



**EXAMINATION REPORT
OF
SUNZ INSURANCE COMPANY**

NAIC Company Code: 34762

**Bradenton, Florida
as of
December 31, 2017**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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April 3, 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

SUNZ Insurance Company
1301 6th Avenue West
Bradenton, Florida 34205

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 April 24, 2018 to April 26, 2018. The fieldwork commenced on May 21, 2018, and concluded as of April 3, 2019. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2007 through December 31, 2012.

The examination was a multi-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

The following is a summary of significant findings of fact, material adverse findings, significant non-compliance findings or material changes in the financial statements.

Audit Committee

The Company did not have an audit committee as required by Section 624.424(8)(c), Florida Statutes and Rule 69O-137.002(14), Florida Administrative Code. The Board of Directors of Sunz Insurance Company formed an Audit Committee effective December 1, 2018.

Conflict of Interest

Conflict of Interest Statements for officers and directors were not provided for years 2014 and 2016.

Loss Reserving

The examination actuary initially determined the opening actuary's estimated loss and loss adjustment expense reserves to be deficient as of December 31, 2017 by a gross amount of \$13,896,512 and net amount of \$4,751,564 based on information available at that time.

The examination actuary identified two actuarial concerns in the opening actuary's 2017 reserving approach that would generally be expected to produce a deficiency in reserves- specifically, (i) the maturity of data considered in the derivation of development factors and (ii) the potential for development of deductible-layer losses into the excess layer.

However, the examination actuary concluded that a hindsight estimate under an alternative approach that addresses these theoretical issues in the opening actuary's analysis generally supports the reserves estimated by the opening actuary as of December 31, 2017. Therefore, given that the Company's booked reserves were essentially equal to the opening actuary's estimated reserves, it was the examination actuary's opinion that booked reserves were reasonable and no adjustments were recommended to the Company's booked reserves.

The opening actuary used a point estimate instead of a range of estimates to include a mid-point of the reserves.

Previous Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2012, along with resulting action taken by the Company in connection therewith.

Reserve Estimates

The independent actuarial firm used several methods to estimate the ultimate losses. In most cases, the selected ultimate loss was very close to the lowest method available. While this may be appropriate in some cases, it is unlikely that it is appropriate in every case.

Resolution: The Company did not object and implemented the appropriate changes to its independent actuarial ultimate reserving practices commensurate with the December 31, 2013 actuarial analysis.

COMPANY HISTORY

General

The Company was incorporated in Florida on October 30, 1986 and commenced business on December 23, 1986. The Company was authorized to transact Workers' Compensation insurance coverage in Florida on October 26, 2009 and continued to be authorized as of December 31, 2017.

During the examination period, the Company was party to the following Consent Orders:

Consent Order	Date filed
131747-13	March 8, 2013
136248-13	October 21, 2013
144573-13	November 21, 2013
183941-15	February 1, 2016
197470-16	July 11, 2017

On July 11, 2017, Consent Order 197470-16 consolidated all previously issued Consent Orders.

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 Class A common capital shares	2,000,000
Number of authorized Class B common capital shares	2,000,000
Number of shares issued and outstanding of Class A shares	1,000,000
Total common capital stock	\$3,000,000
Par value per share	\$3.00

As of December 31, 2017, the Company's stock was owned one hundred percent (100%) by Sunz Holdings, LLC (the "Parent"). The Parent was owned one hundred percent (100%) by Steven Francis Herrig.

The Parent contributed capital contributions during the exam period of the following:

Year	Amount
2017	\$18,000,000
2016	\$4,000,000
2015	\$1,000,000
2013	\$13,160,000

Surplus Notes

The Company had \$1,250,000 and \$750,000 in subordinated surplus debentures issued to affiliates Next Level Administrators, LLC and Sunz Insurance Solutions, LLC, respectively, as of December 31, 2017. All surplus notes bear annual interest at three percent (3.0%); however, any payment of interest or principal may only be made with prior approval from the Office and only to the extent the Company has sufficient surplus earnings to make the payment. No interest or principal payments have been made to date.

