failure by FSIC to pay the full annual provisional reimbursement premium as specified in the agreement could result in FSIC's coverage level election for the contract year to be reduced from 90% coverage to 45% coverage, which will further strain FSIC's resources if a catastrophic event occurs.

43. On September 3, 2019, FSIC received notice from the SBA that "[b]ased on the Data Call file submitted by the company last week, the preliminary premium calculation for Contract Year 2019 is \$12,904,890.16, less the first installment of \$3,589,704 paid on July 29, 2019, which leaves a balance due on the full premium of \$9,315,186.16." After discussions with FSIC and FSIC's reinsurance broker, Guy Carpenter, the SBA has agreed that the correct cost for the full Contract Year 2019 is \$11,692,724 USD. This amount, less the \$3,589,704 USD already paid, is \$923,612 USD more than the \$7,179,408 USD that was reported as payable by FSIC. The

SBA has issued an invoice for the full remaining premium due (\$8,103,020 USD) payable "in 15 days," which would be on or about September 27, 2019.

44. Based on the above, the OFFICE has determined that FSIC is operating in an unsound condition that is hazardous to policyholders, creditors, stockholders, and the public.

**BASIS THREE: FSIC HAS WILLFULLY VIOLATED FLORIDA LAW**

**Authority: § 631.051(8), Fla. Stat.**

45. FSIC agreed in the Supervision Consent Order to obtain prior written consent from the OFFICE before conducting any of the activities enumerated in Section 624.83, Florida Statutes (see paragraph 5, page 2, Exhibit 1). Section 624.83(9), Florida Statutes, prohibits the termination, surrender, forfeiture, conversion or lapse of any insurance policy, certificate, or contract of insurance while under administrative supervision without the prior written approval of the OFFICE.

46. On April 9, 2019, FSIC, through an affiliate, entered into an agreement that would non-renew a portion of the Company's HO3 portfolio without the prior approval of the OFFICE. A true and correct copy of this agreement is attached hereto as Exhibit 7.

47. Section 624.424(1)(a), Florida Statutes, requires financial statements filed with the OFFICE to be sworn to by at least two executive officers of the insurer. Because the financial statement is provided through the National Association of Insurance Commissioners and uploaded into the OFFICE's filing system using electronic signatures, a separate jurat page is required to be uploaded into the OFFICE's filing system that reflects the "sworn to" requirement.

48. The jurat page FSIC filed with the Statement is signed by only one executive officer. A true and correct copy of this jurat page is attached hereto as Exhibit 8.



49. Section 626.9541(1)(w)1., Florida Statutes, provides that no director or officer of an insurer who knows or reasonably should know that the insurer is insolvent or impaired shall authorize or permit the insurer to solicit or accept new or renewal insurance risks in this state. "Impaired" for purposes of this provision includes impairment of capital or surplus, as defined in Section 631.011(12) and (13), Florida Statutes.

50. On or about August 12, 2019, when FSIC requested the SSAP 72 accounting treatment of the \$1,500,000 USD funds from its MGA, FSIC knew or reasonably should have known that it was impaired and continued to accept and renew insurance risk in this state, in violation of Section 626.9541(1)(w)1., Florida Statutes.

#### **BASIS FOUR: CONSENT TO REHABILITATION OR LIQUIDATION**

##### **Authority: §631.051(11), Fla. Stat.**

51. On September 12, 2019, FSIC, through a majority of its directors, executed a Consent to Order of Receivership for the appointment of the Department of Financial Services, Division of Rehabilitation and Liquidation as Receiver. A true and correct copy of the Consent is attached hereto as Exhibit 9.

52. The consent states: "Pursuant to Sections 631.051(11) and 631.061 (on grounds of consent), Florida Statutes, Respondent consents, through a majority of its directors by written consent below, to the entry of an Order of Rehabilitation or Liquidation, appointing the Department of Financial Services (herein, the "DFS") as Receiver for the purposes of Rehabilitation or Liquidation." Further the consent states, "Respondent agrees not to contest the initiation of delinquency proceedings by the DFS in the Circuit Court of the Second Judicial Circuit, in and for Leon County, Florida. Respondent agrees further that no hearing need be held on the DFS' petition for an order appointing the DFS as Receiver."

### CONCLUSION

Based on the above, FSIC is impaired and insolvent or about to become insolvent; is in such condition or is using or has been subject to such methods or practices in the conduct of its business, as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, creditors, stockholders, or the public; has willfully violated Florida law; and has consented to rehabilitation or liquidation. Thus, grounds for issuing an Order for entry into receivership exist under Sections 631.051(1), 631.051(3), 631.051(8), 631.051(11), and 631.061(1), Florida Statutes.

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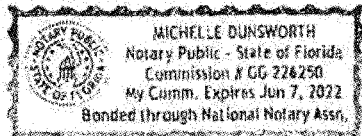
**FURTHER AFFLIANT SAYETH NOT.**

Virginia A. Christy, Director  
Property & Casualty Financial Oversight  
Office of Insurance Regulation

STATE OF FL

COUNTY OF Monroe

The foregoing affidavit was sworn to and subscribed before me this 16<sup>th</sup> day of Sep  
2019, by Virginia Christy.



Michelle Dunsworth  
(Signature of the Notary)

Michelle Dunsworth  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known \_\_\_\_\_ OR Produced Identification X

Type of Identification Produced FL DL

My Commission Expires 6-7-22

# **EXHIBIT 2**

# Florida Specialty accused of operating in 'unsound condition'

---

Bernard Goyder

04/10/2019

**Florida Specialty Insurance Company has been accused by a state insurance regulator of operating in an “unsound condition” by failing to obtain permission before entering into a business arrangement.**

In an affidavit seen by *The Insurance Insider*, the Florida Office of Insurance Regulation (Floir) claimed the carrier, which is now in liquidation, was “willfully violating Florida law” by not seeking the regulator’s sign-off for the transaction.

The agreement at issue, reached 9 April through an affiliate, “would non-renew a portion of the company's HO3 portfolio”, according to the affidavit.

Florida Specialty was put into receivership by a court in Florida on 2 October. The carrier had been struggling for months, after a major quota share deal with AIG came to an end earlier this year.

In March, the company was put under special administrative supervision by Floir, where a regulatory official was required to be physically present at the carrier’s Sarasota office in order to protect the interest of policyholders.

Floir official Virginia Christy said in an affidavit, filed as part of the liquidation proceedings, that the company had “willfully violated Florida law” by not obtaining permission for the deal from the regulator, and that it operated in a manner that was “hazardous to policyholders, creditors, stockholders and the public”.

Christy further accused the company of taking on insurance risk when the insurer’s directors knew the business was insolvent.

Florida Specialty became insolvent in July 2019. The company failed to pay \$7.2mn of reinsurance premiums owed to Florida Hurricane Catastrophe Fund that were due on 1 August.

As of 30 June, Florida Specialty had net assets of \$44mn and liabilities of \$45.3mn.

Previously, the company had a quota share arrangement in place with AIG unit National Union Fire Insurance Company. However, \$8.5mn that Florida Specialty had accounted for as part of this agreement was disputed by AIG and

never paid, tipping the Floridian into insolvency.

AIG told the Floir that Florida Specialty had been “fully paid” under the terms of its reinsurance agreement.

The collapse of the homeowners’ carrier impacts about 90,000 policyholders.

It is understood that the Floir is now looking for a buyer for the company as part of a rescue plan. If Florida Specialty policyholders can’t find alternative coverage, they will be guaranteed coverage from state-owned Citizens Property Insurance Corporation for the next year.

Any claims filed from now on will be handled by the Florida Insurance Guaranty Association (FIGA). The state’s Department for Financial Services is overseeing the entity’s receivership process.

Floir “has been working with Florida Specialty for over a year in an attempt to help the company develop a viable business plan”, Florida Insurance Commissioner David Altmaier said.

“When it became clear that Florida Specialty was unable to develop such a plan, OIR worked with the Department of Financial Services, Citizens, and FIGA to provide Florida Specialty policyholders with a path for coverage options in the private market or guaranteed coverage with Citizens if private market coverage could not be secured.”

“Our goal has been to protect consumers, who are especially vulnerable during hurricane season, and to encourage consumers to seek coverage in the private sector,” the commissioner said.

“While we never want to see an insurer go into receivership, the good news is that we have a safety net in place to protect consumers.”

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# **EXHIBIT 3**



FLORIDA SPECIALTY INSURANCE COMPANY

1 South School Avenue, Sarasota, FL 34237

(941) 210-5760 • (888) 723-3055

VIA EMAIL

August 12, 2019

Ms. Virginia Christy  
Director, Property & Casualty Financial Oversight  
Florida Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, FL 32399

RE: Florida Specialty Insurance Company ("Florida Specialty") – Amendment to MGA Waiver of Commission Agreement – SSAP No. 72 Request

Dear Virginia:

Florida Specialty is requesting approval of an amendment to the current MGA Agreement with Florida Specialty Managing General Agency ("FSMGA") for an option for the MGA to waive a certain amount of fees due from Florida Specialty. We are also requesting SSAP No. 72 treatment of this waiver to be effective as of the 6/30/19 quarterly financial statement as a Type I subsequent event in accordance with SSAP No. 9. FSMGA has chosen to forgive \$1.5 million in fees as of June 30, 2019.

I have attached a screen shot of the transfer of funds into the Florida Specialty 53 Bank Account from the FSMGA Bank Account.

Please let me know if you have any questions or require any further details. Thank you and we look forward to your response.

Sincerely,

Susan J. Patschak  
Chief Executive Officer



8/12/2019

Business Payments - Customer Visibility Application 3.0.23.4 (161550)

## Payments

### View Payment Details

<b>Payment ID</b>	redacted	<b>Payment Status</b>	Processed
<b>Payment Type</b>	Intracompany Transfer	<b>Payment Date</b>	8/12/2019
		<b>Creator Name</b>	redacted

### Payment Details History

<a href="#">Edit</a>	<a href="#">Approve</a>	<a href="#">Decline</a>	<a href="#">Cancel</a>
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### Transfer Details

<b>Business Unit</b>	FSIC & FSMGA
<b>Security Level</b>	Default
<b>Debit Account</b>	Florida Specialty MGA-redacted
<b>Debit Account Currency</b>	USD
<b>Credit Account</b>	Florida Specialty Insure-redacted
<b>Credit Account Currency</b>	USD
<b>Payment Amount</b>	\$1,500,000.00
<b>Comments</b>	

# **EXHIBIT 4**



## OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER  
COMMISSIONER

FINANCIAL SERVICES  
COMMISSION

RON DESANTIS  
GOVERNOR

JIMMY PATRONIS  
CHIEF FINANCIAL OFFICER

ASHLEY MOODY  
ATTORNEY GENERAL

NICOLE "NIKKI" FRIED  
COMMISSIONER OF  
AGRICULTURE

August 14, 2019

Susan Patschak  
Florida Specialty Insurance Company  
1 South School Avenue  
Sarasota, FL 34237

Re: Florida Specialty Insurance Company ("Company")  
Florida Specialty Managing General Agency ("FSMGA")  
Notice of Waiver of MGA Fees Due and Subsequent \$1,500,000 Capital Contribution  
Request, per SSAP 72

Dear Ms. Patschak,

The Florida Office of Insurance Regulation ("the Office") has reviewed the Company's August 13, 2019 notice of waiver of \$1,500,000 in fees due to FSMGA as of June 30, 2019.

The Office has also reviewed the Company's subsequent request for approval of a \$1,500,000 capital contribution from FSMGA. It has been noted that FSMGA made the capital contribution to the Company in the amount of \$1,500,000 on August 12, 2019. Furthermore, the Company requests the Office's approval of the \$1,500,000 capital contribution, in accordance with SSAP 72, to be reported on the Company's June 30, 2019 Quarterly Financial Statement.

The Office holds no objection to the forgiveness of the \$1,500,000 in fees due to FSMGA, effective June 30, 2019. Further, the Office hereby approves the \$1,500,000 capital contribution, to be effective June 30, 2019, pursuant to SSAP 72.

If you have any questions, please feel free to contact me.

Sincerely,

Katie Quaney

KATIE QUANEY • GOVERNMENT ANALYST II  
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0329 • (850) 413-2528 • FAX (850) 488-2935  
WEBSITE: WWW.FLOIR.COM • EMAIL: KATIE.QUANEY@FLOIR.COM

Affirmative Action / Equal Opportunity Employer

# **EXHIBIT 5**

PROPERTY AND CASUALTY COMPANIES - ASSOCIATION EDITION



## QUARTERLY STATEMENT

2019 CA 002328

As of June 30, 2019  
of the Condition and Affairs of the

## FLORIDA SPECIALTY INSURANCE COMPANY

NAIC Group Code... 0, 0 (Current Period) (Prior Period)  
Organized under the Laws of FL  
Incorporated/Organized... June 10, 1987  
Statutory Home Office  
Main Administrative Office  
Mail Address  
Primary Location of Books and Records  
Internet Web Site Address  
Statutory Statement Contact

NAIC Company Code... 17248  
State of Domicile or Port of Entry FL  
Commenced Business... July 17, 1987  
1 S School Ave, Suite 800, Sarasota, FL, US, 34237-8014  
(Street and Number) (City or Town, State, Country and Zip Code)  
1 S School Ave, Suite 800, Sarasota, FL, US, 34237-8014  
(Street and Number) (City or Town, State, Country and Zip Code)  
1 S School Ave, Suite 800, Sarasota, FL, US, 34237-8014  
(Street and Number or P.O. Box) (City or Town, State, Country and Zip Code)  
1 S School Ave, Suite 800, Sarasota, FL, US, 34237-8014  
(Street and Number) (City or Town, State, Country and Zip Code)  
WWW.FLORIDASPECIALTY.COM  
LAURA REAY LOPEZ  
(Name)  
LLOPEZ@FLORIDASPECIALTY.COM  
(E-Mail Address)

Employer's ID Number... 47-0705555  
Country of Domicile US  
941-210-5670  
(Area Code) (Telephone Number)  
941-210-5674  
(Area Code) (Telephone Number)  
941-210-5673  
(Area Code) (Telephone Number) (Extention)  
941-330-8781  
(Fax Number)

## OFFICERS

Name	Title	Name	Title
1. SUSAN JEAN PATSCHAK	CEO AND SECRETARY	2.	
3.		4.	

