



OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

**FINANCIAL SERVICES
COMMISSION**

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GOVERNOR

JIMMY PATRONIS
CHIEF FINANCIAL OFFICER

ASHLEY MOODY
ATTORNEY GENERAL

NICOLE "NIKKI" FRIED
COMMISSIONER OF
AGRICULTURE

VIA ELECTRONIC MAIL: jgraganella@pmains.com

June 18, 2020

Mr. James Graganella
President and Chief Executive Officer
Capitol Preferred Insurance Company ("Company")
2750 Chancellorsville Dr
Tallahassee, FL 32312

Dear Mr. Graganella:

Enclosed is a copy of the Report of Examination ("Report") of your Company for the period ending December 31, 2018. Pursuant to the provisions of Chapter 624.319(1), Florida Statutes, your Company is entitled to a hearing prior to the filing of the Report by the Office of Insurance Regulation ("OIR"), provided such hearing is requested in writing within thirty (30) days of the receipt of this letter.

Should the Company take exception to the findings of this Report, a statement in writing pursuant to Rule 69N-121.066, Florida Administrative Code, outlining the specific objections and the mitigating circumstances must accompany the request for hearing referenced above. At the hearing, the OIR will consider the written objections and mitigating circumstances only, it being understood and agreed that all other portions of the Report are accepted as being accurate reflections of the facts appearing in the books and records of your Company.

It is further understood and agreed that the Company will comply with the recommendations and will correct the areas of criticisms set forth in this Report. Should this present difficulties, the Company should immediately respond in writing and set forth a plan for timely compliance.

• • •

DANIEL W. APPLGARTH • CHIEF FINANCIAL EXAMINER • PROPERTY & CASUALTY FINANCIAL OVERSIGHT
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EXAMINATION TRANSMITTAL LETTER

Capitol Preferred Insurance Company

June 18, 2020

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If the OIR has not received written objections to this Report which conform to the requirements of Rule 69N-121.066, Florida Administrative Code, within thirty (30) days after receipt by the Company of this Report, the OIR will consider the Company to have forfeited its right to a hearing and will file the Report as a public document.

Sincerely,



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

Enclosure

cc: Virginia Christy, Director, Office, virginia.christy@flor.com
Jeff Rockwell, Exam Manager, Office, Jeff.Rockwell@flor.com
Robert Ridenour, Chief Analyst, Office, robert.ridenour@flor.com
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EXAMINATION REPORT
OF
CAPITOL PREFERRED INSURANCE COMPANY
NAIC Company Code: 10908

Tallahassee, Florida
as of
December 31, 2018

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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June 5, 2020

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

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 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, 2018, of the financial condition and corporate affairs of

Capitol Preferred Insurance Company
2750 Chancellorsville Drive
Tallahassee, Florida 32312

hereinafter referred to as either “CPIC or “the Company.” Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

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

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

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

This examination report includes information obtained from the examination of the records, accounts, files, and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

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

Previous Examination Findings

Other than the finding below, there were no other findings, exceptions or corrective actions disclosed in the previous examination report of CPIC. This previous finding has only been partially resolved as of the date of this report.

Previous Finding

The Company had not written insurance coverage in the surety or bail bonds lines of business. If the Company does not write any premiums in a line of business within a calendar year, the Company shall have that line removed from its Certificate of Authority in accordance with Section 624.430, Florida Statutes.

Partial Resolution

The Company did drop the ability to write bail bonds from its Certificate of Authority ("COA") as of June 12, 2013. However, it is still licensed to write not only surety, but mobile home physical damage and mobile home multi-peril as well. The Company has informed the Office that it has no plans to start writing premiums in any of those lines.

Recommendation

The Company shall come into total compliance with Section 624.430(1), Florida Statutes.

COMPANY HISTORY

General

CPIC was incorporated in Florida on April 9, 1998, and commenced business on May 24, 1998, as Capitol Preferred Insurance Company, Inc.

Pursuant to Consent Order # 159614-14 filed September 2, 2014, the Office granted CPIC approval to remove approximately 30,000 selected residential policies from Citizens Property Insurance Corporation ("Citizens"). The Consent Order contained stipulations agreed to by the Company including a requirement to provide substantially equivalent coverage for all removed policies. CPIC assumed the Citizens policies on or about November 2014.