Acquisitions, Mergers, Disposals, Dissolutions

On August 30, 2013, the Company filed an updated Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer effective August 1, 2013. The Parent redeemed all the ownership interest held by its majority owner ("redemption transaction"). In addition to and as part of this transaction, the Parent purchased the surplus notes previously held, and immediately forgave the Company's obligation to repay the notes. The forgiveness resulted in the increase to

gross paid-in and contributed capital in the amount of \$12,160,000. Upon completion of the redemption transaction, the Parent issued a majority interest in its ownership units to the current ultimate controlling person, Steven F. Herrig. With Office approval via issuance of Consent Order 144573-13-CO dated November 21, 2013, the update reflects the purchase of Palm Beach Capital's ownership interest by Steven F. Herrig. On May 31, 2015, Steve F. Herrig purchased the remaining ownership interest making him the one hundred percent (100%) owner of the Parent.

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, 2017, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
Steven Francis Herrig ⁽¹⁾	Bradenton, Florida	Chief Executive Officer & Owner, Sunz Holdings, LLC
Michael Peter Welbes	Dubuque, Iowa	Partner, Honkamp Krueger & Company
Peter Daniel Arling	Dubuque, Iowa	Attorney, O'Connor & Thomas P.C.
David Rudolph Harting	Sarasota, Florida	Insurance Professional, Retired
Glen Joseph Distefano	Bradenton, Florida	Chief Technology Officer, Sunz Holdings, LLC
Martin William Rauch Jr.	Sarasota, Florida	Principal, Multiple Companies
Therese Ann Stevens	Bradenton, Florida	Chief Operating Officer, Sunz Holdings, LLC

¹ Chairman

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

Senior Officers

Name	City, State	Title
Steven Francis Herrig	Bradenton, Florida	Chief Executive Officer
Therese Ann Stevens	Bradenton, Florida	President
Michael William Grandstaff	Bradenton, Florida	Chief Financial Officer
Theodore George Bryant	Bradenton, Florida	Secretary

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

Investment Committee		
Name	City, State	Title, Company Name
Steven Francis Herrig ⁽¹⁾	Bradenton, Florida	Chief Executive Officer & Owner, Sunz Holdings, LLC
Michael Peter Welbes	Dubuque, Iowa	Partner, Honkamp Krueger & Company

¹ Chairman

The Company did not have an audit committee as required by Section 624.424(8)(c), Florida Statutes and Rule 69O-137.002(14), Florida Administrative Code.

Holding Company System

The latest holding company registration statement was filed with the State of Florida on March 29, 2018, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

Claims Services Agreement

The Company maintained a claims services agreement with Next Level Administrators, LLC (NLA) executed on May 17, 2016 and including Addendum No. 1 effective January 1, 2018. Under the agreement, NLA provides claims adjusting and administrative services for property and casualty coverages and exposures for the Company. The agreement is terminable by either party with sixty (60) days prior written notice. NLA receives a service fee equal to four percent (4%) of earned total standard premium. Fees incurred under this agreement during 2017 amounted to \$8,700,000.

Cost Allocation Agreement

The Company entered into a Cost Allocation Agreement with Sunz Group, LLC and Sunz Insurance Solutions (SIS), formerly JAAG Underwriting Company, LLC, effective July 1, 2007. SIS provides managing general underwriting services.

Lease Agreement

The Company maintained a lease agreement with Sunz Property, LLC, entered into December 30, 2015. Sunz Property, LLC, is a real estate property entity which owns real estate occupied by the Company. Real estate occupied by the Company, which is recorded at cost and depreciated over the estimated useful life, had a carrying value of approximately \$6,700,000 at December 31, 2017.