## DIRECTORS OR TRUSTEES

SUSAN JEAN PATSCHAK	ALEX BLUMENFRUCHT	VINCENT THOMAS ROWLAND, JR	YAAKOV BEYMAN
---------------------	-------------------	----------------------------	---------------

State of... Florida  
County of... Sarasota

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period stated, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

<u>Susan Patchak</u> (Signature)	<u></u> (Signature)	<u></u> (Signature)
SUSAN JEAN PATSCHAK 1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
CEO AND SECRETARY (Title)	(Title)	(Title)

Subscribed and sworn to before me  
This 15<sup>th</sup> day of August 2019  
Laura Reay Lopez

a. Is this an original filing?  
b. If no: 1. State the amendment number  
2. Date filed  
3. Number of pages attached

Yes [X] No [ ]



Department Exhibit 7



# QUARTERLY STATEMENT

As of June 30, 2019  
of the Condition and Affairs of the

## FLORIDA SPECIALTY INSURANCE COMPANY

NAIC Group Code..... 0, 0  
(Current Period) (Prior Period)

NAIC Company Code..... 17248

Employer's ID Number..... 47-0706955

Organized under the Laws of FL  
Incorporated/Organized..... June 10, 1987

State of Domicile or Port of Entry FL  
Commenced Business..... July 17, 1987

Country of Domicile US

### Statutory Home Office

1 S School Ave, Suite 900 .. Sarasota .. FL .. US .. 34237-6014  
(Street and Number) (City or Town, State, Country and Zip Code)

### Main Administrative Office

1 S School Ave, Suite 900 .. Sarasota .. FL .. US .. 34237-6014  
(Street and Number) (City or Town, State, Country and Zip Code)

941-210-5670  
(Area Code) (Telephone Number)

### Mail Address

1 S School Ave, Suite 900 .. Sarasota .. FL .. US .. 34237-6014  
(Street and Number or P. O. Box) (City or Town, State, Country and Zip Code)

### Primary Location of Books and Records

1 S School Ave, Suite 900 .. Sarasota .. FL .. US .. 34237-6014  
(Street and Number) (City or Town, State, Country and Zip Code)

941-210-5674  
(Area Code) (Telephone Number)

### Internet Web Site Address

WWW.FLORIDASPECIALTY.COM

### Statutory Statement Contact

LAURA REAY LOPEZ  
(Name)  
LLOPEZ@FLORIDASPECIALTY.COM  
(E-Mail Address)

941-210-5673  
(Area Code) (Telephone Number) (Extension)  
941-330-8781  
(Fax Number)

## OFFICERS

Name	Title	Name	Title
1. SUSAN JEAN PATSCHAK	CEO AND SECRETARY	2.	
3.		4.	

## DIRECTORS OR TRUSTEES

SUSAN JEAN PATSCHAK      ALEX BLUMENFRUCHT      VINCENT THOMAS ROWLAND, JR      YAAKOV BEYMAN

State of..... Florida  
County of..... Sarasota

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
SUSAN JEAN PATSCHAK		
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
CEO AND SECRETARY		
(Title)	(Title)	(Title)

Subscribed and sworn to before me  
This \_\_\_\_\_ day of \_\_\_\_\_

a. Is this an original filing?  
b. If no: 1. State the amendment number  
2. Date filed  
3. Number of pages attached

Yes [ X ] No [ ]

## ASSETS

	Current Statement Data			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols 1 - 2)	
1. Bonds.....	5,623,270		5,623,270	7,957,808
2. Stocks:				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....			0	
3. Mortgage loans on real estate:				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate:				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....6,540,025), cash equivalents (\$.....372,843) and short-term investments (\$.....0).....	6,912,869		6,912,869	2,883,517
6. Contract loans (including \$.....0 premium notes).....			0	
7. Derivatives.....			0	
8. Other invested assets.....			0	
9. Receivables for securities.....			0	
10. Securities lending reinvested collateral assets.....			0	
11. Aggregate write-ins for invested assets.....	0	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11).....	12,535,939	0	12,535,939	10,841,325
13. Title plants less \$.....0 charged off (for Title insurers only).....			0	
14. Investment income due and accrued.....	30,247		30,247	46,172
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection.....	2,334,067	84,853	2,269,214	5,621,347
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....	3,593,833		3,593,833	
15.3 Accrued retrospective premiums (\$.....0) and contracts subject to redetermination (\$.....0).....			0	
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers.....	34,143,004		34,143,004	11,420,417
16.2 Funds held by or deposited with reinsured companies.....			0	
16.3 Other amounts receivable under reinsurance contracts.....			0	1,366,272
17. Amounts receivable relating to uninsured plans.....			0	
18.1 Current federal and foreign income tax recoverable and interest thereon.....			0	
18.2 Net deferred tax asset.....	1,470,000		1,470,000	1,470,000
19. Guaranty funds receivable or on deposit.....			0	
20. Electronic data processing equipment and software.....			0	
21. Furniture and equipment, including health care delivery assets (\$.....0).....	46,882	46,882	0	
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
23. Receivables from parent, subsidiaries and affiliates.....	1,378,704		1,378,704	529,128
24. Health care (\$.....0) and other amounts receivable.....			0	
25. Aggregate write-ins for other than invested assets.....	0	0	0	0
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25).....	55,532,676	111,735	55,420,941	31,094,661
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
28. Total (Lines 26 and 27).....	55,532,676	111,735	55,420,941	31,094,661

## DETAILS OF WRITE-INS

1101.....			0	
1102.....			0	
1103.....			0	
1199. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0
1199 Totals (Lines 1101 thru 1103 plus 1199) (Line 11 above).....	0	0	0	0
2501.....			0	
2502.....			0	
2503.....			0	
2599. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0
2599 Totals (Lines 2501 thru 2503 plus 2599) (Line 25 above).....	0	0	0	0

## LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....1,341,184).....	2,831,760	3,816,133
2. Reinsurance payable on paid losses and loss adjustment expenses.....	157,826	8,522
3. Loss adjustment expenses.....	820,683	1,735,220
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	808,444	689,347
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....		424,284
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....		
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....0 and interest thereon \$.....0.....		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....51,189,846 and including warranty reserves of \$.....0 and accrued accident and health experience rating refunds including \$.....0 for medical loss ratio rebate per the Public Health Service Act).....	(672,093)	(7,510,858)
10. Advance premium.....	3,075,188	2,293,322
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....	40,814,561	17,269,391
13. Funds held by company under reinsurance treaties.....	16,788	2,100
14. Amounts withheld or retained by company for account of others.....		
15. Remittances and items not allocated.....		
16. Provision for reinsurance (including \$.....0 certified).....		
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....		
20. Derivatives.....		
21. Payable for securities.....		
22. Payable for securities lending.....		
23. Liability for amounts held under uninsured plans.....		
24. Capital notes \$.....0 and interest thereon \$.....0.....		
25. Aggregate write-ins for liabilities.....	(2,087,106)	(4,222,499)
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25).....	45,388,031	14,484,982
27. Protected cell liabilities.....		
28. Total liabilities (Lines 26 and 27).....	45,388,031	14,484,982
29. Aggregate write-ins for special surplus funds.....	2,451,164	2,451,164
30. Common capital stock.....	2,000,000	2,000,000
31. Preferred capital stock.....		
32. Aggregate write-ins for other than special surplus funds.....	0	0
33. Surplus notes.....		
34. Gross paid in and contributed surplus.....	11,585,028	11,585,028
35. Unassigned funds (surplus).....	(6,001,283)	573,507
36. Less treasury stock, at cost:		
36.1 .....0,000 shares common (value included in Line 30 \$.....0).....		
36.2 .....0,000 shares preferred (value included in Line 31 \$.....0).....		
37. Surplus as regards policyholders (Lines 29 to 35, less 36).....	10,034,909	16,609,899
38. Totals (Page 2, Line 28, Col. 3).....	55,420,940	31,094,881

## DETAILS OF WRITE-INS

2501. Retroactive Reinsurance Reserve Ceded.....	(2,087,106)	(4,222,499)
2502. ....		
2503. ....		
2599. Summary of remaining write-ins for Line 25 from overflow page.....	0	0
2599. Totals (Lines 2501 thru 2503 plus 2599) (Line 25 above).....	(2,087,106)	(4,222,499)
2901. Retroactive Reinsurance Special Surplus.....	2,451,164	2,451,164
2902. ....		
2903. ....		
2999. Summary of remaining write-ins for Line 29 from overflow page.....	0	0
2999. Totals (Lines 2901 thru 2903 plus 2999) (Line 29 above).....	2,451,164	2,451,164
3201. ....		
3202. ....		
3203. ....		
3299. Summary of remaining write-ins for Line 32 from overflow page.....	0	0
3299. Totals (Lines 3201 thru 3203 plus 3299) (Line 32 above).....	0	0



## STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
<b>UNDERWRITING INCOME</b>			
1. Premiums earned:			
1.1 Direct (written \$ 50,848,289)	49,315,980	37,342,858	82,320,101
1.2 Assumed (written \$ 0)		(5,568)	(7,584)
1.3 Ceded (written \$ 45,309,148)	49,815,604	34,842,553	74,268,784
1.4 Net (written \$ 5,339,141)	(1,499,624)	2,494,736	8,043,742
DEDUCTIONS:			
2. Losses incurred (current accident year \$ 2,014,273):			
2.1 Direct	42,856,364	19,280,004	85,479,317
2.2 Assumed	89,427	204,394	326,782
2.3 Ceded	41,841,228	15,774,452	59,789,012
2.4 Net	1,104,583	3,709,946	8,037,067
3. Loss adjustment expenses incurred	(94,824)	567,991	2,379,921
4. Other underwriting expenses incurred	4,524,325	(11,488,408)	1,276,103
5. Aggregate write-ins for underwriting deductions	(215,998)	0	(2,566,123)
6. Total underwriting deductions (Lines 2 through 5)	\$ 3,18,096	(7,210,471)	7,126,968
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(6,817,720)	9,705,207	916,775
<b>INVESTMENT INCOME</b>			
9. Net investment income earned	72,098	224,907	369,439
10. Net realized capital gains (losses) less capital gains tax of \$ 0	(41,795)	(16,136)	(197,478)
11. Net investment gain (loss) (Lines 9 + 10)	30,303	208,771	171,960
<b>OTHER INCOME</b>			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ 0 amount charged off \$ 7,180)	(7,180)	(2,904)	
13. Finance and service charges not included in premiums	155,889	138,448	321,816
14. Aggregate write-ins for miscellaneous income	0	(473,733)	0
15. Total other income (Lines 12 through 14)	148,709	(338,189)	321,816
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(6,638,708)	9,575,789	1,410,553
17. Dividends to policyholders			
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(6,638,708)	9,575,789	1,410,553
19. Federal and foreign income taxes incurred			
20. Net income (Line 18 minus Line 19) (to Line 22)	(6,638,708)	9,575,789	1,410,553
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year	16,609,897	15,013,134	15,013,134
22. Net income (from Line 20)	(6,638,708)	9,575,789	1,410,553
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 0	55,116	(7,135)	(51,829)
25. Change in net unrealized foreign exchange capital gain (loss)			
26. Change in net deferred income tax			289,149
27. Change in nonadmitted assets	8,804	(26,855)	(30,310)
28. Change in provision for reinsurance			
29. Change in surplus notes			
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles			
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in			
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders			
36. Change in treasury stock			
37. Aggregate write-ins for gains and losses in surplus	0	0	0
38. Change in surplus as regards policyholders (Lines 22 through 37)	(6,574,788)	9,541,799	1,598,563
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	10,034,999	24,554,933	16,609,697
<b>DETAILS OF WRITE-INS</b>			
0501. Premium Write-Offs			139,727
0502. Misc Income	(215,998)		(245,688)
0503. Retroactive Reinsurance Gain / (Loss)			(2,451,164)
0598. Summary of remaining write-ins for Line 5 from overflow page	0		0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)	(215,998)	0	(2,566,123)
1401. Commission Income		9,516	
1402. Retroactive Reinsurance Gain / (Loss)		(483,249)	
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above)	0	(473,733)	0
3701.			
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page	0	0	0
3799. Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above)	0	0	0

## CASH FLOW

	1 Current Year to Date	2 Prior Year To Date	3 Prior Year Ended December 31
<b>CASH FROM OPERATIONS</b>			
1. Premiums collected net of reinsurance	29,427,399	12,456,444	(6,181,873)
2. Net investment income	101,392	311,312	537,556
3. Miscellaneous income	148,709	(336,189)	321,818
4. Total (Lines 1 through 3)	29,677,500	12,429,568	(5,322,498)
5. Benefit and loss related payments	23,295,947	23,063,348	12,684,059
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions	5,813,277	(11,315,626)	(761,251)
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)			
10. Total (Lines 5 through 9)	29,109,224	11,747,722	11,922,808
11. Net cash from operations (Line 4 minus Line 10)	568,276	681,846	(17,245,306)
<b>CASH FROM INVESTMENTS</b>			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	2,334,490	7,256,759	14,928,034
12.2 Stocks			
12.3 Mortgage loans			
12.4 Real estate			
12.5 Other invested assets			
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments			
12.7 Miscellaneous proceeds			
12.8 Total investment proceeds (Lines 12.1 to 12.7)	2,334,490	7,256,759	14,928,034
13. Cost of investments acquired (long-term only):			
13.1 Bonds		1,899,291	1,899,291
13.2 Stocks			
13.3 Mortgage loans			
13.4 Real estate			
13.5 Other invested assets			
13.6 Miscellaneous applications			
13.7 Total investments acquired (Lines 13.1 to 13.6)	0	1,899,291	1,899,291
14. Net increase or (decrease) in contract loans and premium notes			
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	2,334,490	5,357,468	13,028,743
<b>CASH FROM FINANCING AND MISCELLANEOUS SOURCES</b>			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes			
16.2 Capital and paid in surplus, less treasury stock			
16.3 Borrowed funds			
16.4 Net deposits on deposit-type contracts and other insurance liabilities			
16.5 Dividends to stockholders			
16.6 Other cash provided (applied)	1,126,387	(2,482,736)	(3,090,985)
17. Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6)	1,126,387	(2,482,736)	(3,090,985)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>			
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17)	4,029,153	3,556,577	(7,307,548)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	2,883,516	10,191,066	10,191,066
19.2 End of period (Line 18 plus Line 19.1)	6,912,670	13,747,643	2,883,518
Note: Supplemental disclosures of cash flow information for non-cash transactions:			
20 0001			

**NOTES TO FINANCIAL STATEMENTS****Note 1 – Summary of Significant Accounting Policies and Going Concern****A. Accounting Practices**

The financial statements of Florida Specialty Insurance Company ("Company") are presented on the basis of accounting practices prescribed or permitted by the Florida Office of Insurance Regulation. The Florida OIR recognizes only statutory accounting practices prescribed or permitted by the State of Florida for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Florida Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Florida. The State has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. The Florida Commissioner of Insurance has the right to permit specific practices that deviate from prescribed practices. A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of Florida is shown below:

	SSAP #	F/S Page	F/S Line #	Current Year to Date	2018
<b>NET INCOME</b>					
(1) The Company state basis (Page 4, Line 20, Columns 1 & 3)	XXX	XXX	XXX	\$ (6,638,708)	\$ 1,410,554
(2) State Prescribed Practice that are an increase/(decrease) from NAIC SAP				\$	\$
(3) State Permitted Practice that are an increase/(decrease) from NAIC SAP				\$	\$
(4) NAIC SAP (1 – 2 – 3 = 4)	XXX	XXX	XXX	\$ (6,638,708)	\$ 1,410,554
<b>SURPLUS</b>					
(5) The Company state basis (Page 3, line 37, Columns 1 & 2)	XXX	XXX	XXX	\$ 10,034,909	\$ 18,609,899
(6) State Prescribed Practice that are an increase/(decrease) from NAIC SAP				\$	\$
(7) State Permitted Practice that are an increase/(decrease) from NAIC SAP				\$	\$
(8) NAIC SAP (5 – 6 – 7 = 8)	XXX	XXX	XXX	\$ 10,034,909	\$ 18,609,899

**C. Accounting Policy**

- (2) **Basis for Bonds, Mandatory Convertible Securities, SVQ-Identified Investments and Amortization Method**  
Amortized cost using the interest method.
- (6) **Basis for Loan-Backed Securities and Adjustment Methodology**  
U.S. government agency loan-backed and structured securities are valued at amortized value. Other loan-backed and structured securities are valued at either amortized value or fair value, depending on many factors including: the type of underlying collateral, whether modeled by a NAIC vendor, whether rated (by either a NAIC approved rating organization or the NAIC Securities Valuation Office), and the relationship of amortized value to par value and amortized value to fair value.