The Company was acquired by CPIC Holding Company, LLC. (68.583%), Southern Fidelity Insurance Company (SFIC) (10.996%), Southern Fidelity Property & Casualty Inc. ("SFPC") (4.421%), and James A. Graganella (16.0%) effective May 31, 2016.

Effective May 1, 2017, CPIC acquired one third of the common shares of National Consumer Title Insurance Company ("NCTI"), a newly formed Florida domestic title insurer.

Dividends

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

Capital Stock and Capital Contributions

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

Number of authorized common capital shares	20,000
Number of shares issued and outstanding	18,750
Total common capital stock	\$1,875,000
Par value per share	\$100.00

CPIC has authorized 100,000 shares of preferred stock with a \$100 par value. No shares of preferred stock have been issued by the Company during the examination period.

There were no capital contributions during the examination period.

Surplus Notes

In connection with the acquisition of CPIC in May 2016, CPIC repaid \$21,210,000 of surplus notes payable to former investors. The repayment was approved by the Office.

Acquisitions, Mergers, Disposals, Dissolutions

Pursuant to a transaction accounted for as a statutory merger, effective May 31, 2016, CPIC was acquired by CPIC Holding Company, LLC (68.583%), SFIC (10.996%), SFPC (4.421%) and James A. Graganella (16.0%).

Effective May 1, 2018, CPIC acquired one third of the common shares of NCTI, a newly formed Florida domestic title insurer. The acquisition was accounted for under the statutory purchase method. The remaining ownership interest in NCTI was owned one third by SFPC and one third by SFIC.

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2018, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
James Anthony Graganella	Tallahassee, Florida	President, CEO and Director Capital Preferred Insurance Company
Justin Hayles Edenfield	Tallahassee, Florida	CFO, Treasurer and Director Capital Preferred Insurance Company
Kristie Beavers Mock	Tallahassee, Florida	Secretary and Director Capital Preferred Insurance Company
Byron Hamelin Wells	Tallahassee, Florida	Vice President and Director Capital Preferred Insurance Company
Keith Edward Martin	St. Johns, Florida	Director, Retired
Charles William Whittaker ⁽¹⁾	Donalsonville, GA	Director Partner, Dowdy & Whittaker CPA's
Ralph Powell, Jr.	Brinson, GA	Director Insurance Executive, Tim Smith & Associates and Financial Services
Timothy Lee Smith ⁽²⁾	Bainbridge, GA	Director Partner, Tim Smith & Associates and Bainbridge, Georgia Financial Services

⁽¹⁾ Chairman

⁽²⁾ Additional Director effective February 20, 2019.

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

Senior Officers		
Name	City, State	Title
James Anthony Graganella	Tallahassee, Florida	President, CEO and Director Capital Preferred Insurance Company
Justin Hayles Edenfield	Tallahassee, Florida	CFO, Treasurer and Director Capital Preferred Insurance Company
Kristie Beavers Mock	Tallahassee, Florida	Secretary and Director Capital Preferred Insurance Company
Byron Hamelin Wells	Tallahassee, Florida	Vice President and Director Capital Preferred Insurance Company