Managing General Agency Agreement

The Company entered into an exclusive managing general agency (MGA) agreement with SIS effective November 5, 2015. SIS provides marketing, underwriting, loss control, and premium and collateral billing and collection services. Addendum No. 1 was executed on May 17, 2016 to exclude claims administration services from the agreement. The agreement is renewed automatically for successive one-year terms and terminable without cause by either party with six (6) months written notice of termination. The terms of the agreement allow for a fee of up to twenty-five percent (25%) of direct premium earned. Fees incurred under this agreement during 2017 amounted to approximately \$11,200,000.

The MGA is responsible for reviewing prospective new accounts, primarily Professional Employer Organization(s) (“PEO”), for the large deductible workers compensation policies that the Company writes. The deductible amount and collateral required is dependent on a variety of factors, including estimated premium, loss history, financial stability and history of the Company, and other background information collected during the pre-binding process.

Third Party Claims Administration Agreement

The Company, along with United Wisconsin Insurance Company, an affiliate of AF Group, maintained a third-party claims administration agreement with Next Level Administrators (NLA) effective October 1, 2017. NLA provided third party administration and claims services for policies through a quota share reinsurance agreement. NLA receives a fee of four percent (4%) of the standard premium on program policies for claims adjustment.

Underwriting Agency Agreement

The Company, along with United Wisconsin Insurance Company and AF Group, entered into an underwriting agency agreement with SIS effective on October 1, 2017. SIS will be underwriting and issuing policies in the name of AFG affiliates through a quota share reinsurance agreement.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Brokerage Services Agreement

The Company was party to a broker authorization contract effective August 19, 2015. Trean Reinsurance Services, LLC (Trean) was designated as the reinsurance broker for the purpose of procuring, negotiating, and servicing reinsurance contracts. The Company terminated its agreement with Trean effective October 5, 2017, and entered into a broker authorization contract with JLT Re.

Custody Services Agreement

The Company maintained a custodial agreement with Fifth Third Bank effective October 1, 2012. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, Carr, Riggs, & Ingram, LLC audited the Company's statutory basis financial statements annually for the years 2016 and 2017, in accordance with Section 624.424(8), Florida Statutes. Johnson Lambert, LLP performed the independent audit for 2013, 2014, and 2015. Supporting work papers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

Trust Agreement

The Company, along with United Wisconsin Insurance Company, AFG affiliates and parent organizations, is a party to a Trust Agreement effective October 1, 2017. Fifth Third Bank is designated as the Trustee.

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 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.

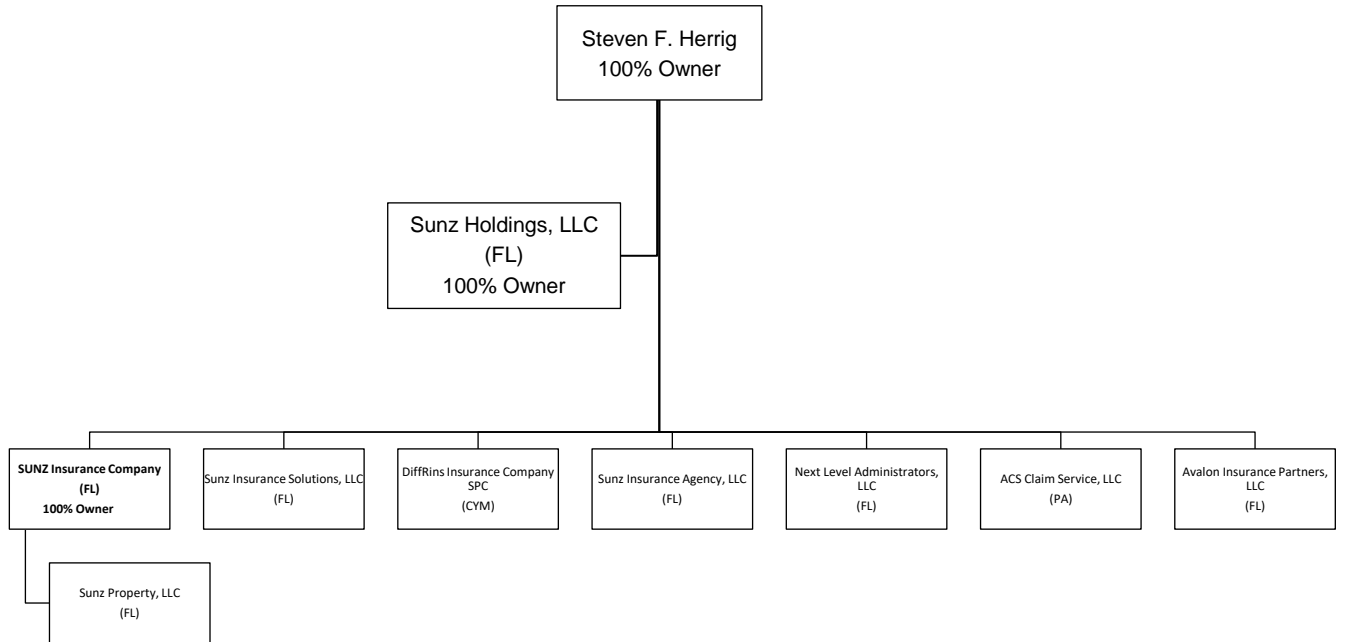
Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