**D. Going Concern**

Historical operating results indicate substantial doubt exists related to the Company's ability to continue as a going concern given the current market environment in the state of Florida. The Company plans to substantially de-risk its portfolio beginning in the 4th quarter of 2019. In addition, the Company continues to work with both the Florida Office of Insurance Regulation and its rating agency regarding any significant change in business plans. However, we cannot predict, with certainty, the outcome of our actions to generate financial stability, or whether such actions will generate the expected financial stability.

**Note 2 – Accounting Changes and Corrections of Errors**

No significant changes

**Note 3 – Business Combinations and Goodwill**

No significant changes

**Note 4 – Discontinued Operations**

No significant changes

**Note 5 – Investments****D. Loan-Backed Securities**

- (1) **Description of Sources Used to Determine Prepayment Assumptions**  
Prepayment assumptions for loan-backed and structured securities were obtained from broker dealer survey values or internal estimates.
- (5) **Information Investor Considered in Reaching Conclusion that Impairments are Not Other-Than-Temporary**  
Loan-backed and structured securities in an unrealized loss position were reviewed to determine whether other-than-temporary impairments should be recognized. All Loan-backed structured securities have been held by the Company for less than 1 year. The Company intends and has the ability to hold these securities long enough to allow the cost basis of these securities to be recovered. It is possible that the Company could recognize other-than-temporary impairments in the future on some of the securities, if future events, information and the passage of time cause it to conclude that declines in value are other-than temporary.

## NOTES TO FINANCIAL STATEMENTS

**E. Dollar Repurchase Agreements and/or Securities Lending Transactions**

The Company has no Dollar Repurchase and/or Securities Lending Transactions.

**F. Repurchase Agreements Transactions Accounted for as Secured Borrowing**

The Company has no Repurchase Agreements Transactions Accounting for Secured Borrowing.

**G. Reverse Repurchase Agreements Transactions Accounted for as Secured Borrowing**

The Company has no Reverse Repurchase Agreements Transactions Accounted for as Secured Borrowing.

**H. Repurchase Agreements Transactions Accounted for as a Sale**

The Company has no Repurchase Agreements Transactions Accounted for as a Sale.

**I. Reverse Repurchase Agreements Transactions Accounted for as a Sale  
Repurchase Transaction – Cash Provider – Overview of Sale Transactions**

The Company has no Reverse Repurchase Agreements Transactions Accounted for as a Sale.

**M. Working Capital Finance Investments**

The Company has no working capital finance investments.

**N. Offsetting and Netting of Assets and Liabilities**

The Company does not perform any offsetting and netting of assets and liabilities.

**Note 6 – Joint Ventures, Partnerships and Limited Liability Companies**

No significant changes

**Note 7 – Investment Income**

No significant changes

**Note 8 – Derivative Instruments**

The Company has no derivative instruments.

**Note 9 – Income Taxes**

No significant changes

**Note 10 – Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties**

No significant changes

**Note 11 – Debt**

The Company has no outstanding debt during the statement periods.

**Note 12 – Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans**

A - D. The company does not participate in a defined benefit plan.

**Note 13 – Capital and Surplus, Shareholder's Dividend Restrictions and Quasi-Reorganizations**

No significant changes

**Note 14 – Liabilities, Contingencies and Assessments**

No significant changes

**Note 15 – Leases**

No significant changes

**Note 16 – Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk**

No significant changes

**NOTES TO FINANCIAL STATEMENTS****Note 17 – Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities****B. Transfer and Servicing of Financial Assets**

The Company has no transfer and servicing of financial assets.

**C. Wash Sales****(1) Description of the Objectives Regarding These Transactions**

In the course of the company's asset management, securities are sold and reacquired within 30 days of the sale date to enhance the company's yield on its investment portfolio. However, there were no wash sales occurring during 2019.

**Note 18 – Gain or Loss to the Reporting Entity from Uninsured Plans and the Portion of Partially Insured Plans**

No significant changes

**Note 19 – Direct Premium Written/Produced by Managing General Agents/Third Party Administrators**

No significant changes

**Note 20 – Fair Value Measurements****A. Fair Value Measurements****(1) Fair Value Measurements at Reporting Date**

The Company categorizes its assets and liabilities that are measured at fair value into the 3-tier hierarchy as reflected below. The 3-tier hierarchy is based on the degree of subjectivity in the valuation method by which fair value is determined.

Level 1: The estimated fair value within this tier is based on quote prices in active markets and therefore classified as Level 1. The Company has no assets or liabilities measured at fair value in this tier.

Level 2: The estimated fair value within this tier is determined by independent pricing services using observable inputs or based on quotes from markets which are not actively traded.

Level 3: The estimated fair value within this tier is determined using pricing models as there is little or no market activity with unobservable inputs thus requiring judgment and estimation. The Company has no assets or liabilities measured at fair value in this tier.

Description for Each Type of Asset or Liability	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
<b>Assets at Fair Value</b>					
Cash Equivalent - Other MM Mutual Fund	\$ 372,843	\$	\$	\$	\$ 372,843
Pacific Gas & Electric Co.	\$	\$ 137,900	\$	\$	\$ 137,900
<b>Total</b>	<b>\$ 372,843</b>	<b>\$ 137,900</b>	<b>\$</b>	<b>\$</b>	<b>\$ 510,543</b>
<b>Liabilities at Fair Value</b>					
	\$	\$	\$	\$	\$
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**(2) Fair Value Measurements in (Level 3) of the Fair Value Hierarchy**

Description	Beginning Balance	Transfers Into Level 3	Transfers Out of Level 3	Total Gains and (Losses) Included in Net Income	Total Gains and (Losses) Included in Surplus	Purchases	Issuances	Sales	Settlements	Ending Balance as of Current Period
<b>a. Assets</b>										
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>b. Liabilities</b>										
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**(3) Policies when Transfers Between Levels are Recognized**

At the end of each reporting period, the Company evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred into or out of Level 3.

**(4) Description of Valuation Techniques and Inputs Used in Fair Value Measurement**

The estimated fair values were determined by utilizing independent pricing services using observable inputs.

**NOTES TO FINANCIAL STATEMENTS**

- (5) Fair Value Disclosures  
Not applicable.

B. Fair Value Reporting under SSAP 100 and Other Accounting Pronouncements

Fair Value measurements at the reporting date and the source of the fair value measurements are obtained primarily from independent pricing services.

C. Fair Value Level

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV)	Not Practicable (Carrying Value)
US Govt	\$ 872,570	\$ 851,798	\$ 851,798	\$	\$	\$	\$
Municipals	\$ 1,385,341	\$ 1,383,746	\$	\$ 1,383,746	\$	\$	\$
Corporate	\$ 3,418,589	\$ 3,407,727	\$	\$ 3,407,727	\$	\$	\$
Totals	\$ 5,676,501	\$ 5,623,271	\$	\$ 5,623,271	\$	\$	\$

D. Not Practicable to Estimate Fair Value

Not applicable

E. NAV Practical Expedient Investments

Note 21 – Other Items

No significant changes

*Florida Specialty Insurance Company*  
Agents' Balances Certification  
Quarter Ended June 30, 2019

- 1) Agents' Balances or Uncollected Premiums as reported on Page 2, Line 15.1

\$2,134,067

- 2) Amount of Agents' Balances or Uncollected Premiums from Page 2, Line 15.1 that is due from "controlled" or "controlling" persons, and

\$0

- 3) \* Amount reported in #2 above and secured by a: Trust Fund, Letter of Credit, and Financial Guaranty Bond as required by Section 625.012, Florida Statutes.

\$0

Note 22 – Events Subsequent

Subsequent events have been considered through August 14, 2019 for these statutory financial statements which are to be issued on . There were no events occurring subsequent to the end of the quarter that merited recognition or disclosure in these statements.

Note 23 – Reinsurance

No significant changes

Note 24 – Retrospectively Rated Contracts and Contracts Subject to Redetermination

The Company has no retrospectively rated contracts or contracts subject to redetermination.

Note 25 – Change in Incurred Losses and Loss Adjustment Expenses

A. Change in Incurred Losses and Loss Adjustment Expenses

Reserves as of December 31, 2018 were \$5,551,000. In 2019, \$2,592,000 has been paid for incurred losses and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$1,813,000 as a result of re-estimation of unpaid claims and claim adjustment expenses. Therefore, there has been a \$1,148,000 of favorable reserve prior year development since December 31, 2018. The change is generally the result of ongoing analysis of recent development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims.

B. Information about Significant Changes in Methodologies and Assumptions

No change.

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## **NOTES TO FINANCIAL STATEMENTS**

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**Note 26 – Intercompany Pooling Arrangements**

No significant changes

**Note 27 – Structured Settlements**

No significant changes

**Note 28 – Health Care Receivables**

No significant changes

**Note 29 – Participating Policies**

No significant changes

**Note 30 – Premium Deficiency Reserves**

No significant changes

**Note 31 – High Deductibles**

No significant changes

**Note 32 – Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses**

No significant changes

**Note 33 – Asbestos/Environmental Reserves**

No significant changes

**Note 34 – Subscriber Savings Accounts**

No significant changes

**Note 35 – Multiple Peril Crop Insurance**

No significant changes

**Note 36 – Financial Guaranty Insurance**

The Company does not write financial guaranty insurance.

## GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

## GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes ☐ No ☒
- 1.2 If yes, has the report been filed with the domiciliary state? Yes ☐ No ☐
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes ☐ No ☒
- 2.2 If yes, date of change: \_\_\_\_\_
- 3.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? If yes, complete Schedule Y, Parts 1 and 1A. Yes ☒ No ☐
- 3.2 Have there been any substantial changes in the organizational chart since the prior quarter end? Yes ☐ No ☒
- 3.3 If the response to 3.2 is yes, provide a brief description of those changes.

- 3.4 Is the reporting entity publicly traded or a member of a publicly traded group? Yes ☐ No ☒
- 3.5 If the response to 3.4 is yes, provide the CIK (Central Index Key) code issued by the SEC for the entity/group. \_\_\_\_\_
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? If yes, complete and file the merger history data file with the NAIC for the annual filing corresponding to this period. Yes ☐ No ☒
- 4.2 If yes, provide name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Company Code	State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? If yes, attach an explanation. Yes ☐ No ☒ N/A ☐

- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2018 12/31/2018
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2018 12/31/2018
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 2/21/2018 02/21/2018
- 6.4 By what department or departments?

Florida Office of Insurance Regulation

- 6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes ☐ No ☐ N/A ☒
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes ☒ No ☐ N/A ☐
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes ☐ No ☒
- 7.2 If yes, give full information:

- 8.1 Is the company a subsidiary of a bank holding company regulated with the Federal Reserve Board? Yes ☐ No ☒
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes ☐ No ☒
- 8.4 If the response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency (i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)) and identify the affiliate's primary federal regulator.

1	2	3	4	5	6
Affiliate Name	Location (City, State)	FRB	OCC	FDIC	SEC

- 9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes ☒ No ☐
- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- (c) Compliance with applicable governmental laws, rules and regulations;
- (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- (e) Accountability for adherence to the code.

- 9.11 If the response to 9.1 is No, please explain:
- 9.2 Has the code of ethics for senior managers been amended? Yes ☐ No ☒
- 9.21 If the response to 9.2 is Yes, provide information related to amendment(s).

- 9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes ☐ No ☒
- 9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).



## GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

## FINANCIAL

- 10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes ☒ No ☐
- 10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ 0

## INVESTMENT

- 11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes ☐ No ☒
- 11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: \$ 0
13. Amount of real estate and mortgages held in short-term investments: \$ 0
- 14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes ☐ No ☒
- 14.2 If yes, please complete the following:

	1 Prior Year End Book/Adjusted Carrying Value	2 Current Quarter Book/Adjusted Carrying Value
14.21 Bonds	\$ 0	\$ 0
14.22 Preferred Stock	0	0
14.23 Common Stock	0	0
14.24 Short-Term Investments	0	0
14.25 Mortgage Loans on Real Estate	0	0
14.26 All Other	0	0
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26)	\$ 0	\$ 0
14.28 Total Investment in Parent Included in Lines 14.21 to 14.26 above	\$ 0	\$ 0

- 15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes ☐ No ☒
- 15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes ☐ No ☐
- If no, attach a description with this statement.

16. For the reporting entity's security lending program, state the amount of the following as of current statement date:

- 16.1 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2: \$ 0
- 16.2 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2: \$ 0
- 16.3 Total payable for securities lending reported on the liability page: \$ 0

17. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes ☒ No ☐

- 17.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address
Fifth Third Bank	Orlando, FL

- 17.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

- 17.3 Have there been any changes, including name changes, in the custodian(s) identified in 17.1 during the current quarter? Yes ☐ No ☒
- 17.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

- 17.5 Investment management - Identify all investment advisors, investment managers, broker/dealers, including individuals that have the authority to make investment decisions on behalf of the reporting entity. For assets that are managed internally by employees of the reporting entity, note as such ["...that have access to the investment accounts", "handle securities"].

1 Name of Firm or Individual	2 Affiliation
Asset Allocation & Management Company, LLC	U

- 17.5097 For those firms/individuals listed in the table for Question 17.5, do any firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") manage more than 10% of the reporting entity's assets? Yes ☒ No ☐

- 17.5098 For firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question 17.5, does the total assets under management aggregate to more than 50% of the reporting entity's assets? Yes ☒ No ☐

- 17.6 For those firms or individuals listed in the table for 17.5 with an affiliation code of "A" (affiliated) or "U" (unaffiliated), provide the information for the table below.

1 Central Registration Depository Number	2 Name of Firm or Individual	3 Legal Entity Identifier (LEI)	4 Registered With	5 Investment Management Agreement (IMA) Filed
	Asset Allocation & Management Company, LLC			

- 18.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Investment Analysis Office been followed? Yes ☒ No ☐
- 18.2 If no, list exceptions:

## GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

19. By self-designating SGI securities, the reporting entity is certifying the following elements for each self-designated SGI security:
- a. Documentation necessary to permit a full credit analysis of the security does not exist or an NAIC CRP credit rating for an FE or PL security is not available.
  - b. Issuer or obligor is current on all contracted interest and principal payments.
  - c. The insurer has an actual expectation of ultimate payment of all contracted interest and principal.
- Has the reporting entity self-designated SGI securities?
20. By self-designating PLGI securities, the reporting entity is certifying the following elements for each self-designated PLGI security:
- a. The security was purchased prior to January 1, 2018.
  - b. The reporting entity is holding capital commensurate with the NAIC Designation reported for the security.
  - c. The NAIC Designation was derived from the credit rating assigned by an NAIC CRP in its legal capacity as a NRSRO which is shown on a current private letter rating held by the insurer and available for examination by state insurance regulators.
  - d. The reporting entity is not permitted to share this credit rating of the PL security with the SVO.
- Has the reporting entity self-designated PLGI securities?

