



**EXAMINATION REPORT  
OF  
SOUTHERN OAK INSURANCE COMPANY**

**NAIC Company Code: 12247**

**Ponte Vedra, Florida  
as of  
December 31, 2017**

**BY THE  
FLORIDA  
OFFICE OF INSURANCE REGULATION**

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April 5, 2019

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, 2017, of the financial condition and corporate affairs of

**Southern Oak Insurance Company**  
816 A1A North, Suite 302  
Ponte Vedra Beach, Florida 32082

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

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2013 through December 31, 2017 and commenced with planning at the Florida Office of Insurance Regulation (“Office”) on September 4, 2018 to September 6, 2018. The fieldwork commenced on September 4, 2018, and concluded as of April 5, 2019. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2008 through December 31, 2012.

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

#### Audit Committee

The company's Audit Committee did not meet the requirements of Section 624.424(8)(c), Florida Statutes, in that there were only two Directors on the committee. **Subsequent Event:** On October 24, 2018, Michael Sather Pajcic was elected as a Director. After his appointment to the Board of Directors and the Audit Committee, the Company's audit committee complied with Section 624.424(8)(c), Florida Statutes.

### Previous Examination Findings

There were no material findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2012.

## COMPANY HISTORY

### General

The Company is a property-casualty insurance company authorized to transact and underwrite homeowner's insurance within the State of Florida. The Company was incorporated in Florida on November 30, 2004 and commenced business on December 1, 2004.

The Company is a wholly-owned subsidiary of Southern Oak Holding Company, LLC ("SOHC"). Southern Oak Management, LLC ("SOM"), an affiliate, also wholly-owned by SOH, is the exclusive managing general agent for the Company, and provides underwriting, claims administration, and other services for the Company.

Beginning in February 2005, the Company received authorization to take-out homeowners and dwelling fire policies from Citizens Property Insurance Corporation ("Citizens") as part of the depopulation program created by the Florida Legislature to reduce the number of properties insured by Citizens. The Company has continued to participate in this depopulation program since 2005, assuming relatively small numbers of policies on a consistent basis. In addition to the Citizens assumptions, the Company directly writes homeowners policies through a network of independent agents.

## **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, 2017, the Company's capitalization was as follows:

Number of authorized common capital shares	65,001
Number of shares issued and outstanding	65,001
Total common capital stock	\$6,500,100
Par value per share	\$100.00

Control of the Company was maintained by its parent, SOHC, which owned one hundred percent (100%) of the stock issued by the Company. SOHC is a limited liability company.

## **Surplus Notes**

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

## **Acquisitions, Mergers, Disposals, Dissolutions**

The Company had no acquisitions, mergers, disposals, or dissolutions during the period of this examination.

## MANAGEMENT AND CONTROL

### Corporate Governance

The annual shareholder meeting was held for the election of Directors as of December 31, 2017, as shown below:

#### Directors

<b>Name</b>	<b>City, State</b>	<b>Principal Occupation, Company Name</b>
Stephen John Pajcic, III <sup>1</sup>	Jacksonville, Florida	Partner, Attorney, Pajcic & Pajcic
Anne Kelley Pajcic	Jacksonville, Florida	Homemaker
Sallyn Shilling Pajcic	Jacksonville, Florida	Homemaker
Tony Alexander Loughman	Ponte Vedra Beach, Florida	President, Southern Oak Insurance Company
Ronald Everett Natherson, Jr.	Jacksonville, Florida	Chief Operating Officer, Southern Oak Insurance Company

<sup>1</sup> Chairman

**Subsequent Event:** On October 24, 2018, Michael Sather Pajcic was elected to the Board of Directors.

The Board appointed the following Senior Officers:

#### Senior Officers

<b>Name</b>	<b>City, State</b>	<b>Title</b>
Tony Alexander Loughman	Ponte Vedra Beach, Florida	President
Sallyn Shilling Pajcic	Jacksonville, Florida	Secretary
Stephen John Pajcic, III	Jacksonville, Florida	Treasurer



Ronald Everett Natherson, Jr.	Jacksonville, Florida	Chief Operating Officer
Daniel Michael Kutzer	Jacksonville, Florida	Chief Financial Officer
Kimberly Ann Chaney	Fleming Island, Florida	Vice-President, Underwriting

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2017.