Conflict of Interest Statements for officers and directors were not provided for years 2014 and 2016. Signed or reviewed Conflict of Interest Statements were not documented in the Board minutes.

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.

**SUNZ Insurance Company
Organizational Chart
December 31, 2017**



TERRITORY AND PLAN OF OPERATIONS

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

Alabama	Arizona	Arkansas
Delaware	Florida	Georgia
Indiana	Kentucky	Louisiana
Mississippi	Missouri	Montana
North Carolina	Oklahoma	Tennessee
Texas		

The Company was authorized to transact insurance in Florida on November 02, 1989 and is currently authorized to write workers' compensation coverage as of December 31, 2017:

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 entered into a one hundred (100%) Quota Share Reinsurance Agreement with United Wisconsin Insurance Company and Accident Fund Group affiliates effective October 1, 2017. The Company assumes one hundred (100%) of the gross liability and written premium on business covered under the quota share arrangements. Prior to this agreement, the Company

was party to a one hundred percent (100%) Quota Share Reinsurance Agreement with Benchmark Insurance Company effective October 1, 2015 through September 30, 2017.

The Company also assumes business from various unaffiliated risk pools. For the year ended December 31, 2017, the Company assumed paid loss and allocated loss adjustment expenses (ALAE) of approximately \$2,900,000. Funds held by the Company's fronting carrier partners as security pursuant to the one hundred percent (100%) quota share arrangements totaled approximately \$24,400,000 as of December 31, 2017.

Reinsurance Ceded

The Company purchases excess of loss reinsurance coverage to limit its financial exposure to large claims.

For policies written or renewed between January 1, 2017 and September 30, 2017, the Company's excess of loss reinsurance program covered qualified losses and ALAE up to \$40,000,000 per occurrence. For policies written or renewed between October 1, 2017 and December 31, 2017, the excess of loss reinsurance program covered qualified losses and ALAE up to \$50,000,000 per occurrence. For policies written or renewed in 2017, the Company retained the first \$1,250,000 of loss and ALAE per occurrence in excess of the policy deductible, and the coverage had a maximum limit for any one life up to \$15,000,000.

