



**EXAMINATION REPORT
OF**

MONARCH NATIONAL INSURANCE COMPANY

NAIC Company Code: 15715

SUNRISE, FLORIDA

**as of
December 31, 2015**

**BY THE
FLORIDA OFFICE OF INSURANCE REGULATION**

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April 10, 2017

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2015, of the financial condition and corporate affairs of

Monarch National Insurance Company
14050 NW 14th Street, Suite 180
Sunrise, Florida US 33323

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

SCOPE OF EXAMINATION

This examination covered the period of March 19, 2015 through December 31, 2015 and commenced with planning at the Office on December 20, 2016 to December 20, 2016. The fieldwork commenced on December 20, 2016 and concluded as of April 10, 2017. This represents the first examination of the Company.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles (SSAP).

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements for the examination period.

Prior Examination Findings

This is the first examination of the Company.

COMPANY HISTORY

General

The Company was incorporated in Florida on February 6, 2015 and commenced business on March 19, 2015.

The Company was authorized to transact insurance coverage in Florida on March 19, 2015 and is currently authorized to write Homeowners Multi-Peril coverage, as of December 31, 2015.

Dividends

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

Capital Stock and Capital Contributions

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

Number of authorized common capital shares	300,000
Number of shares issued and outstanding	300,000
Total common capital stock	\$3,000,000
Par value per share	\$10.00

Surplus Notes

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

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

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company did not adopt a policy statement requiring periodic disclosure of conflicts of interest in accordance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2015, are shown below.

Directors

Name	City, State	Principal Occupation/Company
Michael Herbert Braun	Plantation, Florida	Chief Executive Officer, FNHC
Peter John Prygelski ^(a)	Coral Springs, Florida	Chief Financial Officer, FNHC

Donald George Braun, Jr.	Palm City, Florida	Vice President of Accounting and Financial Reporting, FNHC
James Gordon Jennings III	Plantation, Florida	Vice President of Risk Management, FNHC
Ydania Concepcion	Miami, Florida	Statutory Controller, FNHC

^(a) Resigned June 20, 2016 and was replaced by Erick Anthony Fernandez.

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	City, State	Title, Company
Michael Herbert Braun	Plantation, Florida	President, FNHC
Peter John Prygelski III ^(a)	Coral Springs, Florida	Treasurer, FNHC
James Gordon Jennings III	Plantation, Florida	Secretary

^(a) Resigned on June 20, 2016 and was replaced by Erick Anthony Fernandez.

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2015:

Audit Committee

Name	City, State	Title/Company
Robert T. Wolf ¹	Toronto, Ontario	Trustee, InnVest REIT
Jenifer G. Kimbrough	Birmingham, Alabama	Chief Financial Officer, Oakworth Capital Bank
Colin E. King	Harrison, New York	Chief Executive Officer, Crosswinds

¹ Chairperson

Investment Committee

Name	City, State	Title, Company
Charles Steven Duncker ¹	Palm Beach, Florida	Director, College Savings Bank of New Jersey
Peter John Prygelski III	Sunrise, Florida	Chief Financial Officer, FNHC

¹ Chairperson

Underwriting Risk

Name	City, State	Title, Company
Jenifer Goforth Kimbrough ¹	Birmingham, Alabama	Chief Financial Officer, Oakworth Capital Bank
Charles Steven Duncker	Palm Beach, Florida	Director, College Savings Bank of New Jersey
Colin Edward King	Harrison, New York	Chief Executive Officer, Crosswinds