#### Executive Committee

Name	City, State	Title, Company Name
Stephen John Pajcic, III <sup>1</sup>	Jacksonville, Florida	Partner, Attorney, Pajcic & Pajcic
Tony Alexander Loughman	Ponte Vedra Beach, Florida	President, Southern Oak Insurance Company

<sup>1</sup> Chairman

The Company did not maintain an audit committee as required by Section 624.424(8)(c), Florida Statutes.

#### Audit Committee

Name	City, State	Title, Company Name
Stephen John Pajcic, III <sup>1</sup>	Jacksonville, Florida	Partner, Attorney, Pajcic & Pajcic
Anne Kelley Pajcic	Jacksonville, Florida	Homemaker

<sup>1</sup> Chairman

**Subsequent Event:** On October 24, 2018, Michael Sather Pajcic was elected as a Director. After his appointment to the Board of Directors and the Audit Committee, the Company's audit committee complied with Section 624.424(8)(c), Florida Statutes.

## **Holding Company System**

The Company is a member of a holding company system. The latest holding company registration statement was filed with the Office on March 22, 2018.

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

## **Managing General Agency and Claims Administration Agreement**

The Company entered into a Managing General Agency (“MGA”) and Claims Administration Agreement with SOM on December 1, 2004. The MGA is authorized to produce, administer and manage policies, and to adjust claims, providing other services in connection with policies, including but not limited to marketing, claims analysis, general ledger accounting, information services, product and underwriting development and management, and catastrophe risk management. The agreement was amended on April 1, 2010 and January 1, 2011. The agreement continues to be in force unless otherwise terminated within the guidelines of the agreement. MGA fees are based on written premium. The Company incurred expense under the terms of the agreement during 2017 amounted to \$28,911,190.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Ponte Vedra Beach, Florida.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Merrill Lynch, executed on June 25, 2008.

### **Independent Auditor Agreement**

An independent CPA, Johnson Lambert, LLP audited the Company’s statutory basis financial statements annually for the years 2017, 2016, 2015, 2014, and 2013.

## **Policy Administration**

The Company entered into a Policy Administration agreement with Focus Technologies, LLC (“Focus Tech”) to provide policy administration services. Focus Tech is responsible for the billing and collection of all premiums, issue policies, notices, statements and all other related documents. The agreement provides that all monies received by Focus Tech on behalf of the Company shall be promptly deposited in an account established, maintained and owned by the Company. The effective date of the agreement was January 1, 2015.

## **Program Management Agreement**

The Company entered into a Program Management agreement with MacNeill Group, Inc. (“MacNeill”). MacNeill provides program management services including: underwriting consulting, marketing and accounting services. The effective date of the agreement was December 1, 2004. An addendum to the original agreement went into effect January 1, 2015, which updated the term of the agreement for three years from the effective date of the amended agreement.

## **Reinsurance Intermediary Services**

The Company entered into a Reinsurance Intermediary Services agreement with JLT Re (“JLT”). The agreement provides that JLT will provide reinsurance brokerage and analytical services. The effective date of the agreement was June 1, 2015.

## **Working Capital Management Account Agreement**

The Company entered into a Working Capital Management Account (“WCMA”) agreement with Merrill Lynch. The agreement sets forth terms and conditions governing the WCMA financial service. The WCMA financial service is an integrated financial service linking three components: 1) securities brokerage services; 2) lending services; and 3) cash management services.