INFORMATION TECHNOLOGY REPORT

James Gowins, CISA, AES, AFE, MCM, with Examination Resources, 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 as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

State	Description		Par Value	Market Value
FL	Cash		\$ 553,433	\$ 553,433
FL	CD	0.25%	250,000	250,000
FL	CD	0.30%	500,000	500,000
FL	CD	1.24%	<u>750,000</u>	<u>750,000</u>
TOTAL FLORIDA DEPOSITS			<u>\$ 2,053,433</u>	<u>\$ 2,053,433</u>
DE	Cash	0.0%	\$ 100,587	\$ 100,587
GA	Cash	0.0%	\$ 75,167	\$ 75,167
IN	USTBND	1.625%	107,465	105,018
MT	Cash	0.0%	25,032	25,032
NC	Cash	0.00%	<u>200,563</u>	<u>200,563</u>
TOTAL OTHER DEPOSITS			<u>\$ 508,814</u>	<u>\$ 506,367</u>
TOTAL SPECIAL DEPOSITS			<u><u>\$ 2,562,247</u></u>	<u><u>\$ 2,559,800</u></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.

SUNZ Insurance Company

Assets

December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Bonds	\$93,388,520		\$93,388,520
Stocks:			
Preferred	2,000,000		2,000,000
Real Estate:			
Properties occupied by Company	6,711,395		6,711,395
Cash and Short-Term Investments	48,053,247		48,053,247
Investment income due and accrued	944,999		944,999
Premiums and considerations:			
Uncollected premium	1,490,715		1,490,715
Deferred premium	4,513,471		4,513,471
Accrued retrospective premium	230,357		230,357
Reinsurance recoverable	2,338,686		2,338,686
Funds held by or deposited with reinsured companies	24,445,677		24,445,677
Current federal and foreign income tax recoverable	2,727,257		2,727,257
Net deferred tax asset	407,314		407,314
Aggregate write-in for other than invested assets	8,254,162		8,254,162
Totals	<u>\$195,505,800</u>	<u>\$0</u>	<u>\$195,505,800</u>

SUNZ Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Losses	\$27,757,486		\$27,757,486
Reinsurance payable on paid losses	\$196,000		196,000
Loss adjustment expenses	8,957,611		8,957,611
Other expenses	301,624		301,624
Taxes, licenses and fees	1,650,818		1,650,818
Unearned premium	464,303		464,303
Ceded reinsurance premiums payable	9,696,000		9,696,000
Amounts withheld	99,660,894		99,660,894
Payable to parent, subsidiaries and affiliates	4,519,994		4,519,994
Aggregate write-ins for liabilities	<u>5,113,510</u>		<u>5,113,510</u>
Total Liabilities	\$158,318,240	\$0	\$158,318,240
Common capital stock	\$3,000,000		\$3,000,000
Surplus notes	2,000,000		2,000,000
Gross paid in and contributed surplus	44,589,493		44,589,493
Unassigned funds (surplus)	<u>(12,401,933)</u>		<u>(12,401,933)</u>
Surplus as regards policyholders	<u>\$37,187,560</u>	<u>\$0</u>	<u>\$37,187,560</u>
Total liabilities, surplus and other funds	<u><u>\$195,505,800</u></u>	<u><u>\$0</u></u>	<u><u>\$195,505,800</u></u>

SUNZ Insurance Company
Statement of Income
December 31, 2017

Underwriting Income

Premiums earned		\$63,717,301
	Deductions:	
Losses incurred		\$19,961,669
Loss expenses incurred		14,984,502
Other underwriting expenses incurred		31,676,737
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$66,622,908</u>
Net underwriting gain or (loss)		(\$2,905,607)

Investment Income

Net investment income earned		\$2,283,479
Net realized capital gains or (losses)		(5,973)
Net investment gain or (loss)		<u>\$2,277,506</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		(647)
Total other income		<u>(\$647)</u>
Net income before dividends to policyholders and before federal & foreign income taxes		(\$628,748)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$628,748)
Federal & foreign income taxes		0
Net Income		<u><u>(\$628,748)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$20,262,779
Net Income		(\$628,748)
Net unrealized capital gains or losses		0
Change in net deferred income tax		(802,487)
Change in non-admitted assets		356,016
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		18,000,000
Change in surplus as regards policyholders for the year		<u>\$16,924,781</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$37,187,560</u></u>