Yes [ ] No [X]

Yes [ ] No [X]

## GENERAL INTERROGATORIES (continued)

### PART 2 – PROPERTY & CASUALTY INTERROGATORIES

1. If the reporting entity is a member of a pooling arrangement, did the agreement or the reporting entity's participation change? Yes ☐ No ☐ N/A ☒

If yes, attach an explanation.

2. Has the reporting entity reinsured any risk with any other reporting entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes ☐ No ☒

If yes, attach an explanation.

- 3.1 Have any of the reporting entity's primary reinsurance contracts been canceled? Yes ☐ No ☒

- 3.2 If yes, give full and complete information thereon:

- 4.1 Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation tabular reserves (see Annual Statement Instructions pertaining to disclosure of discounting for definition of "tabular reserves.") discounted at a rate of interest greater than zero? Yes ☐ No ☒

- 4.2 If yes, complete the following schedule:

1 Line of Business	2 Maximum Interest	3 Disc. Rate	Total Discount				Discount Taken During Period			
			4 Unpaid Losses	5 Unpaid LAE	6 (BNR)	7 Total	8 Unpaid Losses	9 Unpaid LAE	10 (BNR)	11 Total
	0.000	0.000	0	0	0	0	0	0	0	0
Total	XXX	XXX	0	0	0	0	0	0	0	0

5. Operating Percentages:

5.1 A&H loss percent 0.000%

5.2 A&H cost containment percent 0.000%

5.3 A&H expense percent excluding cost containment expenses 0.000%

- 6.1 Do you act as a custodian for health savings accounts? Yes ☐ No ☒

- 6.2 If yes, please provide the amount of custodial funds held as of the reporting date. \$ 0

- 6.3 Do you act as an administrator for health savings accounts? Yes ☐ No ☒

- 6.4 If yes, please provide the amount of funds administered as of the reporting date. \$ 0

7. Is the reporting entity licensed or chartered, registered, qualified, eligible or writing business in at least two states? Yes ☒ No ☐

- 7.1 If no, does the reporting entity assume reinsurance business that covers risks residing in at least one state other than the state of domicile of the reporting entity? Yes ☐ No ☒

## SCHEDULE F - CEDED REINSURANCE

Showing All New Reinsurers - Current Year to Date

1	2	3	4	5	6	7
NAIC Company Code	ID Number	Name of Reinsurer	Domiciliary Jurisdiction	Type of Reinsurer	Certified Reinsurer Rating (1 through 6)	Effective Date of Certified Reinsurer Rating
All Other Insurers						
00000	AA-3190671	Lancashire Ins Co Ltd	BAR	Unauthorized		

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

States, Etc.	1 Active Status (a)	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2 Current Year to Date	3 Prior Year to Date	4 Current Year to Date	5 Prior Year to Date	6 Current Year to Date	7 Prior Year to Date
1. Alabama.....AL	N						
2. Alaska.....AK	N						
3. Arizona.....AZ	N						
4. Arkansas.....AR	N						
5. California.....CA	N						
6. Colorado.....CO	N						
7. Connecticut.....CT	N						
8. Delaware.....DE	N						
9. District of Columbia.....DC	N						
10. Florida.....FL	L	50,648,289	46,240,900	38,527,567	22,476,863	28,657,779	11,243,601
11. Georgia.....GA	N						
12. Hawaii.....HI	N						
13. Idaho.....ID	N						
14. Illinois.....IL	N						
15. Indiana.....IN	N						
16. Iowa.....IA	N						
17. Kansas.....KS	N						
18. Kentucky.....KY	N						
19. Louisiana.....LA	N						
20. Maine.....ME	N						
21. Maryland.....MD	N						
22. Massachusetts.....MA	N						
23. Michigan.....MI	N						
24. Minnesota.....MN	N						
25. Mississippi.....MS	N						
26. Missouri.....MO	N						
27. Montana.....MT	N						
28. Nebraska.....NE	N						
29. Nevada.....NV	N						
30. New Hampshire.....NH	N						
31. New Jersey.....NJ	N						
32. New Mexico.....NM	N						
33. New York.....NY	N						
34. North Carolina.....NC	N						
35. North Dakota.....ND	N						
36. Ohio.....OH	N						
37. Oklahoma.....OK	N						
38. Oregon.....OR	N						
39. Pennsylvania.....PA	N						
40. Rhode Island.....RI	N						
41. South Carolina.....SC	N						
42. South Dakota.....SD	N						
43. Tennessee.....TN	N						
44. Texas.....TX	N						
45. Utah.....UT	N						
46. Vermont.....VT	N						
47. Virginia.....VA	N						
48. Washington.....WA	N						
49. West Virginia.....WV	N						
50. Wisconsin.....WI	N						
51. Wyoming.....WY	N						
52. American Samoa.....AS	N						
53. Guam.....GU	N						
54. Puerto Rico.....PR	N						
55. US Virgin Islands.....VI	N						
56. Northern Mariana Islands.....MP	N						
57. Canada.....CAN	N						
58. Aggregate Other Alien.....OT	XXX	0	0	0	0	0	0
59. Totals.....	XXX	50,648,289	46,240,900	38,527,567	22,476,863	28,657,779	11,243,601

DETAILS OF WRITE-INS

58001.....	XXX	0	0	0	0	0	0
58002.....	XXX	0	0	0	0	0	0
58003.....	XXX	0	0	0	0	0	0
58998. Summary of remaining write-ins for Line 58 from overflow page.....	XXX	0	0	0	0	0	0
58999. Totals (Lines 58001 thru 58003+ Line 58998) (Line 58 above).....	XXX	0	0	0	0	0	0

(a) Active Status Count

L - Licensed or Chartered - Licensed insurance carrier or domiciled RRG

E - Eligible - Reporting entities eligible or approved to write surplus lines in the state (other than their state of domicile - See DSU)

D - Domestic Surplus Lines Insurer (DSLI) - Reporting entities authorized to write surplus lines in the state of domicile

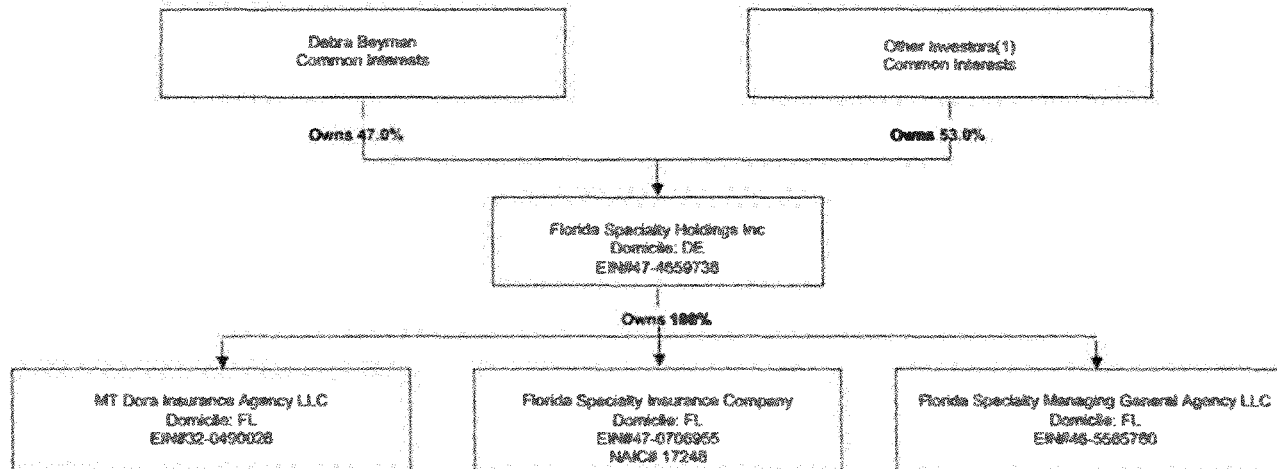
R - Registered - Non-domiciled RRGs

Q - Qualified - Qualified or accredited reinsurer

N - None of the above - Not allowed to write business in the state

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

**PART 1 – ORGANIZATIONAL CHART**



Note: (1) – One investor owns 11.3%, no other person or entity owns 10% or more of the outstanding voting securities of Florida Specialty Holdings, Inc.

**SCHEDULE Y**

**PART 1A - DETAIL OF INSURANCE HOLDING COMPANY SYSTEM**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Group Code	Group Name	NAC Company Code	ID Number	Federal RSSD	OK	Name of Securities Exchange if Publicly Traded (U.S. or International)	Names of Parent Subsidiaries or Affiliates	Domiciliary Location	Relationship to Reporting Entity	Directly Controlled by (Name of Entity/Person)	Type of Control (Ownership, Management, Agency-In-Fact, Influence, Other)	If Control is Ownership, Provide Percentage	Ultimate Controlling Entity(ies)/Person(s)	Is an S-A Filing Required? (Yes/No)	
000000							Florida Specialty Holdings Inc.	DE	100%					N	
							Florida Specialty Managing General Agency LLC	FL	N/A	Ownership	100			N	
							Mount Dora Insurance Agency LLC	FL	N/A	Ownership	100			N	
		17246					Florida Specialty Insurance Company	FL	100%	Ownership	100			N	

## PART 1 - LOSS EXPERIENCE

Lines of Business	Current Year to Date			Prior Year to Date
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire			0.000	
2. Allied lines			0.000	
3. Farmowners multiple peril			0.000	
4. Homeowners multiple peril	48,315,980	42,858,364	88.700	51.630
5. Commercial multiple peril			0.000	
6. Mortgage guaranty			0.000	
8. Ocean marine			0.000	
9. Inland marine			0.000	
10. Financial guaranty			0.000	
11.1 Medical professional liability - occurrence			0.000	
12. Medical professional liability - claims-made			0.000	
12. Earthquake			0.000	
13. Group accident and health			0.000	
14. Credit accident and health			0.000	
15. Other accident and health			0.000	
16. Workers' compensation			0.000	
17.1 Other liability-occurrence			0.000	
17.2 Other liability-claims made			0.000	
17.3 Excess workers' compensation			0.000	
18.1 Products liability-occurrence			0.000	
18.2 Products liability-claims made			0.000	
19.1, 19.2 Private passenger auto liability			0.000	
19.3, 19.4 Commercial auto liability			0.000	
21. Auto physical damage			0.000	
22. Aircraft (all perils)			0.000	
23. Fidelity			0.000	
24. Surety			0.000	
26. Burglary and theft			0.000	
27. Boiler and machinery			0.000	
28. Credit			0.000	
29. International			0.000	
30. Warranty			0.000	
31. Reinsurance-nonproportional assumed property	XXX	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability	XXX	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0.000	
35. Totals	48,315,980	42,858,364	88.700	51.630

## DETAILS OF WRITE-INS

3401			0.000	
3402			0.000	
3403			0.000	
3498. Sum of remaining write-ins for Line 34 from overflow page	0	0	0.000	XXX
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34)	0	0	0.000	

## PART 2 - DIRECT PREMIUMS WRITTEN

Lines of Business	1 Current Quarter	2 Current Year to Date	3 Prior Year Year to Date
1. Fire			
2. Allied lines			
3. Farmowners multiple peril			
4. Homeowners multiple peril	25,503,136	50,648,289	46,240,900
5. Commercial multiple peril			
6. Mortgage guaranty			
8. Ocean marine			
9. Inland marine			
10. Financial guaranty			
11.1 Medical professional liability - occurrence			
12. Medical professional liability - claims made			
12. Earthquake			
13. Group accident and health			
14. Credit accident and health			
15. Other accident and health			
16. Workers' compensation			
17.1 Other liability-occurrence			
17.2 Other liability-claims made			
17.3 Excess workers' compensation			
18.1 Products liability-occurrence			
18.2 Products liability-claims made			
19.1, 19.2 Private passenger auto liability			
19.3, 19.4 Commercial auto liability			
21. Auto physical damage			
22. Aircraft (all perils)			
23. Fidelity			
24. Surety			
26. Burglary and theft			
27. Boiler and machinery			
28. Credit			
29. International			
30. Warranty			
31. Reinsurance-nonproportional assumed property	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0
35. Totals	25,503,136	50,648,289	46,240,900

## DETAILS OF WRITE-INS

3401			0	
3402			0	
3403			0	
3498. Sum of remaining write-ins for Line 34 from overflow page	0	0	0	0
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34)	0	0	0	0



**PART 3 (000 omitted)**

**LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE**

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End BNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2019 Loss and LAE Payments on Claims Reported as of Prior Year-End	2019 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2019 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	Q.S. Date BNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols. 7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End BNR Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/Deficiency (Cols. 11 + 12)
1. 2016 + Prior	640	390	1,030	499	6	505	278		300	378	137	(284)	(147)
2. 2017	2,337	938	3,273	385	123	508	521		400	921	(1,431)	(413)	(1,844)
3. Subtotals 2017 + Prior	2,977	1,326	4,303	884	129	1,013	799	0	500	1,299	(1,294)	(697)	(1,991)
4. 2018	180	1,068	1,248	1,308	271	1,579	292	122	100	514	1,420	(575)	845
5. Subtotals 2018 + Prior	3,157	2,394	5,551	2,192	400	2,592	1,091	122	600	1,813	126	(1,272)	(1,146)
6. 2019	XXX	XXX	XXX	XXX	516	516	XXX	1,057	582	1,639	XXX	XXX	XXX
7. Totals	3,157	2,394	5,551	2,192	916	3,108	1,091	1,179	1,182	3,452	126	(1,272)	(1,146)
8. Prior Year-End's Surplus As Regards Policyholders	16,810										Col. 11, Line 7 As % of Col. 1, Line 7	Col. 12, Line 7 As % of Col. 2, Line 7	Col. 13, Line 7 As % of Col. 3, Line 7
											1. 4.0%	2. (53.1)%	3. (20.6)%
													Col. 13, Line 7 Line 8
													4. (6.9)%

Q14

**SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES**

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason, enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

	Response
1. Will the Trusteed Surplus Statement be filed with the state of domicile and the NAIC with this statement?	<u>NO</u>
2. Will Supplement A to Schedule T (Medical Professional Liability Supplement) be filed with this statement?	<u>NO</u>
3. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	<u>NO</u>
4. Will the Director and Officer Insurance Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	<u>NO</u>

**Explanation:**

1. The data for this supplement is not required to be filed.
2. The data for this supplement is not required to be filed.
3. The data for this supplement is not required to be filed.
4. The data for this supplement is not required to be filed.