¹ Chairperson

Control

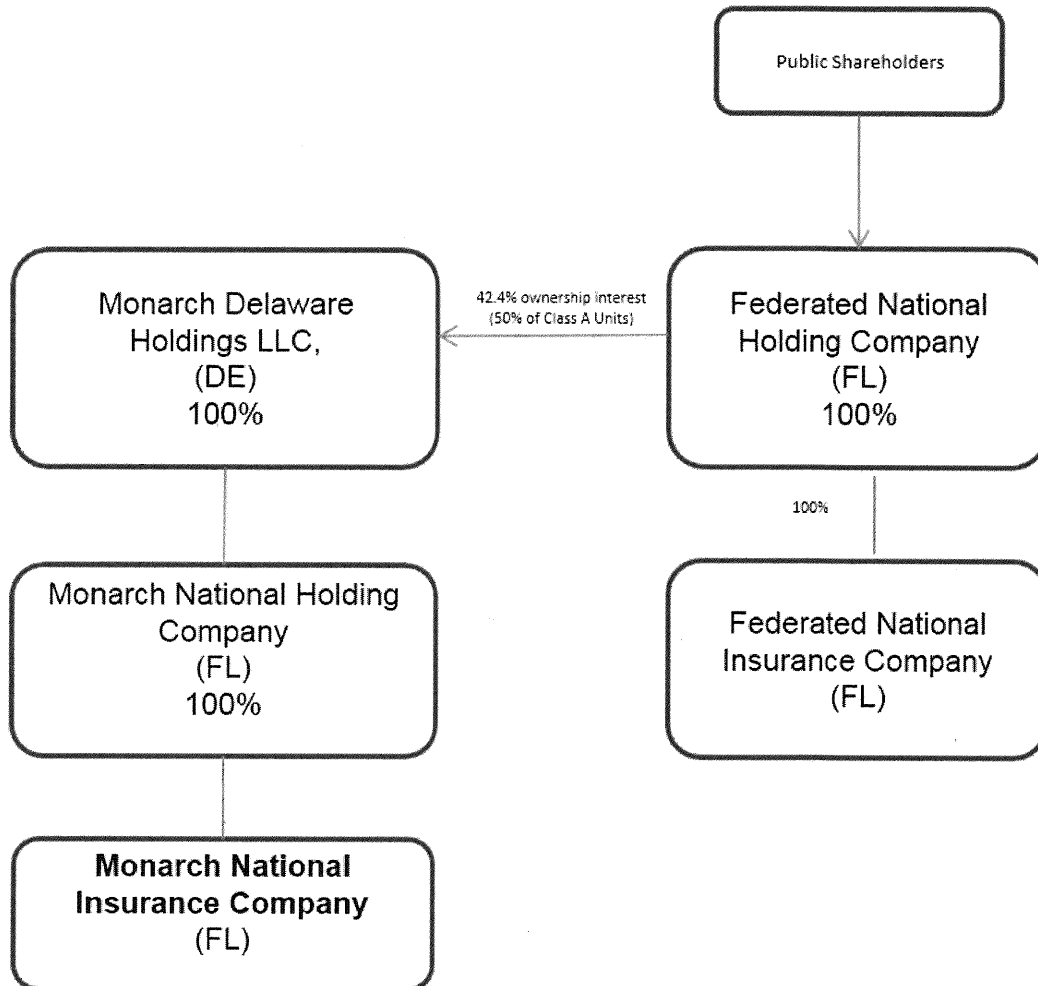
The Company is a subsidiary of Monarch National Holding Company (MNHC), which is one hundred percent (100%) wholly owned by Monarch Delaware Holdings LLC (MDHC), a Delaware Limited Liability Company. MDHC's ownership is divided between Federated National Holding Company (FNHC) at forty-two and four tenths percent (42.4%), Crosswinds Investor Monach L.P. at forty-two and four tenths percent (42.4%) and Transatlantic Reinsurance Company at fifteen and two tenths percent (15.2%).

Affiliated Companies

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

A simplified organizational chart as of December 31, 2015, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2015 annual statement provided a list of all related companies of the holding company group.

Monarch National Insurance Company
Simplified Organizational Chart
December 31, 2015



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

Intercompany Tax Allocation Agreement

Effective March 6, 2015, the Company entered into an Intercompany Tax Allocation Agreement with its parent and affiliated companies. The method of allocation among the companies is subject to written agreement, approved by the Board of Directors. The allocation is based on a separate return calculation with current credit for net losses. Intercompany tax balances are settled annually after the filing of the consolidated federal income tax return. The Company paid a total of \$7,138 to MNHC for allocated income taxes for the period of inception through December 31, 2015.

Management Agreement

Effective March 6, 2015, the Company entered into a Management Agreement with MNHC, its parent company, to assist the Company in all aspects of management. The management fee is \$200,000 per year as consideration for the holding company management assistance. This fee is made in monthly installments of \$16,666.67. The Company paid MNHC \$150,000 in management fees during 2015 related to its agreement.

Cost Sharing Agreement

Effective March 6, 2015, the Company entered into a Cost Sharing Agreement with FedNat Underwriters, Inc. (FNU), an affiliated Company. This agreement anticipates that, from time to time, either party may pay expenses on behalf of the other such as, but not limited to payroll, supplies, etc. The Company and FNU reimburse each other for expenses that are paid by one on behalf of the other within ninety (90) days of the payment being made.

Managing General Agency and Claims Administration Agreement

Effective March 17, 2015, the Company entered into a Managing General Agency and Claims Administration Agreement with its affiliate, FNU. Under this agreement FNU provides underwriting, accounting, reinsurance placement, and claims administration services to the Company. Under this agreement, FNU receives four percent (4%) commission of the Company's total written annual premium minus exclusions for its underwriting services. In addition, a per

policy administrative fee of \$25 is charged for every policy underwritten. The Company paid FNU \$92,517, for commissions for underwriting services. Additionally, the Company paid \$21,175 for policy fees. In addition, FNU provides claims administrative services to the Company. The Company pays FNU three and six-tenths percent (3.6%) of Total Earned Premiums earned on specific lines of business. Under this agreement, the Company paid FNU \$24,744, during the year ended December 31, 2015.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)(3)(a), Florida Statutes. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(j), Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Reinsurance Assumed

The Company did not assume any reinsurance during the period of this examination.

Reinsurance Ceded

The Company's catastrophe reinsurance program consisted of the Florida Hurricane Catastrophe Fund (FHCF) and private market excess of loss treaties. All private layers had prepaid automatic reinstatement protection, which afforded the Company additional coverage.