## **Corporate Records Review**

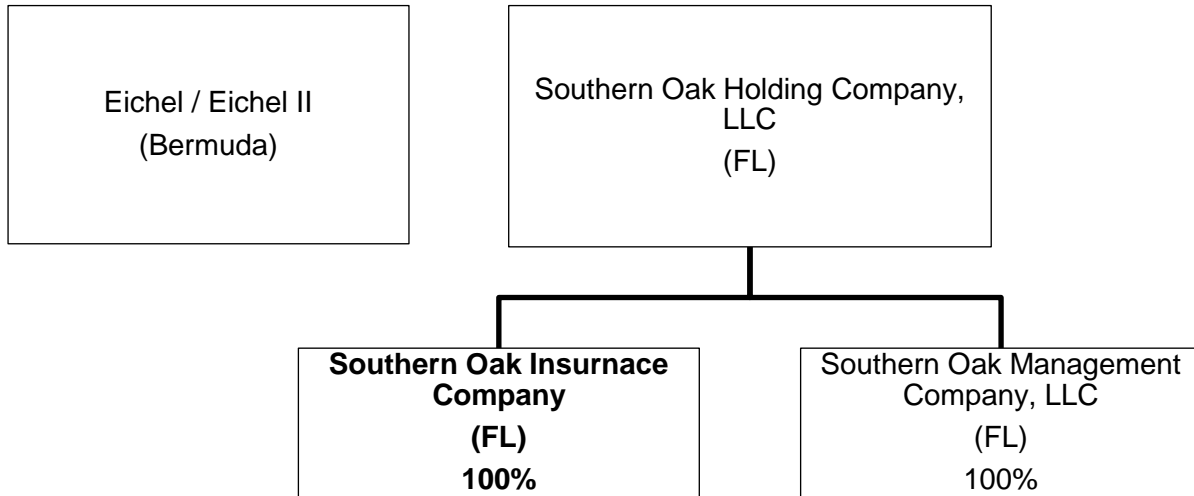
The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in accordance with the Handbook.

## **Conflict of Interest**

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the Handbook.

An organizational chart as of December 31, 2017, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2017 annual statement provided a list of all related companies of the holding company group.

**Southern Oak Insurance Company  
Organizational Chart  
December 31, 2017**



## TERRITORY AND PLAN OF OPERATIONS

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

The Company was authorized to transact insurance in Florida on December 1, 2004, and is currently authorized for the following coverage(s) as of December 31, 2017:

Fire  
Allied Lines

Homeowners Multi-Peril  
Mobile Home Multi-Peril

## REINSURANCE

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

### Reinsurance Assumed

The Company assumes policies through participation in Citizens depopulation program.

### Reinsurance Ceded

The Company purchased catastrophe reinsurance from private reinsurers and the Florida Hurricane Catastrophe Fund ("FHCF"). The Company also purchased collateralized reinsurance coverage by way of private placement catastrophe bonds ("CAT Bonds") which are issued through Oak Leaf Re. Oak Leaf Re is a special purpose insurer ("SPI") whose sole function is to enter into reinsurance agreements with the Company. Independent investors purchase Oak Leaf Re Cat Bonds, including Eichel, Ltd. and Eichel II, Ltd. Some of the investors in Eichel, Ltd. and Eichel II, Ltd. have equity ownership in SOHC. The CAT Bond funds are 100% collateralized and are in an approved trust account which the Company is named as the beneficiary.

The CAT Bonds coincided with the private reinsurance and the FHCF reinsurance layers. The catastrophe reinsurance program included cascading limits which provided more lateral and multi-

event coverage for the Company. The catastrophe reinsurance program at December 31, 2017, provided excess of loss coverage for multiple events.

### **INFORMATION TECHNOLOGY REPORT**

Phillip McMurray, AES, CISA, CISSP, CBCP, IT Manager and Stephen Skenyon, CPA, CISA, IT Specialist, of Risk & Regulatory Consulting, LLC, 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.

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	Cash	<u>\$ 418,743</u>	<u>\$ 418,743</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 418,743</u>	<u>\$ 418,743</u>

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during 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.