**Bar Code:**

**NONE**

**FLORIDA SPECIALTY INSURANCE COMPANY**  
**SCHEDULE A - VERIFICATION**

## Real Estate

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....	<b>NONE</b>	
2.2 Additional investment made after acquisition.....		
3. Current year change in encumbrances.....		
4. Total gain (loss) on disposals.....		
5. Deduct amounts received on disposals.....		
6. Total foreign exchange change in book/adjusted carrying value.....		
7. Deduct current year's other-than-temporary impairment recognized.....		
8. Deduct current year's depreciation.....		
9. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6+7+8).....	0	0
10. Deduct total nonadmitted amounts.....		
11. Statement value at end of current period (Line 9 minus Line 10).....	0	0

**SCHEDULE B - VERIFICATION**

## Mortgage Loans

	1 Year to Date	2 Prior Year Ended December 31
1. Book value/recorded investment excluding accrued interest, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....	<b>NONE</b>	
2.2 Additional investment made after acquisition.....		
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....		
6. Total gain (loss) on disposals.....		
7. Deduct amounts received on disposals.....		
8. Deduct amortization of premium and mortgage interest points and commitment fees.....		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest.....		
10. Deduct current year's other-than-temporary impairment recognized.....		
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6+7+8+9+10).....	0	0
12. Total valuation allowance.....		
13. Subtotal (Line 11 plus Line 12).....	0	0
14. Deduct total nonadmitted amounts.....		
15. Statement value at end of current period (Line 13 minus Line 14).....	0	0

**SCHEDULE BA - VERIFICATION**

## Other Long-Term Invested Assets

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....	<b>NONE</b>	
2.2 Additional investment made after acquisition.....		
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....		
6. Total gain (loss) on disposals.....		
7. Deduct amounts received on disposals.....		
8. Deduct amortization of premium and depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....		
10. Deduct current year's other-than-temporary impairment recognized.....		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6+7+8+9+10).....	0	0
12. Deduct total nonadmitted amounts.....		
13. Statement value at end of current period (Line 11 minus Line 12).....	0	0

**SCHEDULE D - VERIFICATION**

## Bonds and Stocks

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year.....	7,957,810	21,314,544
2. Cost of bonds and stocks acquired.....		1,899,281
3. Accrual of discount.....	866	5,186
4. Unrealized valuation increase (decrease).....	55,113	(51,829)
5. Total gain (loss) on disposals.....	(41,795)	(197,478)
6. Deduct consideration for bonds and stocks disposed of.....	2,334,489	14,928,435
7. Deduct amortization of premium.....	14,235	83,850
8. Total foreign exchange change in book/adjusted carrying value.....		
9. Deduct current year's other-than-temporary impairment recognized.....		
10. Total investment income recognized as a result of prepayment penalties and/or acceleration fees.....		400
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6+7+8+9+10).....	5,823,270	7,957,810
12. Deduct total nonadmitted amounts.....		
13. Statement value at end of current period (Line 11 minus Line 12).....	5,823,270	7,957,810

**SCHEDULE D - PART 1B**

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by NAIC Designation

NAIC Designation	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
<b>BONDS</b>								
1. NAIC 1 (a)	4,531,086				4,531,086	4,531,086		6,103,335
2. NAIC 2 (a)	1,088,283				1,088,283	1,088,283		1,637,581
3. NAIC 3 (a)	241,563				241,563	241,563		216,893
4. NAIC 4 (a)						0		
5. NAIC 5 (a)						0		
6. NAIC 6 (a)	11,200				11,200	11,200		
7. Total Bonds	5,872,091	0	0	0	5,872,091	5,872,091	0	7,957,808
<b>PREFERRED STOCK</b>								
8. NAIC 1						0		
9. NAIC 2						0		
10. NAIC 3						0		
11. NAIC 4						0		
12. NAIC 5						0		
13. NAIC 6						0		
14. Total Preferred Stock	0	0	0	0	0	0	0	0
15. Total Bonds and Preferred Stock	5,872,091	0	0	0	5,872,091	5,872,091	0	7,957,808

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of short-term and cash equivalent bonds by NAIC designation:

NAIC 1 \$.....0; NAIC 2 \$.....0; NAIC 3 \$.....0; NAIC 4 \$.....0; NAIC 5 \$.....0; NAIC 6 \$.....0.

QSI02

**Sch. DA - Pt. 1  
NONE**

**Sch. DA - Verification  
NONE**

**Sch. DB - Pt. A - Verification  
NONE**

**Sch. DB - Pt. B - Verification  
NONE**

**Sch. DB - Pt. C - Sn. 1  
NONE**

**Sch. DB - Pt. C - Sn. 2  
NONE**

**Sch. DB - Verification  
NONE**

## SCHEDULE E - PART 2 - VERIFICATION

## Cash Equivalents

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	145,482	878,318
2. Cost of cash equivalents acquired.....	2,445,084	15,252,956
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		
6. Deduct consideration received on disposals.....	2,217,823	15,785,782
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/ adjusted carrying value.....		
9. Deduct current year's other-than-temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	372,843	145,482
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	372,843	145,482

**Sch. A Pt. 2  
NONE**

**Sch. A Pt. 3  
NONE**

**Sch. B - Pt. 2  
NONE**

**Sch. B - Pt. 3  
NONE**

**Sch. BA - Pt. 2  
NONE**

**Sch. BA - Pt. 3  
NONE**

**Sch. D - Pt. 3  
NONE**



**SCHEDULE D - PART 4**  
Showing all Long-Term Bonds and Stocks SOLD, REDEEMED or Otherwise DISPOSED OF During Current Quarter

CU SP Identification	Description	Disposal Date	Name of Purchaser	Number of Shares of Stock	Completion	Per Value	Actual Cost	Post Year Book/Adjusted Carrying Value	Unrealized Valuation Increase (Decrease)	Current Year's (Appreciation) / Amortization / Recognized	Current Year's Other-Than-Temporary Impairment Recognized	Total Change in B/A C.V. (11-12-13)	Total Foreign Exchange Change in B/A C.V.	Book/Adjusted Carrying Value as of Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest / Stock Dividends Received During Year	Sold Contractual Maturity Date	NAIC Designation and Address Symbol Market Indicator (15)
3184AY 574 5 1/8% 1/17/1 A - CND/PMBS	Bonds - U.S. Special Revenue and Special Assessments	06/01/2019	Paydram		26	26	26	216,889	34,596			34,423		251,315		(2,621)	(2,621)	4,852	06/29/2027	
2120AD 774 1 3/4% 1/23/19 - PMBS		06/01/2019	Paydram		9,476	9,476	10,045	10,005	34,596	(529)		(529)		9,476		0	0	416	01/15/2044	
3100000	Total - Bonds - U.S. Special Revenue and Special Assessments				9,502	9,502	10,041	10,010	0	(529)	0	(529)	0	9,502	0	0	0	417		
<b>Bonds - Industrial and Miscellaneous</b>																				
208548 AN 2 1/4% 5/20/18 - CITIBANK, N.A.		06/20/2018			248,895	250,000	253,125	216,889	34,596	(852)		34,423		251,315		(2,621)	(2,621)	4,852	06/01/2023	374
209778	Total - Bonds - Industrial and Miscellaneous				248,895	250,000	253,125	216,889	34,596	(852)		34,423		251,315		(2,621)	(2,621)	4,852		
839992	Total - Bonds - Part 4				259,897	259,502	263,155	228,904	34,596	(881)		33,864		260,816		(2,621)	(2,621)	5,268		
839992	Total - Bonds				259,897	259,502	263,155	228,904	34,596	(881)		33,864		260,816		(2,621)	(2,621)	5,268		
209998	Total - Bonds, Preferred and Common Stocks				259,897	260	263,155	228,904	34,596	(881)	0	33,864	0	260,816	0	(2,621)	(2,621)	5,268		

(14) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues: . . . . 0

**Sch. DB - Pt. A - Sn. 1**  
**NONE**

**Sch. DB - Pt. B - Sn. 1**  
**NONE**

**Sch. DB - Pt. D - Sn. 1**  
**NONE**

**Sch. DB - Pt. D - Sn. 2**  
**NONE**

**Sch. DL - Pt. 1**  
**NONE**

**Sch. DL - Pt. 2**  
**NONE**

## SCHEDULE E - PART 1 - CASH

## Month End Depository Balances

1	2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
					6	7	8	
Depository	Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	First Month	Second Month	Third Month	
<b>Open Depositories</b>								
Fifth Third Bank - Premiums	Cincinnati, OH				3,785,566	4,302,019	5,153,583	XXX
Fifth Third Bank - Operations	Cincinnati, OH				2,798,328	1,847,214	6,236,448	XXX
Fifth Third Bank - Claims	Cincinnati, OH				(7,823,828)	(7,006,110)	(6,786,362)	XXX
SunTrust Bank - Premiums	Atlanta, GA				188,134	528,435	343,186	XXX
SunTrust Bank - Claims	Atlanta, GA				(2,230,787)	(1,554,305)	(1,437,043)	XXX
SunTrust Bank - Trust	Atlanta, GA	C			1,195,399	1,197,876	1,200,058	XXX
SunTrust Bank - CC Premiums	Atlanta, GA				1,374,917	1,087,314	1,832,185	XXX
01/01/20 Total Open Depositories	XXX	XXX	0	0	(557,076)	493,248	6,540,025	XXX
02/01/20 Total Cash on Deposit	XXX	XXX	0	0	(557,076)	493,248	6,540,025	XXX
03/01/20 Total Cash	XXX	XXX	0	0	(557,076)	493,248	6,540,025	XXX

**SCHEDULE E - PART 2 - CASH EQUIVALENTS**

Show Investments Owned End of Current Quarter

**QE13**

# **EXHIBIT 6**



FLORIDA SPECIALTY INSURANCE COMPANY

1 South School Avenue, Sarasota, FL 34237

(941) 210-5760 • (888) 723-3055

September 12, 2019

**VIA ELECTRONIC MAIL**

Ms. Susanne K. Murphy  
Deputy Commissioner - Property & Casualty  
Florida Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, Florida 32399

Dear Deputy Commissioner Murphy:

Thank you for your letter of September 6, 2019 regarding Florida Specialty Insurance Company's ("FSIC") initial submission of its RunOff Plan. We attach a revised monthly cash flow projection; as well as a month by month runoff of the liabilities through 2020, and expenditures through 2021. We would like to take this opportunity to explain our objectives with the Plan as revised. We understand the Office's concerns and are trying to address them in an uncontested manner. If it is clear that our Plan cannot reasonably be accomplished, then we will work with the Office to ensure an orderly transition.

At all times, there will be two themes which guide our actions during the implementation of this Plan: (a) we are focused on the best interests of the policyholders and FSIC, to the exclusion of other interests such as the role of Florida Specialty Managing General Agency, LLC ("FSMGA"); and (b) FSIC has and will have sufficient funds to address its covered liabilities commensurate with a solvent runoff. FSIC continues to pay claims, discharge all its liabilities, and pay all its debts as they come due in the usual course of business (subject only to independent confirmation of disputed figures per our fiduciary responsibility to FSIC). Approximately two-thirds of the policies are and will remain protected by a 100% quota share reinsurance treaty, with a cut-through clause.

FSMGA is available to FSIC to service the policies during the runoff period. Also, FSMGA has served, and will continue to serve, as a "backstop" to FSIC. By "backstop," we mean that FSMGA will be there to support the financial position of FSIC. In fact, FSMGA has returned \$1.5 million in fees to FSIC to augment the solvency of FSIC, to the detriment of FSMGA and its management. FSMGA will provide additional funds if needed due to adverse development of FSIC's loss reserves or other balance sheet items within FSIC's control.

We remain receptive to an orderly transfer of FSIC policies to another insurer. We will not require that FSMGA be contracted for services to facilitate such a transaction. FSMGA has been part of a proposed solution in certain scenarios because FSMGA has been the only ready, willing and able MGA available to service the affected policies. Where another MGA has been available, we have

Deputy Commissioner Susanne K. Murphy  
Florida Office of Insurance Regulation  
September 12, 2019

been amenable to plans which do not involve FSMGA, such as the proposed People's Trust deal or the proposed Tower Hill deal. Under the Plan, as presented, we project any compensation from FSIC to FSMGA declining in a pattern commensurate with policies in-force during the runoff. FSMGA should not charge, nor should it expect to receive, any fees above the minimum fees necessary to compensate FSMGA for the labor and material essential to the runoff. We would hope that FSMGA can find business, aside from these FSIC policies, for which FSMGA can provide its services.

The Plan is focused on funds available (with cash and investments of \$21,236,942.12 as of 8/31/19) and reasonably projected to become available to FSIC, to demonstrate our belief that there will be sufficient funds to address all liability for which FSIC is responsible under the policies which it has issued. In contrast, the Plan is not intended to be a balance sheet conveying a financial picture as of a fixed point in time. We feel that this format best-describes how the company intends with sufficient detail, and cash-on-hand, to respond to its covered liability through the entire runoff period.

We include a role for the deputy supervisor in the Plan as we believe it helpful for the Office's representative to move into the role of monitoring the runoff. We feel that, for the protection of funds to address projected liability, the fees for the deputy supervisor must be reasonable in relation to the monitoring role he will play. This seems consistent with the parties' intent in Paragraph 10 of the Order of Supervision ("FLORIDA SPECIALTY shall reimburse the OFFICE for any reasonable expenses of supervision"). We will coordinate with the Office if a deferral of this expense is needed, in accordance with Section 624.87(5). Along these lines, we hope that the deputy supervisor has advised the Office that we have made our claim expenditures in a prudent manner in accordance with the Code as well as industry customs and standards. We believe that we can also reduce this cost by relieving the deputy supervisor from the arduous task of reviewing every single claim adjudication, which will also make for a much more efficient policyholder response process.

We have been working with the Florida Hurricane Catastrophe Fund ("FHCF"), through our broker Guy Carpenter ("GC"), to determine the correct amount owed. We have learned this morning that the FHCF does agree with the GC-calculated cost for the full 2019 Contract Year of \$11,692,724. Currently, FSIC has adequate reinsurance coverage for this program year of up to a 160 year return period and will purchase additional coverage for Layer 3 attaching at \$63,000,000 if necessary after October 1st.

AIG apparently disagrees with FSIC's position as to the additional reinsurance allowance. AIG has presented its position directly to the Office. We feel confident in our position and will litigate that contractual dispute in another forum. For present purposes, please know that FSIC has not carried this allowance as an asset for purposes of demonstrating solvency.

We would like to revisit with the Office our responsibility to ensure that our HO3 rates are adequate. We agreed with the Office's request that we withdraw our "use and file" submission of August 9, 2019. We indicated the need to adjust these rates in our initial corrective action plan and with our update to that plan on May 7, 2019. We appreciate the Office's position at the time

Deputy Commissioner Susanne K. Murphy  
Florida Office of Insurance Regulation  
September 12, 2019

of our filing, to help facilitate a transfer of these policies to another insurer. With that transaction not materializing, our rates remain inadequate under Section 627.062(2)(e)3. Correspondingly, FSIC remains obligated to comply with Section 627.062(1) (“The rates for all classes of insurance to which the provisions of this part are applicable may not be excessive, inadequate, or unfairly discriminatory”) in a manner which the Office deems appropriate.

We had hoped that, by this time, no policyholder would be subject to a rate adjustment. But, we must address the current situation as instructed by the Code. Section 627.4133(2)(b) requires that any personal lines residential property insurer “give the first-named insured written notice of nonrenewal, cancellation, or termination at least 120 days before the effective date of the nonrenewal, cancellation, or termination.” When the proposed transfer of policies did not materialize, we issued this 120-day notice to our policyholders. We deemed that consistent with our collective intent to reduce the company’s exposure. We had earlier proposed a 45-day notice, per Section 627.4133(2)(b), but did not have the Office’s approval to issue the shorter notice. Perhaps, revisiting this issue will make for a more expedited runoff and enable us to further reduce the runoff period.

Regardless of notice period, the statute requires that we continue any policy not ripe for nonrenewal. In order to comply with the law we feel compelled to continue these policies until they terminate by lawful nonrenewal. Given this requirement, we do not believe that a violation of Section 626.9541(1)(w) has or will occur. There are a couple of options to help cure any lingering doubt. First, Section 626.9541(1)(w) permits renewals “with the written permission of the office.” The Office can give the prescribed written permission solely for purposes of the runoff and we respectfully ask for same. Second, we can bulk cancel all policies with proper notice. We did not believe this latter option tenable, given the lack of a suitor or capacity in the market to accept these policies, many of which are in the South Florida tri-county area. We ask for the Office’s instructions as to the preferred route, to the extent that any adjustment is required at this time.