Given it was the Company's first year of operation for the year-end December 31, 2015, reinsurance activity was very limited.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

Effective March 30, 2015, the Company maintained a Custodial Agreement with Manufacturers & Traders Trust Company. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

Ernst & Young LLP (CPA) audited the Company's statutory basis financial statements for the year 2015, in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Chris Glenn, and Miles Wolfe, IT Specialists, of Dixon Hughes Goodman LLP, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	Cash	\$ 300,000	\$ 300,000
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected on the following pages.

Monarch National Insurance Company

Assets

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Bonds	\$20,147,620		\$20,147,620
Stocks:			
Common	145,800		145,800
Cash and Short-Term Investments	11,800,156		11,800,156
Subtotals, cash and invested assets	32,093,576		32,093,576
Investment income due and accrued	136,617		136,617
Agents' Balances:			
Uncollected premium	107,428		107,428
Deferred premium	244,582		244,582
Net deferred taxes	104,964		104,964
Total assets	<u>32,687,167</u>	<u></u>	<u>32,687,167</u>
Totals	<u><u>\$32,687,167</u></u>	<u><u>\$0</u></u>	<u><u>\$32,687,167</u></u>

Monarch National Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Losses	\$158,333		\$158,333
Loss adjustment expenses	80,255		80,255
Commission payable	28,025		28,025
Other expenses	109,173		109,173
Taxes, licenses and fees	48,352		48,352
Unearned premium	1,413,781		1,413,781
Advance premiums	12,027		12,027
Ceded reinsurance premiums	121		121
Payable to parent, subsidiaries and affiliates	23,805		23,805
Total Liabilities	\$1,873,872	\$0	\$1,873,872
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	28,000,000		28,000,000
Unassigned funds (surplus)	(186,706)		(186,706)
Surplus as regards policyholders	\$30,813,294	\$0	\$30,813,294
Total liabilities, surplus and other funds	\$32,687,167	\$0	\$32,687,167

Monarch National Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2015

Underwriting Income

Premiums earned	\$659,202
Deductions:	
Losses incurred	\$177,232
Loss expenses incurred	110,639
Other underwriting expenses incurred	800,633
Total underwriting deductions	<u>\$1,088,504</u>
Net underwriting gain or (loss)	(\$429,302)

Investment Income

Net investment income earned	\$142,264
Net realized capital gains or (losses)	2,528
Net investment gain or (loss)	<u>\$144,792</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	18,614
Total other income	<u>\$18,614</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$265,895)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$265,895)
Federal & foreign income taxes	<u>7,138</u>
Net Income	<u><u>(\$273,033)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$0
Net Income	(\$273,033)
Change in net unrealized capital gains or losses	(16,143)
Change in non-admitted assets	(2,494)
Change in deferred income taxes	104,964
Capital changes: Paid in	3,000,000
Surplus adjustment:	28,000,000
Change in surplus as regards policyholders for the year	<u>\$30,813,294</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$30,813,294</u></u>

Monarch National Insurance Company
Reconciliation of Capital and Surplus
December 31, 2015

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

Capital/Surplus Change during Examination Period

Surplus at March 19, 2015			\$0
	Gain in Surplus	Loss in Surplus	
Net Income (loss)		(\$273,033)	
Change in net unrealized capital gain (loss)		(\$16,143)	
Change in net deferred income tax	\$104,964		
Change in non-admitted assets		(\$2,494)	
Change in paid in capital	\$31,000,000		
Total Gains and Losses	<u>\$31,104,964</u>	<u>(\$291,670)</u>	
Net Increase/(Decrease) in surplus as regards policyholders			<u>\$30,813,294</u>
Surplus at December 31, 2015			<u><u>\$30,813,294</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

Scott P. Weinstein, FCAS, MAAA, Principal, KPMP LLP, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, made a reasonable provision for all unpaid losses and loss expense obligations of the Company under the terms of its policies and agreements.

The Office's consulting actuary, Brent Sallay, FCAS, MAAA, Taylor-Walker Consulting, reviewed the losses and loss adjustment expense workpapers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$30,813,294, exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

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

Per examination annual financial statements, the Company's surplus as regards to policyholders was \$30,813,294, which exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Roshie Fekrat, CPA, CFE, CIA, AMCM, Examiner-in-Charge, and George Brown, CFE, CIE, MCM, Anthony Westover, CPA, and Jake Johnson, Participating Examiners, of Dixon Hughes Goodman LLP, John Romano, CPA, CIA, CFE, Exam Manager, of Baker Tilly, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, MBA, Financial Examiner/Analyst Supervisor, Office Supervisor, Christopher Brown, Financial Examiner/Analyst II and Wytonia Weston, APIR, Financial Examiner/Analyst II, Participating Examiners. Additionally, Brent Sallay, FCAS, MAAA, and Solomon Frazier, FSA, ACAS, MAAA, of Actuarial Firm of Taylor-Walker Consulting, LLC and Chris Glenn, CISA, CIA, CFE (Fraud), and Matt Wolfe, CISA IT Specialists of Dixon Hughes Goodman, LLP, are recognized for participation in the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Brian Sewell". The signature is written in a cursive, flowing style.

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