**Southern Oak Insurance Company**

**Assets**

**December 31, 2017**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$85,258,635		\$85,258,635
Stocks:			
Common	19,236,030		19,236,030
Cash and Short-Term Investments	9,756,452		9,756,452
Investment income due and accrued	840,417		840,417
Agents' Balances:			
Uncollected premium	4,799,386		4,799,386
Reinsurance			
Reinsurance recoverable	(296,718)		(296,718)
Other amounts receivable	302,806		302,806
Current federal income tax recoverable	210,083		210,083
Net deferred tax asset	753,690		753,690
Receivable from parents, subsidiaries and affiliates	91,440		91,440
Aggregate write-in for other than invested assets	926,440		926,440
Totals	\$121,878,661	\$0	\$121,878,661

**Southern Oak Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2017**

	Per Company	Examination Adjustments	Per Examination
Losses	\$17,523,855		\$17,523,855
Loss adjustment expenses	1,949,446		1,949,446
Other expenses	219,135		219,135
Taxes, licenses and fees	310,438		310,438
Unearned premium	42,494,866		42,494,866
Advance premiums	1,948,762		1,948,762
Ceded reinsurance premiums payable	1,200,442		1,200,442
Funds held under reinsurance treaties	<u>27,720</u>		<u>27,720</u>
Total Liabilities	\$65,674,664	\$0	\$65,674,664
Common capital stock	\$6,500,100		\$6,500,100
Gross paid in and contributed surplus	11,749,000		11,749,000
Unassigned funds (surplus)	<u>37,954,897</u>		<u>37,954,897</u>
Surplus as regards policyholders	<u>\$56,203,997</u>	<u>\$0</u>	<u>\$56,203,997</u>
Total liabilities, surplus and other funds	<u><u>\$121,878,661</u></u>	<u><u>\$0</u></u>	<u><u>\$121,878,661</u></u>

**Southern Oak Insurance Company**  
**Statement of Income**  
**December 31, 2017**

**Underwriting Income**

Premiums earned		\$61,804,377
	<b>Deductions:</b>	
Losses incurred		\$27,475,869
Loss expenses incurred		13,602,038
Other underwriting expenses incurred		20,520,841
Total underwriting deductions		\$61,598,748
Net underwriting gain or (loss)		\$205,629

**Investment Income**

Net investment income earned		\$46,494
Net realized capital gains or (losses)		371,346
Net investment gain or (loss)		\$417,840

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$38,713)
Finance and service charges not included in premiums		224,582
Total other income		\$185,869
Net income before dividends to policyholders and before federal & foreign income taxes		\$809,338
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$809,338
Federal & foreign income taxes		204,182
Net Income		\$605,156

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$54,259,325
Net Income		\$605,156
Change in net unrealized capital gains		2,179,086
Change in deferred income tax		(853,940)
Change in non-admitted assets		14,370
Change in surplus as regards policyholders for the year		\$1,944,672
Surplus as regards policyholders, December 31 current year		\$56,203,997

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### Liabilities

**Losses and Loss Adjustment Expenses** \$19,473,301

Klayton N. Southwood, Willis Towers Watson, appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2017, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Lisa Chanzit, FCAS, MAAA, Actuarial Specialist, of Risk and Regulatory Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and she was in concurrence with this opinion.

### Capital and Surplus

The amount of capital and surplus reported by the Company of \$56,203,997, exceeded the minimum of \$10,000,000 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 **Southern Oak Insurance Company** as of December 31, 2017, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards to policyholders was \$56,203,997, which exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

The following participated in the examination:

Joshua Johnson, CFE	Examiner-in-Charge	Risk and Regulatory Consulting, LLC
Derrick Lopez CFE, CPA, CMA	Participating Examiner	Risk and Regulatory Consulting, LLC
Lisa Chanzit, FCAS, MAAA	Actuarial Specialist	Risk and Regulatory Consulting, LLC
Phillip McMurray, AES, CISA, CISSP, CBCP	IT Manager	Risk and Regulatory Consulting, LLC
Stephen Skenyon, CPA, CISA	IT Specialist	Risk and Regulatory Consulting, LLC
Kyra Brown, APIR, MBA	Examination Manager	Office
Mary James, CFE	Participating Examiner	Office

Respectfully submitted,

*Brian Sewell*

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