Clearly, we have not tried to address every item in your letter. For instance, and by no means limiting ourselves, we do not agree with the indications in Items 3 (Additional Reinsurance Coverage Required) and 7 (Overstatement of Reinsurance Recoverable). We include what we believe are the corrected numbers in the attached monthly cash flow projections. At this point, we would prefer to find an amicable solution which all stakeholders can abide by. Our initial Plan was presented on 6 hours’ notice; so, admittedly, it could be improved upon.

We appreciate this opportunity to revise the Plan and to present our further thoughts as to the manner in which we may conduct an orderly runoff without canceling policies during hurricane season. Cancellation will require policyholders to seek coverage in an unwelcoming market which in many cases will only provide coverage which is more expensive than their current coverage. To cancel these policies mid-term would be a waste of reinsurance already paid and the opportunity to use funds from FSIC without impact to the guaranty fund. We know that, with FSIC, claims will be paid in accordance with parameters established for the guaranty fund under the supervision of the Office. FSIC’s role with respect to its policyholders, and our fiduciary role with respect to



Deputy Commissioner Susanne K. Murphy  
Florida Office of Insurance Regulation  
September 12, 2019

FSIC, has required that we examine all factors affecting our decisions about the long-term prospects of the company. Thank you for your patience during this deliberative process.

Sincerely,

A handwritten signature in dark ink, appearing to read "Vincent T. Rowland", with a stylized flourish at the end.

Vincent T. Rowland  
Chairman

# **EXHIBIT 7**



## OFFICE OF INSURANCE REGULATION

**DAVID ALTMAIER**  
COMMISSIONER

**FINANCIAL SERVICES  
COMMISSION**

**RON DESANTIS**  
GOVERNOR

**JIMMY PATRONIS**  
CHIEF FINANCIAL OFFICER

**ASHLEY MOODY**  
ATTORNEY GENERAL

**NICOLE "NIKKI" FRIED**  
COMMISSIONER OF  
AGRICULTURE

September 17, 2019

**VIA ELECTRONIC MAIL:** [vrowland@floridaspecialty.com](mailto:vrowland@floridaspecialty.com)

Mr. Vincent Rowland  
Chairman  
Florida Specialty Insurance Company  
1 S School Avenue, Suite 900  
Sarasota, Florida 34237

Dear Mr. Rowland:

We have reviewed your revised RunOff Plan and related documents submitted to the Florida Office of Insurance Regulation ("OIR") on September 12, 2019, on behalf of the Board of Florida Specialty Insurance Company. The OIR's review of the revised RunOff Plan indicates that a number of assumptions are still incorrect or improperly stated and render it deficient and not viable. They include the following:

1. Although your cover letter alludes to not incorporating the additional Lexington reinsurance allowance in your analysis by stating "...*please know that FSIC has not carried this allowance as an asset for purposes of demonstrating solvency,*" for cashflow purposes the revised RunOff Plan continues to show the receipt of \$8,543,816 from Lexington as an additional reinsurance allowance. Although the Company implies they will litigate the issue, it should not be included in the revised RunOff Plan since it is not readily available to meet policyholders' obligations, its collection is doubtful, and the Company has not even budgeted the potential litigation costs to pursue its collection.
2. Your cover letter states that FSIC "...*will purchase additional coverage for Layer 3 attaching at \$63,000,000 if necessary after October 1<sup>st</sup>*". This acknowledges the Company knows it is not adequately protected against losses to which it is exposed. The Property Catastrophe Third Excess of Loss agreement will be needed until May 31, 2020, yet the revised RunOff Plan still does not contemplate purchasing this coverage beyond October 1, 2019, and only if a catastrophic event is eminent. Essentially, the revised RunOff Plan hopes there will not be any major catastrophes during the runoff period and that reinsurance capacity will be there when a catastrophic event is about to occur. The cost for this additional coverage will approximate 25% of half the current limit purchased, which is \$2,150,000 ( $\$17,200,000 / 2 = \$8,600,000 \times 25\% = \$2,150,000$ ). To consciously ignore this exposure is contrary to various statements in your letter professing to do what is in "...*the best interest of the policyholders and FSIC*".

...

SUSANNE K. MURPHY • DEPUTY COMMISSIONER - PROPERTY & CASUALTY  
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399 • (850) 413-5083 • FAX (850) 488-2348  
WEBSITE: WWW.FLOIR.COM • EMAIL: SUSANNE.MURPHY@FLOIR.COM

Affirmative Action / Equal Opportunity Employer

3. The Company's revised projections show \$14,833,168 in premium for June through October of 2019. Although the revised projections ignore the HO3 business that was actually written in June, July, and August, using your projection of \$14,833,168, the Company would still need to record the additional reinsurance premium that will be due at June 1, 2020, of approximately \$3,895,322. [The additional reinsurance cost is based on the ratio of the projected written premium of \$97,033,806 (actual Jan – May per runoff of \$40,430,752 X 12/5 mo. = \$97,033,806) for the 6/1/18 to 5/31/19 period applied to the reinsurance cost of \$25.5 million for the 6/1/18 to 5/31/19 period ( $\$14,833,168 / \$97,033,806 \times \$25,481,943 = \$3,895,322$ )].
4. We appreciate that the Company agreed with the OIR's opinion and incorporated \$780,000 in its revised RunOff Plan for unallocated loss adjustment expenses ("ULAE"), as recommended by the OIR. However, the Company did not add an amount for ULAE that will be incurred between July and December 2019 that is not covered by reinsurance.
5. The Company's revised RunOff Plan continues to ignore the possibility of a major catastrophe during the runoff period. Due to the likelihood of such an event, and to truly protect the interest of the policyholders by considering a worst-case scenario, the revised RunOff Plan is deficient for not recognizing a \$1,000,000 CAT retention.
6. The Company continues to budget \$75,000 for twelve months of "OIR Supervision" in its revised RunOff Plan. The revised RunOff Plan continues to understate the amount necessary to fund the proposed continued costs of Administrative Supervision, which should be increased by \$500,000 to be consistent with the amounts currently being paid and owed by the Company to fund the costs of Supervision.
7. We appreciate that the Company agreed with the OIR's opinion and reduced the amount shown as the LPT Recovery by \$1,232,550 in its revised RunOff Plan.
8. The revised RunOff Plan still indicates the Company is writing new and/or renewal business through October 2019. Since the loss payment pattern is approximately two years, twenty-four months of operating expenses will still be needed from October 2019 for the runoff. The revised RunOff Plan failed to include an additional twelve months (November 2020 to October 2021) of operating expense that approximates \$4,800,000 (\$100,000 policy admin. + \$300,000 operating expenses =  $\$400,000 \times 12 \text{ mo.} = \$4,800,000$ ).
9. We appreciate that the Company increased the amount shown as owed to the Florida Hurricane Catastrophe Fund by \$923,611 in its revised RunOff Plan.

Mr. Vincent Rowland  
September 17, 2019  
Page 3

10. The revised RunOff Plan still does not include amounts that will need to be returned to policyholders resulting from the rate increase on HO3 policies that was implemented without obtaining OIR approval. The revised RunOff Plan failed to reflect the approximately \$292,178 in excess premium charges that would need to be returned to the affected policyholders.

The overall impact of these adjustments (-\$21,181,316) reduce the projected "Excess Funds" in the revised RunOff Plan to a **deficit** of \$15,954,607 (\$5,226,709- \$21,181,316).

We realize that the Company subsequently determined that the revised RunOff Plan was not viable and consented to Receivership on September 12, 2019. However, we felt it was important to at least address some of the most significant deficiencies of the revised RunOff Plan.

Sincerely,



Susanne Murphy

SM/ah

cc (via e-mail only):

Susan Jean Patschak ([Spatschak@floridaspecialty.com](mailto:Spatschak@floridaspecialty.com))

Thomas Mayberry ([thomasmayberry@ewmgroupepc.com](mailto:thomasmayberry@ewmgroupepc.com))

A. Kenneth Levine ([klevine@cozen.com](mailto:klevine@cozen.com))

# **EXHIBIT 8**



**FILED**

**MAR 20 2019**

OFFICE OF  
INSURANCE REGULATION  
Consolidated by: *[Signature]*

**OFFICE OF INSURANCE REGULATION**

**DAVID ALTMAYER**  
COMMISSIONER

2019 CA 002328

**IN THE MATTER OF:**

**CASE NO.: 242640-19-CO**

**FLORIDA SPECIALTY INSURANCE COMPANY**  
\_\_\_\_\_

**CONFIDENTIAL**  
Pursuant to Section  
624.82, Florida Statutes

**CONSENT ORDER FOR ADMINISTRATIVE SUPERVISION**

**THIS CAUSE** came on for consideration upon review by the **FLORIDA OFFICE OF INSURANCE REGULATION ("OFFICE")** of the financial condition of **FLORIDA SPECIALTY INSURANCE COMPANY ("FLORIDA SPECIALTY")**. After a complete review of the entire record, and upon consideration thereof, and otherwise being fully advised in the premises, the **OFFICE** hereby finds as follows:

- 1. The OFFICE has jurisdiction over the subject matter and of the parties herein.**
- 2. FLORIDA SPECIALTY is a domestic property and casualty insurer authorized to do business in Florida and subject to regulation by the OFFICE, pursuant to the Florida Insurance Code.**
- 3. The OFFICE has determined, pursuant to Section 624.81, Florida Statutes, that grounds exist for FLORIDA SPECIALTY to be placed in administrative supervision for the purpose of protecting the assets of FLORIDA SPECIALTY and protecting the interests of its insureds. FLORIDA SPECIALTY has been fully cooperative with the OFFICE and agrees to be placed under administrative supervision for a period of 120 days from the date of execution of this Consent Order. Such administrative supervision may be extended in increments of not more than**

120 days at the OFFICE's sole discretion for as long as is necessary for the company to implement and complete its appropriate corrective action plan ("Plan").

4. FLORIDA SPECIALTY shall file its Plan with the OFFICE by the close of business March 31, 2019. The Plan must include, but is not limited to the following:

- a. A definitive business solution for the ongoing operation of the company, which may include a sale of the company, a merger, a change to its business plan, the nonrenewal of blocks of policies, or other measures designed to address its hazardous financial condition;
  - b. Information regarding its proposed 2019 reinsurance program which demonstrates it has or will have sufficient catastrophe reinsurance in place as of June 1 to provide adequate reinsurance for the upcoming hurricane season;
  - c. A demonstration of FLORIDA SPECIALTY's ability to fund its operations in amounts sufficient to pay all policyholder claims and provide for the payment of other liabilities as they become due;
  - d. A schedule of the distribution of renewals by month, state, and policy type. Additionally, for the state of Florida, a schedule of renewals by month, county and policy type;
  - e. A schedule of all outstanding claims to include date of loss, initial reserve amount, and current reserve amount as of March 31, 2019; and
  - f. Such other information as the OFFICE may reasonably require.
5. FLORIDA SPECIALTY shall obtain prior written consent from the OFFICE before conducting any of the activities enumerated in Section 624.83, Florida Statutes.
6. FLORIDA SPECIALTY shall not enter into any new, or amend any existing, agreements with any affiliates, as defined in Section 631.01(1), Florida Statutes, without prior written consent of the OFFICE.



7. FLORIDA SPECIALTY shall not waste assets or expend funds in excess of \$10,000 U.S. Dollars ("USD"), other than in the ordinary course of business, without the prior written consent of the OFFICE. If, after approval of a transaction over \$10,000 USD has been granted by the OFFICE, the OFFICE becomes aware of additional facts or circumstances that materially affect such approval, the OFFICE reserves the right to require such corrective action as it may deem necessary or advisable. Transactions in the ordinary course of business shall include, but not be limited to, payment of claims. FLORIDA SPECIALTY need not obtain prior written approval for payment of claims over the amount of \$10,000 USD; however, the OFFICE may retrospectively review such payments.

8. Within 5 business days of execution of this Consent Order, FLORIDA SPECIALTY shall provide a list of any known pending litigation in which FLORIDA SPECIALTY is named as a party. FLORIDA SPECIALTY agrees to immediately notify the OFFICE of any litigation initiated naming FLORIDA SPECIALTY as a party after execution of this Consent Order.

9. The OFFICE may appoint a Deputy Supervisor pursuant to Section 624.87, Florida Statutes. Such Deputy Supervisor shall represent the OFFICE and shall be under the control of the OFFICE.

10. FLORIDA SPECIALTY shall be responsible for administrative supervision expenses pursuant to Section 624.87, Florida Statutes. FLORIDA SPECIALTY shall reimburse the OFFICE for any reasonable expenses of supervision and will pay directly all contractors, including any Deputy Supervisor retained by the OFFICE, for assistance with the administrative supervision. Such reimbursement shall be made biweekly or as otherwise directed by the OFFICE.

11. FLORIDA SPECIALTY agrees that the OFFICE and the Department of Financial Services ("Department") may have examiners or other designees present at the offices of

FLORIDA SPECIALTY to supervise activities, obtain independent information, verify transactions, verify the conditions and status of FLORIDA SPECIALTY and its progress in developing and complying with its Plan, and perform any other duty as designated by the OFFICE. FLORIDA SPECIALTY shall cooperate with and facilitate the presence and work of such examiners or designees.

12. Administrative supervision is confidential as provided in Section 624.82, Florida Statutes, unless otherwise specified within that Section. The OFFICE reserves the right to make this Administrative Supervision, including this Consent Order, public pursuant to Section 624.82(4), Florida Statutes.

13. FLORIDA SPECIALTY agrees and affirms that all information, submissions, explanations, representations, and documents provided to the OFFICE in connection with this matter, including all attachments and supplements thereto, are true and correct and material to the issuance of this Consent Order.

14. Should FLORIDA SPECIALTY fail to comply with any provision of this consent order, FLORIDA SPECIALTY consents to the entry of an Order appointing the Department as Receiver and acknowledges that the Department may apply to the Court for an Order of Rehabilitation or Liquidation, at the sole discretion of the Department, on the basis that FLORIDA SPECIALTY has consented to the entry of such an Order. FLORIDA SPECIALTY further agrees that the Department shall have the sole discretion to determine whether FLORIDA SPECIALTY shall be placed into rehabilitation or liquidation. In the event that the Department initially obtains an Order appointing it as Receiver of FLORIDA SPECIALTY for purposes of Rehabilitation, FLORIDA SPECIALTY further consents to the Department obtaining a subsequent Order appointing the Department as Receiver for the purposes of Liquidation, should the Department, at

any time and in its sole discretion, determine that Rehabilitation of FLORIDA SPECIALTY is not feasible.

15. FLORIDA SPECIALTY expressly waives its rights to a hearing in this matter, the making of findings of fact and conclusions of law by the OFFICE, and all further and other proceedings herein to which it may be entitled by law or rules of the OFFICE. FLORIDA SPECIALTY hereby knowingly and voluntarily waives all rights to challenge or contest this Consent Order in any forum now or in the future available to it, including the rights to any administrative proceeding, state or federal court action, or any appeal.