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

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

⁽¹⁾ Chairman

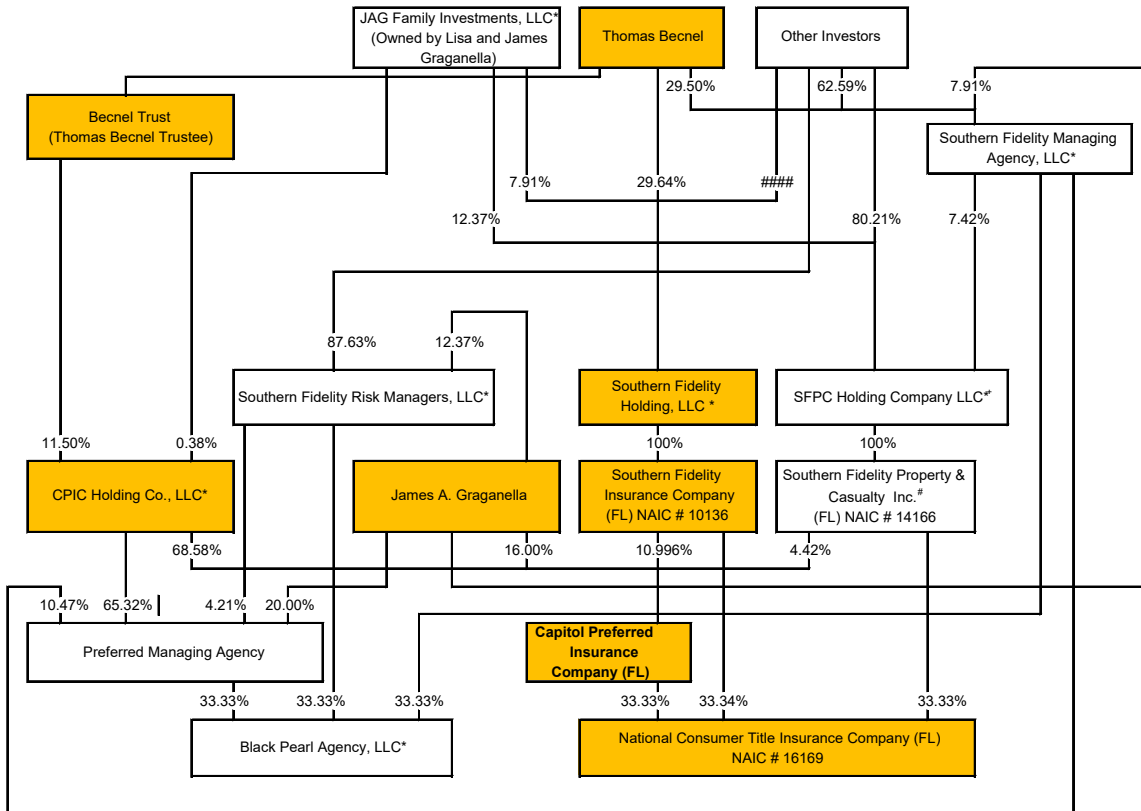
⁽²⁾ Resigned effective January 14, 2019

⁽³⁾ Chairman effective January 14, 2019

Holding Company System

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

Schedule Y of the Company's 2018 annual statement provides a list of all related companies of the holding company group. The organizational chart as of December 31, 2018, reflecting the organizational structure and inter-ownership is as follows:



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

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

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

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

Managing General Agent Agreement

Effective January 1, 1998, the Company entered into a Managing General Agent Agreement (“Agreement”), with Preferred Managing Agency (“PMA”), an affiliate through common ownership. PMA provides underwriting, claims, marketing and administrative services. It also assists with reinsurance negotiations without the authority to bind the Company. The agreement provides for fees at 31 percent of earned premiums. During the examination period, management reduced such fees on a one-time basis through amendments to Agreement based on the operating results of the Company. Management fees under the Agreement totaled \$18,272,619 in 2018.

Service Agreement

Effective September 2017, the Company entered into a Service Agreement with an affiliate, Black Pearl Agency, LLC, for claims management and adjusting services. Fees under this agreement totaled \$632,705 in 2018.

Tax Allocation Agreement

Effective June 1, 2016, Company files its taxes on a stand-alone basis.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreements

The Company maintained custodial agreements with

- SunTrust Bank, as amended December 20, 2017;
- Regions Bank, executed May 23, 2017;
- Merrill Lynch, Pierce, Fenner & Smith Incorporated, executed August 11, 2011.

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

Independent Auditor Agreement

An independent CPA, MCM CPAs & Advisors LLP, Louisville, Kentucky, audited the Company's statutory basis financial statements annually for the 2014 through 2018 calendar years, in

accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

Corporate Records Review

The recorded minutes of the Shareholder, Board of Directors and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events including the authorization of investments, as required by Section 625.304, Florida Statutes.

TERRITORY AND PLAN OF OPERATIONS

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

Florida	Georgia
Louisiana	South Carolina

and is currently authorized for the following coverages as of December 31, 2018:

Fire	Surety
Allied Lines	Mobile Home Multi-Peril
Homeowners Multi-Peril	Mobile Home Physical Damage

As previously noted, the Company does not currently write any premiums in surety or either of the mobile home lines of business. This is out of compliance with the requirements of Section 624.430(1), Florida Statutes.

REINSURANCE

Reinsurance Assumed

The Company assumed no reinsurance during the examination period.