16. FLORIDA SPECIALTY acknowledges that the execution of this Consent Order does not prohibit other administrative action upon the Certificate of Authority of FLORIDA SPECIALTY deemed appropriate by the OFFICE in accordance the Florida Insurance Code or with Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

17. FLORIDA SPECIALTY agrees that if the OFFICE expends staff time or funds because further proceedings are required to enforce the terms of this Consent Order, or if administrative proceedings are initiated by FLORIDA SPECIALTY regarding this administrative supervision and the OFFICE prevails in such proceedings, FLORIDA SPECIALTY shall reimburse the OFFICE for reasonable attorney fees and costs. Otherwise, each party to this Consent Order shall bear its own costs and attorney fees.

18. Any prior orders, consent orders, or corrective action plans that FLORIDA SPECIALTY has entered into with the OFFICE prior to the execution of this Consent Order shall apply and remain in full force and effect for FLORIDA SPECIALTY, except where provisions of such orders, consent orders, or corrective action plans have expired; have been superseded by

subsequent orders, consent orders, or corrective action plans; or are inconsistent with this Consent Order.

19. Any deadlines, reporting requirements, other provisions, or requirements set forth in this Consent Order may be altered or terminated by written approval of the OFFICE. Such written approval by the OFFICE is subject to statutory or administrative regulation limitations.

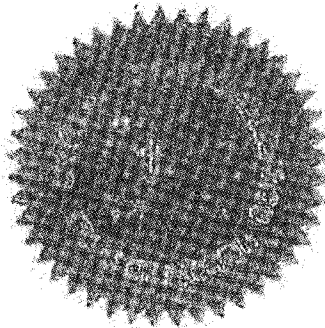
20. FLORIDA SPECIALTY affirms that all requirements set forth herein are material to the issuance of this Consent Order.

21. FLORIDA SPECIALTY agrees that it has entered into this Consent Order voluntarily, without coercion from the OFFICE, or any agent, employee, or designee of the OFFICE, and that FLORIDA SPECIALTY has obtained legal counsel prior to entering into this Consent Order.

22. The parties agree that this Consent Order shall be deemed to be executed when the OFFICE has signed and docketed a copy of this Consent Order bearing the signature of FLORIDA SPECIALTY or its authorized representative, notwithstanding the fact that the copy may have been transmitted to the OFFICE electronically. Further, FLORIDA SPECIALTY agrees that its signature, as affixed to this Consent Order, shall be under the seal of a Notary Public.

WHEREFORE, the agreement between FLORIDA SPECIALTY INSURANCE COMPANY and the FLORIDA OFFICE OF INSURANCE REGULATION, the terms and conditions of which are set forth above, is APPROVED. FURTHER, all terms and conditions contained herein to place FLORIDA SPECIALTY INSURANCE COMPANY in administrative supervision are hereby ORDERED.

DONE and ORDERED this 20 day of March, 2019.



David Altmaier  
David Altmaier, Commissioner  
Office of Insurance Regulation

By execution hereof, FLORIDA SPECIALTY INSURANCE COMPANY consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions, and shall be bound by all provisions herein. The undersigned represents that he or she has the authority to bind FLORIDA SPECIALTY INSURANCE COMPANY to the terms and conditions of this Consent Order. The undersigned also certifies that he or she has provided the signature below voluntarily and without coercion, based upon the assistance of legal counsel for FLORIDA SPECIALTY INSURANCE COMPANY.

FLORIDA SPECIALTY INSURANCE COMPANY

By: Susan J. Patelchak

[Corporate Seal]

Name: SUSAN J. PATECHAK  
(Please type or print)

Title: CEO

Date: 3/19/19

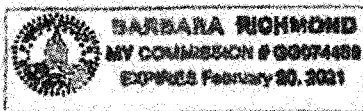
STATE OF FLORIDA

COUNTY OF SARASOTA

The foregoing affidavit was sworn to and subscribed before me this 19<sup>th</sup> day of March, 2019.

by Susan Patelchak as OFFICER  
(Name of person) (Type of authority...e.g. officer, notary, attorney at law)

for FLORIDA SPECIALTY INSURANCE COMPANY  
(Company Name)



Barbara Richmond  
(Signature of notary)  
Barbara Richmond  
(Print, Type, or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification

Type of identification produced

My Commission Expires February 20 2021

**COPIES FURNISHED TO:**

**WILLIAM LODEN, PRESIDENT**  
Florida Specialty Insurance Company  
15 School Avenue, Suite 900  
Sarasota, Florida 34237-6014  
Email: rloden@floridaspecialty.com

**WES STRICKLAND, ESQUIRE**  
Colodny Fass, P.A.  
119 East Park Avenue  
Tallahassee, Florida 32301  
Email: wstrickland@colodnyfass.com

**VIRGINIA CHRISTY, DIRECTOR**  
Property & Casualty Financial Oversight  
200 East Gaines Street  
Tallahassee, Florida 32399  
Email: virginia.christy@fioir.com

**MATTHEW A. SIRMANS, ASSISTANT GENERAL COUNSEL**  
Florida Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, Florida 32399  
Telephone: (850) 413-4292  
Email: matt.sirmans@fioir.com



**FILED**

**JUL 18 2019**

**OFFICE OF  
INSURANCE REGULATION**  
Dictated by: DBS

**OFFICE OF INSURANCE REGULATION**

2019 CA 002328

**DAVID ALTMAYER**  
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 244368-19-CO

FLORIDA SPECIALTY INSURANCE COMPANY

**CONFIDENTIAL**  
Pursuant to Section  
624.82, Florida Statutes

**CONSENT ORDER EXTENDING PERIOD OF ADMINISTRATIVE SUPERVISION**

THIS CAUSE came on for consideration upon review by the FLORIDA OFFICE OF INSURANCE REGULATION ("OFFICE") of the financial condition of FLORIDA SPECIALTY INSURANCE COMPANY ("FLORIDA SPECIALTY"). After a complete review of the entire record and upon consideration thereof, and otherwise being fully advised in the premises, the OFFICE hereby finds as follows:

1. The OFFICE has jurisdiction over the parties and subject matter of this action.
2. The OFFICE and FLORIDA SPECIALTY entered into Consent Order 242640-19-CO ("Supervision Order") on March 20, 2019 (attached as Exhibit "1" and hereby incorporated by reference). Under the terms of that Supervision Order, FLORIDA SPECIALTY was placed in administrative supervision for a period of 120 days from the date of execution of the Supervision Order.
3. Administrative supervision of FLORIDA SPECIALTY is currently set to expire on July 18, 2019.
4. Paragraph 3 of the Supervision Order states as follows:  
  
FLORIDA SPECIALTY has been fully cooperative with the OFFICE and agrees to be placed under administrative supervision for a period of 120 days from the date



of execution of this Consent Order. Such administrative supervision may be extended in 120 day increments at the OFFICE's sole discretion for as long as is necessary for the company to implement and complete its wind-down plan ("Plan").

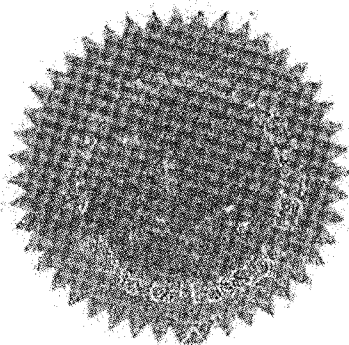
5. As of the date of this Consent Order, conditions justifying administrative supervision exist that necessitate an extension of the period of administrative supervision for 120 days from the date of this Consent Order.

6. The OFFICE and FLORIDA SPECIALTY agree that the only modifications to the Supervision Order in this Consent Order are set forth in paragraphs 4-5 immediately above. All other terms and conditions of the Supervision Order remain unchanged and in full force and effect.

WHEREFORE, because the OFFICE has determined that conditions justifying continued administrative supervision exist, the administrative supervision of FLORIDA SPECIALTY is hereby extended for an additional 120 days from the date of execution of this Consent Order. All terms and conditions contained herein are hereby ORDERED, and all other provisions of Consent Order 242640-19-CO remain unchanged by this Consent Order.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 18<sup>th</sup> day of July, 2019.



*David Altmaier*

David Altmaier, Commissioner  
Office of Insurance Regulation

By execution hereof, FLORIDA SPECIALTY INSURANCE COMPANY consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions, and shall be bound by all provisions herein. The undersigned represents that he or she has the authority to bind FLORIDA SPECIALTY INSURANCE COMPANY to the terms and conditions of this Consent Order. The undersigned also certifies that he or she has provided the signature below voluntarily and without coercion, based upon the assistance of legal counsel for FLORIDA SPECIALTY INSURANCE COMPANY.

FLORIDA SPECIALTY INSURANCE COMPANY

By: Susan J. Patschak

[Corporate Seal]

Name: Susan J. PATSCHAK  
(Please type or print)

Title: CEO

Date: 7/18/19

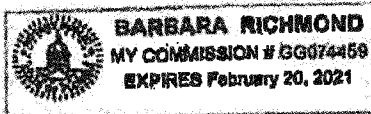
STATE OF FLORIDA

COUNTY OF SARASOTA

The foregoing affidavit was sworn to and subscribed before me this 18 day of July, 2019,

by Susan J. PATSCHAK as OFFICER  
(Name of person) (Type of authority, ...e.g. officer, trustee attorney in fact)

for FLORIDA SPECIALTY INSURANCE COMPANY  
(Company name)



Barbara Richmond  
(Signature of Notary)  
Barbara Richmond  
(Print, Type, or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification ☐

Type of identification produced N/A

My Commission Expires February 20, 2021

**COPIES FURNISHED TO:**

**SUSAN PATSCHAK, CHIEF EXECUTIVE OFFICER**  
Florida Specialty Insurance Company  
1S School Avenue, Suite 900  
Sarasota, Florida 34237-6014  
Email: [spatschak@floridaspecialty.com](mailto:spatschak@floridaspecialty.com)

**VIRGINIA CHRISTY, DIRECTOR**  
Property & Casualty Financial Oversight  
200 East Gaines Street  
Tallahassee, Florida 32399  
Email: [virginia.christy@florir.com](mailto:virginia.christy@florir.com)

**MATTHEW A. SIRMANS, ASSISTANT GENERAL COUNSEL**  
Florida Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, Florida 32399  
Telephone: (850) 413-4292  
Email: [matt.sirmans@florir.com](mailto:matt.sirmans@florir.com)

# **EXHIBIT 9**

**FINAL:**  
**April 9, 2019**

**RENEWAL RIGHTS AGREEMENT**

by and between

**PEOPLE'S TRUST INSURANCE COMPANY**

and

**FLORIDA SPECIALTY MANAGING GENERAL AGENCY, LLC**

Dated as of April 9, 2019

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## RENEWAL RIGHTS AGREEMENT

This RENEWAL RIGHTS AGREEMENT (this "Agreement"), dated as of April 9, 2019 (the "Effective Date"), is made by and between People's Trust Insurance Company, a stock property and casualty insurance company domiciled in Florida ("PTIC") and Florida Specialty Managing General Agency, LLC, a Florida limited liability company ("Florida Specialty"). Each of PTIC and Florida Specialty are sometimes collectively referred to herein as the "Parties" and individually as a "Party."

### RECITALS

WHEREAS, Florida Specialty has issued the In-Force Policies (as defined herein) on behalf of its affiliate, Florida Specialty Insurance Company (the "Company"); and

WHEREAS, PTIC wishes to acquire and Florida Specialty desires to sell the Renewal Rights (as defined herein) with respect to the In-Force Policies on the terms and subject the conditions of this Agreement.

NOW THEREFORE, in consideration of the mutual covenants, conditions and an exclusive agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

### ARTICLE 1

#### DEFINITIONS

Section 1.1 Definitions. For purposes of this Agreement, the following terms shall have the respective meanings set forth below:

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control," when used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have correlative meanings to the foregoing.

"Agreement" has the meaning set forth in the preamble hereto.

"Business" means the development, marketing, underwriting, issuance, sale, administration, renewal, reinsurance or servicing of homeowners' insurance policies on policy form HO3 as currently or previously conducted by Florida Specialty and its Affiliates.

"Business Day" means any day other than a Saturday, Sunday or other day on which banking institutions in the State of Florida are required or authorized by Law or executive order to be closed.

"Company" has the meaning set forth in the preamble hereto.

"Confidential Information" has the meaning set forth in Section 4.2.

"Encumbrance" means any charge, claim, community property interest, condition, easement, covenant, contract, agreement, understanding, commitment, warrant, demand, encumbrance, equitable interest, lien, mortgage, charge, option, purchase right, pledge, security interest, right of first refusal, or other rights of third parties or restrictions of any kind, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

"Florida Specialty" has the meaning set forth in the preamble hereto.

"Governmental Authority" means any federal, national, foreign, state, provincial, municipal or local or any supra-national government, political subdivision, governmental, legislative, judicial, regulatory or administrative authority, instrumentality, agency, body or commission, board, self-regulatory organization or any court, tribunal or judicial body of competent jurisdiction or any arbitrator or arbitration panel.

"In-Force Policies" means the homeowners insurance policies written on policy form HO3, issued by Florida Specialty covering properties located in the State of Florida and in effect on the Effective Date.

"Law" means any federal, state, local or foreign law, statute, common law or any rule, regulation, ordinance, license or permit of any Governmental Authority or any Order.

"Order" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"Person" means any individual, corporation, partnership, association, limited liability company, trust, estate, unincorporated organization, Governmental Authority or other entity or any group comprised of two or more of the foregoing.

"PTIC" has the meaning set forth in the preamble hereto.

"Renewal Rights" means all of Florida Specialty's and any of its Affiliate's rights to offer, quote and solicit the renewals of the In-Force Policies, including the rights to solicit replacement insurance coverage upon expiration of the terms of such In-Force Policies.

## ARTICLE 2

### PURCHASE AND SALE OF RENEWAL RIGHTS

#### Section 2.1 Purchase and Sale of Renewal Rights.

(a) Promptly following the Effective Date, and subject to any approvals required of applicable Governmental Authorities, (i) Florida Specialty shall commence sending holders of In-Force Policies (the "Florida Specialty Policyholders") as managing general agent of the Company a written notice that such policy is not being renewed (the "Non-Renewal Notice") and (ii) PTIC shall send each holder of an In-Force Policy a written quote (the "Replacement



Quote") to issue a new policy upon the expiration of the In-Force Policy (the "Replacement Policy"). This is subject to underwriting and inspection by PTIC. The form of the Non-Renewal Notice and Replacement Quote shall be subject to the mutual agreement of the Parties and be issued and sent concurrently, which agreement shall not be unreasonably conditioned, withheld or delayed. Rates offered by PTIC for the Replacement Policy shall be based on PTIC's current rates.

(b) For a period of two-years from the Effective Date, PTIC shall not provide any information concerning the identity of the Florida Specialty Policyholders to any Person for the purpose of allowing such Person to sell or solicit insurance from a Florida Specialty Policyholder except as provided in Section 2.1(a) hereof.

Section 2.2 Purchase Price. In consideration for the transfer and sale of the Renewal Rights as provided in this Agreement, and subject to the conditions set forth herein, PTIC shall pay Florida Specialty an amount equal to 2.75% of the earned premium on all Replacement Policies and excludes policy fees, surcharges and assessments (the "Purchase Price"). Within fifteen (15) days following the end of each calendar quarter after the Effective Date, PTIC shall (i) provide Florida Specialty a written report of all Replacement Policies written by PTIC during the prior calendar quarter including the name of the insured and annualized earned premium and (ii) pay Florida Specialty an amount equal to 2.75% on the earned premium on such Replacement Policies in satisfaction of the Purchase Price. Florida Specialty will not receive any payments on any additional renewal terms on such Replacement Policies .