Reinsurance Ceded

The Company ceded risk on a quota share, per risk excess of loss and catastrophe excess of loss to both authorized and non-authorized reinsurers as well as to authorized mandatory pools. Recoverables from unauthorized reinsurers were secured by irrevocable letters of credit totaling \$30,318,000 at December 31, 2018. The Company also obtained coverage for hurricane losses through the Florida Hurricane Catastrophe Fund. Losses on flood policies written by the Company

were covered as a part of the National Flood Insurance Program. The reinsurance agreements in effect at December 31, 2018 were filed with the Office pursuant to 624.610 Florida Statutes.

INFORMATION TECHNOLOGY REPORT

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

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	Certificate of Deposit, 0.10% Wells Fargo Bank N.A.	\$ 300,000.00	\$ 300,000.00
	Total Florida Statutory Deposits	\$ 300,000.00	\$ 300,000.00
GA	Wells Fargo Treasury Plus Money Market, Institutional 94975H296, U.S. Bank N.A.	\$ 100,000.00	\$ 100,000.00
LA	Certificate of Deposit 0.35% LA Capitol Federal Credit Union	\$ 101,410.81	\$ 101,410.81
SC	Certificate of Deposit U.S. Bank, N.A.	\$ 255,000.00	\$ 255,000.00
	Total Other Deposits	\$ 456,410.81	\$ 456,410.81
	Total Statutory Deposits	\$ 756,410.81	\$ 756,410.81

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Operations; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2018. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2018. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

Capitol Preferred Insurance Company
Assets
December 31, 2018

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$18,995,000	\$0	\$18,995,000
Stocks:			
Common stocks	1,498,395		1,498,395
Real Estate:			
Properties occupied by Company	2,614,484		2,614,484
Cash, cash equivalents and short-term investments	24,432,606		24,432,606
Interest and dividend income due and accrued	150,525		150,525
Agents' Balances:			
Uncollected premiums and agents' balances in the course of collection	748,207		748,207
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,289,734		4,289,734
Amounts recoverable from reinsurers	3,643,638		3,643,638
Current federal and foreign income recoverable and interest thereon	306,085		306,085
Net deferred tax asset	975,372		975,372
Receivables from parent, and affiliates	<u>2,092,744</u>		<u>2,092,744</u>
Totals	<u><u>\$59,746,790</u></u>	<u><u>\$0</u></u>	<u><u>\$59,746,790</u></u>

Capitol Preferred Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2018

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Losses	\$7,449,015	\$0	\$7,449,015
Loss adjustment expenses	964,159		964,159
Other expenses	62,368		62,368
Taxes, licenses and fees	811,482		811,482
Unearned premiums	12,190,892		12,190,892
Advance premium	1,789,333		1,789,333
Ceded reinsurance premiums payable	11,585,452		11,585,452
Amounts withheld or retained by company for account of others	156,775		156,775
Payable to parent, subsidiaries and affiliates	131,331		131,331
Citizens Property Insurance Corporation	128,439		128,439
Total Liabilities	<u>\$35,269,246</u>	<u>\$0</u>	<u>\$35,269,246</u>
Common capital stock	\$1,875,000		\$1,875,000
Gross paid in and contributed surplus	20,979,988		20,979,988
Unassigned funds (surplus)	<u>1,622,556</u>		<u>1,622,556</u>
Surplus as regards policyholders	<u>\$24,477,544</u>	<u>\$0</u>	<u>\$24,477,544</u>
Totals	<u><u>\$59,746,790</u></u>	<u><u>\$0</u></u>	<u><u>\$59,746,790</u></u>

Capitol Preferred Insurance Company
Statement of Income
December 31, 2018

Underwriting Income

Premiums earned \$16,832,520

Deductions

Losses incurred \$18,548,731
Loss expenses incurred 3,565,366
Other underwriting expenses incurred (1,897,230)
Aggregate write-ins for underwriting deductions 0
Total underwriting deductions \$20,216,867

Net underwriting gain or (loss) (\$3,384,347)

Investment Income

Net investment income earned \$370,644
Net realized capital gains or (losses) 0
Net investment gain or (loss) \$370,644

Other Income

Net gain or (loss) from agents' or premium balances charged off (\$88,947)
Finance and service charges not included in premiums 472,706
Aggregate write-ins for miscellaneous income 0
Total other income \$383,759

Net income before dividends to policyholders and
before federal & foreign income taxes (\$2,629,944)
Dividends to policyholders 0
Net Income, after dividends to policyholders, but
before federal & foreign income taxes (\$2,629,944)
Federal & foreign income taxes (31,917)

Net Income (\$2,598,027)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year \$26,544,820

Net Income (\$2,598,027)
Change in net unrealized capital gains or losses (1,807)
Change in net deferred tax asset 526,612
Change in nonadmitted assets 5,946
Change in surplus as regards policyholders for the year (\$2,067,276)

Surplus as regards policyholders, December 31 current year \$24,477,544

Capitol Preferred Insurance Company
Cash Flow Statement
December 31, 2018

Cash from Operations

Premium collected net of reinsurance	\$20,954,319
Net investment income	425,103
Miscellaneous income	<u>383,759</u>
Total	<u>\$21,763,181</u>

Benefit and loss related payments	\$18,883,052
Commissions, expenses paid and aggregate write-ins for deductions	996,686
Federal and foreign income taxes paid	<u>(598,883)</u>
Total	<u>\$19,280,855</u>
Net cash from operations	<u>\$2,482,326</u>

Cash from Investments

Proceeds from investments sold, matured or repaid: Bonds	<u>\$255,000</u>
Net cash from investments	<u>\$255,000</u>

Cash from Financing and Miscellaneous Sources

Other cash applied	<u>(\$115,865)</u>
Net cash from financing and miscellaneous sources	<u>(\$115,865)</u>

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

Net change in cash , cash equivalents and short-term investments	\$2,621,461
Cash, cash equivalents and short-term Investments - Beginning of Year	<u>21,811,145</u>
Cash, cash equivalents and short-term Investments - End of Year	<u><u>\$24,432,606</u></u>

**Capitol Preferred Insurance Company
Reconciliation of Capital and Surplus
December 31, 2018**

Capital/Surplus Change during Examination Period

Surplus as regards policyholders December 31, 2013, per Examination			<u>\$19,631,245</u>
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net Income (loss)	\$6,721,462		
Change in net unrealized capital gain (loss)		\$1,505	
Change in net deferred income tax		1,665,384	
Change in non-admitted assets	31,494		
Change in provision for reinsurance	1,000		
Change in surplus notes		17,350,000	
Change in paid in surplus	17,350,000		
Aggregate write-ins for gains and losses in surplus		240,768	
Total Gains and Losses	<u>\$24,103,956</u>	<u>\$19,257,657</u>	
Net Increase/(Decrease) in surplus as regards policyholders			<u>4,846,299</u>
Surplus as regards policyholders, December 31, 2018 per Examination			<u>\$24,477,544</u>

There were no adjustments to policyholder surplus as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Arthur R. Randolph, II, associated with Pinnacle Actuarial Services, Inc., originally appointed by the Board on September 23, 2013, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2018, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The examination consulting actuary, Wesley R. Campbell, FCAS, FSA, MAAA, associated with Apex Actuarial Solutions, LLC, reviewed the loss and loss adjustment expense reserves of the Company. There were no adjustments as a result of this review.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$24,477,544, exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Effective March 1, 2019, pursuant to a transaction accounted for as a statutory merger, SFPC was merged into CPIC and CPIC became the surviving entity. The merger was approved by the Office.

On February 28, 2020, the Office approved a \$25,000,000 capital contribution from PMA in the form of a surplus note as a Statement of Statutory Accounting Principles No. 72 transaction.

Effective May 12, 2020, the Office issued Consent Order 263348-20-CO permitting the early cancellation of approximately 27,500 policies. The Company indicated that the cancellation was necessary based on its magnitude of losses in 2017, 2018, and 2019, the increased cost of reinsurance and "to protect the best interests of the public and policyholders".

SUMMARY OF RECOMMENDATIONS

None

CONCLUSION

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

In addition to the undersigned, Robert Panah, CFE, CISA, MCM, FLMI, President, Assurity Resources, Inc., Lewis D. Bivona, Jr., CPA, AFE, Participating Examiner, of Assurity Resources, Inc., and Wesley R. Campbell, FCAS, FSA, MAAA, of Apex Actuarial Solutions, LLC, the examination actuary, participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, Examination Manager, Florida Office of Insurance Regulation, and Christopher R. Brown, APIR, Florida Office of Insurance Regulation, are recognized for participation in the examination.

Respectfully submitted,



Sarah L. Bridendall, CFE, CISA, CIE, ALMI, AMCM,
ACS, CICSR, AIRC, CCP, MHP, HCAFA, FAHM
Examiner-in-Charge
Assurity Resources, Inc.
Representing the Florida Office of Insurance Regulation



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