Section 2.3 Wire Transfer Instructions. The Purchase Price shall be paid by wire transfer of immediately available funds to an account designated in writing by Florida Specialty.

### ARTICLE 3

#### REPRESENTATIONS AND WARRANTIES

##### Section 3.1 Legal Capacity; Valid and Binding Obligation.

(a) Each Party hereby represents and warrants to each other Party solely as to itself that: (i) it is duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization; (ii) it has the full power and authority under its organization documents to execute this Agreement; (iii) it has made all filings and provided all notices and has obtained all approval and consents required by Law or any Governmental Authority; (iv) the execution and delivery of this Agreement by it and the performance its obligations hereunder does not contravene, or constitute a breach of or default under any provision of applicable Law or governmental rule, regulation or policy statement or of its certificate of incorporation or other comparable organizational documents or any agreement, contract, Order or other instrument binding upon it; (v) this Agreement is enforceable against it in accordance with its terms, except that such enforcement may be subject to applicable bankruptcy, insolvency or other similar laws, now or hereafter in effect, affecting creditors rights generally, and the remedy of specific enforcement and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefore may be brought; and (vi) this Agreement has been duly executed and delivered on behalf of it.

Section 3.2 Additional Florida Specialty Representations and Warranties. Florida Specialty represents and warrants to PTIC as follows:

(a) The true and correct list of the In-Force Policies as of February 28, 2019 along with details identifying such In-Force Policies (including a listing of the producer, the named insured, the policy number, the effective date, the type of policy and the premium) will be supplied to PTIC electronically.

(b) The true and correct list of the insurance agents, brokers and other producers that produced the In-Force Business will be supplied to PTIC electronically.

#### ARTICLE 4

##### GENERAL PROVISIONS

Section 4.1 Fees and Expenses. Except as otherwise provided herein or therein, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby and thereby shall be paid by the Person incurring such costs and expenses.

Section 4.2 Further Actions. Subject to the terms and conditions of this Agreement, the Parties shall execute and deliver, or shall cause to be executed and delivered, such documents and other papers and shall take, or shall cause to be taken, such further actions as may be reasonably required to carry out the provisions of this Agreement and give effect to the transactions contemplated hereby and thereby.

Section 4.3 Notices. All notices or other communications required or permitted to be given hereunder shall be in writing and shall be delivered by hand, sent by facsimile or email, and sent, postage prepaid, by U.S. registered, certified, or express mail, or reputable overnight courier service, and shall be deemed given, if delivered by hand, when so delivered, or if sent by facsimile or e-mail, when received, or if sent by mail, four (4) Business Days after mailing (two (2) Business Days in the case of express mail), or if sent by overnight courier service, one (1) Business Day after delivery to such service, as follows:

if to PTIC, to:

People's Trust Insurance Company  
18 People's Trust Way  
Deerfield Beach, FL 33441  
Email: Bfrankel@pti.insure  
Attention: Mr. Brett Frankel, General Counsel

if to Florida Specialty, to:

Florida Specialty Managing General Agency, LLC  
1 South School Ave., #900  
Sarasota, FL 34237  
Email: spatschak@floridaspecialty.com  
Attention: Ms. Susan J. Patschak, CEO

Any Party may change the address to which notices and other communications are to be delivered or sent by giving the other Parties notice in the manner herein set forth.

**Section 4.4 Interpretation.** When a reference is made in this Agreement to an Article, a Section, a clause, an Exhibit or an Appendix, that reference is to an Article, a Section or a clause of, or an Exhibit or an Appendix to, this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they will be deemed to be followed by the words "without limitation," whether or not they are in fact followed by those words or words of like import. Whenever the singular is used herein, the same will include the plural, and whenever the plural is used herein, the same will include the singular, where appropriate. All Exhibits and Appendices annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized term used in any Exhibit or Appendix but not otherwise defined therein will have the meaning given to such term in this Agreement. Any reference to "days" means calendar days unless Business Days are expressly specified. If any action under this Agreement is required to be done or taken on a day that is not a Business Day, then such action shall be required to be done or taken not on such day but on the first succeeding Business Day thereafter. "Writing," "written" and comparable terms refer to printing, typing and other means of reproducing words (including electronic media) in a visible form. References from or through any date mean, unless otherwise specified, from and including or through and including, respectively. This Agreement is to be construed without regard to any presumption or rule requiring construction or interpretation against the Party drafting or causing any instrument to be drafted. References to any statute, listing rule, rule, standard, regulation or other Law will be deemed to include a reference to the corresponding rules and regulations, if any, and each of them as amended, modified, supplemented, consolidated, replaced or rewritten from time to time. References to any section of any statute, listing rule, rule, standard, regulation or other Law will be deemed to include any successor to such section. References to "\$" or "dollars" are references to United States dollars.

**Section 4.5 Entire Agreement; Third-Party Beneficiaries.**

(a) The Parties acknowledge that this Agreement supersedes any prior understandings or purported understandings (whether written or oral), and all prior agreements between the Parties with respect to the subject matter hereof and thereof, and constitutes a complete and exclusive statement of the terms of the agreement between the Parties with respect to the subject matter hereof and thereof. This Agreement is the full and complete agreement between them with respect to the subject matter of this Agreement and that there are no oral, implied or prior written agreements or understandings except those specifically set forth herein.

(b) This Agreement is for the sole benefit of the Parties to this Agreement and their heirs, executors, administrators, successors and assigns and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

**Section 4.6 Governing Law.** This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Florida (including its statutes of limitations or repose) without giving effect to principles of conflicts of laws that would compel the application of the laws of another jurisdiction.

Section 4.7 Jurisdiction. Any suit, action or proceeding arising out of, in connection with or in any way related to this Agreement shall be brought in a court of competent jurisdiction sitting in Broward County, Florida, and each of the Parties hereby irrevocably consents and submits to the exclusive jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. Process in any such suit, action or proceeding may be served on any Party anywhere in the world, whether within or without the jurisdiction of any such court. Each Party irrevocably consents and agrees to service of process in the manner provided for notices in Section 4.3 above, or in any other manner permitted by applicable Law.

Section 4.8 Waiver of Jury Trial. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY ACTION OR LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, IN CONNECTION WITH OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

Section 4.9 Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of Law or otherwise by any Party without the prior written consent of the other Party, and any such assignment that is not consented to shall be null and void. No assignment by any Party shall relieve such Party of any of its obligations hereunder. Subject to the foregoing, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the Parties and their respective heirs, executors, administrators, successors and assigns.

Section 4.10 Severability; Amendment and Waiver.

(a) Whenever possible, each provision or portion of any provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable Law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or portion of any provision in such jurisdiction, and this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein.

(b) This Agreement may be amended only by a written instrument signed by each of the Parties. The terms of this Agreement may be waived only by the Party waiving compliance.

(c) No delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any Party of any right, power or privilege, nor any single or partial exercise of any such right, power or privilege, preclude any further exercise thereof or the exercise of any other such right, power or privilege.

Section 4.11 Survival of Certain Claims, Representations and Warranties. The representations, warranties, covenants and agreements contained in this Agreement shall survive the execution of this Agreement; provided that if a representation, warranty, covenant, provision or agreement has a survival date specified in this Agreement, such date shall not be modified as a result of this Section 4.11.

Section 4.12 Counterparts. This Agreement may be executed in one or more counterparts and when executed will be deemed to be an original but all of which taken together will constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or other means of electronic transmission shall be as effective as delivery of a manually executed counterpart of any such agreement.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be signed by their duly authorized officers or signatories, all as of the date first written above.

**PEOPLE'S TRUST INSURANCE COMPANY**

By Tom Gallagher  
Name: TOM GALLAGHER  
Title: COO

**FLORIDA SPECIALTY MANAGING  
GENERAL AGENCY, LLC**

By Susan J. Patschak  
Name: SUSAN J. PATSCHAK  
Title: CEO

# **EXHIBIT 10**

**From:** "Murphy, Susanne" <[Susanne.Murphy@flair.com](mailto:Susanne.Murphy@flair.com)>  
**Date:** Tuesday, April 9, 2019 at 9:16 PM  
**To:** Susan Patschak <[spatschak@floridaspecialty.com](mailto:spatschak@floridaspecialty.com)>, Thomas Mayberry  
<[thomasmayberry@ewmgrouppc.com](mailto:thomasmayberry@ewmgrouppc.com)>  
**Cc:** "Christy, Virginia" <[Virginia.Christy@flair.com](mailto:Virginia.Christy@flair.com)>  
**Subject:** RE: Renewal Rights Agreement

Susan. I understand that you are anxious to address the issues facing Florida Specialty. However, as we discussed several times before, we need a comprehensive solution that addresses all of the business of the company and its attendant liabilities. We will review this agreement in the context of the larger objective to determine if it is in the best interests of policyholders. The agreement requires approval by the Office under the terms of the Order for Administrative Supervision.

Susanne K. Murphy  
Deputy Commissioner  
Property and Casualty  
Florida Office of Insurance Regulation  
(850) 413-5083 (office)  
(850) 567-5656 (cell)  
[susanne.murphy@flair.com](mailto:susanne.murphy@flair.com)

**From:** Susan Patschak <[spatschak@floridaspecialty.com](mailto:spatschak@floridaspecialty.com)>  
**Sent:** Tuesday, April 9, 2019 6:03 PM  
**To:** Murphy, Susanne <[Susanne.Murphy@flair.com](mailto:Susanne.Murphy@flair.com)>  
**Cc:** Thomas Mayberry <[thomasmayberry@ewmgrouppc.com](mailto:thomasmayberry@ewmgrouppc.com)>  
**Subject:** FW: Renewal Rights Agreement

Susanne.  
Please find attached the fully executed contract for the renewal rights agreement between People's Trust and Florida Specialty.  
Thanks,  
Susan

Susan J. Patschak  
Chief Executive Officer  
Florida Specialty Insurance Company  
1 S. School Ave., Suite 900  
Sarasota, FL 34237  
[Spatschak@floridaspecialty.com](mailto:Spatschak@floridaspecialty.com)  
(W) (941) 210-5671  
(M) (941) 323-6818





**From:** Tom Gallagher <[tgallagher@pti.insure](mailto:tgallagher@pti.insure)>  
**Date:** Tuesday, April 9, 2019 at 4:59 PM  
**To:** Susan Patschak <[spatschak@floridaspecialty.com](mailto:spatschak@floridaspecialty.com)>  
**Cc:** Kevin Walton <[KWalton@pti.insure](mailto:KWalton@pti.insure)>, Brett Frankel <[bfrankel@pti.insure](mailto:bfrankel@pti.insure)>, George De Heer <[gdeheer@pti.insure](mailto:gdeheer@pti.insure)>, George Schaeffer <[georges@pti.insure](mailto:georges@pti.insure)>, Michael Simhai <[msimhai@pti.insure](mailto:msimhai@pti.insure)>, Caitlin Scheinblum <[cscheinblum@pti.insure](mailto:cscheinblum@pti.insure)>  
**Subject:** Renewal Rights Agreement

Susan,

Attached is the signed final agreement. Thank you for allowing us to work with you on this transfer. We look forward to making this as smooth as possible for all concerned.

Kindest regards,

*Tom*

**Tom Gallagher**  
Chief Operating Officer

Direct: 561-417-1101  
Cell: 850-212-0000

18 People's Trust Way | Deerfield Beach, FL 33441-6270  
[PeoplesTrustInsurance.com](http://PeoplesTrustInsurance.com)



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Disclaimer regarding Uniform Electronic Transactions Act ("UETA") (Florida Statutes Section 668.50): If this communication concerns negotiation of a contract or agreement, UETA does not apply to this communication; contract formation in this matter shall only occur with manually-affixed original signatures on original documents.

# **EXHIBIT 11**

**From:** Murphy, Susanne <Susanne.Murphy@flor.com>  
**Sent:** Tuesday, September 17, 2019 10:07 PM  
**To:** Susan Patschak  
**Cc:** Thomas Mayberry; Levine, A. Kenneth  
**Subject:** Approvals

I have been provided with a notice that was sent to all of Florida Specialty's agents notifying them that all policies issued by the Company will be non renewed 120 days prior to policy expiration. No approval of these notices was sought or received prior to their issuance.

Since Florida Specialty continues to operate under the Administrative Supervision of the Office of Insurance Regulation, any notices such as this one, which affect all of the policies of the Company, must be submitted to the OIR for prior approval. To be crystal clear, no communication to agents or policyholders regarding the status of the Company or its policies may be issued unless approved by the OIR.

Operate under the assumption that any action you contemplate of any nature must be approved by the OIR.

Please let me know if you have any questions.

[Get Outlook for iOS](#)

# **EXHIBIT 12**

CONSENT TO ORDER OF RECEIVERSHIP

IT IS HEREBY agreed as follows:

1. FLORIDA SPECIALTY INSURANCE COMPANY (herein "Respondent") is a Florida corporation and is a domestic insurer authorized to transact insurance business in the State of Florida.

2. Pursuant to Sections 631.051(11) and 631.061 (on grounds of consent), Florida Statutes, Respondent consents, through a majority of its directors by written consent below, to the entry of an Order of Rehabilitation or Liquidation, appointing the Department of Financial Services (herein, the "DFS") as Receiver for purposes of Rehabilitation or Liquidation.

3. Respondent agrees not to contest the initiation of delinquency proceedings by the DFS in the Circuit Court of the Second Judicial Circuit, in and for Leon County, Florida. Respondent agrees further that no hearing need be held on the DFS' petition for an order appointing the DFS as Receiver.

Dated this 12<sup>th</sup> day of SEPTEMBER 2019.

(Corporate Seal)

Dependent Exhibit 10

Directors of Florida Specialty Insurance Company

By: \_\_\_\_\_

Print Name: VINCENT ROWLAND

Title: CHAIRMAN

Date: 9/12/19

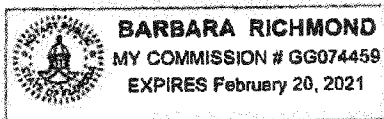
State of Florida

County of Sarasota

The foregoing instrument was acknowledged before me this 12 day of September, 2019,

by Vincent Rowland as Director  
(name of person) (type of authority ..... e.g. officer, trustee attorney in fact)

for Florida Specialty Insurance Company  
(company name)



Barbara Richmond  
(Signature of Notary)

Barbara Richmond  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ✓ OR ~~Produced Identification~~

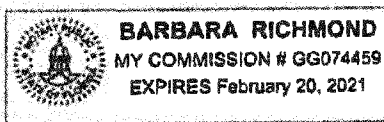
Type of Identification Produced N/A

Directors of Florida Specialty Insurance Company

By: Susan Patschak  
Print Name: SUSAN J. PATSCHAK  
Title: CEO  
Date: 9/12/19

State of Florida  
County of Sarasota

The foregoing instrument was acknowledged before me this 12 day of September 2019,  
by Susan Patschak as Director  
(name of person) (type of authority .... e.g. officer, trustee attorney in fact)  
for Florida Specialty Insurance Company  
(company name)



Barbara Richmond  
(Signature of Notary)

Barbara Richmond  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification ☐

Type of Identification Produced N/A