SUNZ Insurance Company
Reconciliation of Capital and Surplus
December 31, 2017

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

Capital/Surplus Change during Examination Period

Surplus at December 31, 2012, per Examination			\$4,474,398
	<u>Increase</u>	<u>Decrease</u>	
Net Income (loss)	\$3,995,405		\$3,995,405
Change in net deferred income tax		(\$4,590,758)	(\$4,590,758)
Change in non-admitted assets	\$5,558,515	\$0	\$5,558,515
Change in surplus notes		(\$8,410,000)	(\$8,410,000)
Change in paid in surplus	\$36,160,000	\$0	\$36,160,000
Net increase (or decrease)			<u>\$32,713,162</u>
Surplus at December 31, 2017, per Examination			<u>\$37,187,560</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Timothy C. Mosler, FCAS, MAAA, Pinnacle Actuarial Resources, Inc., appointed by the Board, 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's consulting actuary, Solomon L. Frazier, FCAS, MAAA, with Taylor-Walker Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and initially found that the opining actuary's estimated reserves were deficient \$13,896,512 on a gross basis and \$4,751,564 on a net basis as of December 31, 2017. This review was focused on the reasonableness of the Company's booked loss and LAE and premium deficiency reserves, as well as the adequacy of the Company's pricing levels.

Subsequently, net deficiencies of \$4,751,564 were offset by favorable development during 2018 on reserves as of December 31, 2017. Several claims that had been reserved in excess of the applicable deductibles as of December 31, 2017 closed during 2018 for significantly lower amounts, even below the deductible in some cases. The subsequent development is reflective of the true reserve liability as of December 31, 2017, and therefore merits consideration in our examination conclusion. In light of the significant favorable development experienced on reserves during 2018, the examination actuary does not recommend an examination adjustment to the Company's booked reserves at this time.

The examination actuary believes the opining actuary's reserving approach is biased low in certain respects and recommends that these areas be addressed in future analyses. Two theoretical issues in the opining actuary's reserving approaches used in his analysis that would generally be expected to produce a deficiency in reserves were noted. Specifically, the maturity of data considered in the derivation of development factors and the potential for development of deductible-layer losses into the excess layer.

The opining actuary constructed triangles of historical development with most diagonals valued as of December 31st, but the last diagonal valued as of October 31, 2017. This last valuation was treated the same as all others in determining averages for consideration in the selection of development patterns. In the opinion of the examination actuary, this approach understates the potential for development at any given increment.

For large claims, the actuary applied expected severity development to individual claims based on the selected loss and claim count development factors. For claims that had already closed, for which no further development is anticipated, the actuary set the ultimate loss estimate equal to experience reported to date. While this likely produces the right answer for most of these individual claims, the overall results are understated since the development factors, which are only applied to open claims, are intended to apply, on average, to all claims. In other words, if a lower development factor than the average is assumed to apply to closed claims, than a higher development factor than the average should be applied to open claims. In addition, the actuary's approach develops claims that have already exceeded the deductible level but in the opinion of the examination actuary fails to recognize the potential for claims currently in the deductible layer to develop in excess of it.

Actuarial Standard of Practice (ASOP) 43, Section 3.6.2 indicates that "the actuary should use assumptions that, in the actuary's professional judgment, have no known significant bias to underestimation of overestimation of the identified intended measure and are not internally inconsistent." In our opinion, the Company's historical development suggests a consistent bias in the actuary's estimates that should have been investigated further. Similarly, from Section 3.7.1, "the actuary should assess the reasonableness of the unpaid claim estimate, using appropriate indicators or tests that, in the actuary's professional judgment, provide a validation that the unpaid claim estimate is reasonable." In other words, the actuary should have validated his results against the consistent adverse development experienced historically. Finally, from Section 3.6, "the actuary should consider factors associated with the unpaid claim estimate analysis that, in the actuary's professional judgment, are material and are reasonably foreseeable to the actuary at the time of estimation." The development of claims above the deductible layer is, in our opinion, reasonably foreseeable and material, and should be taken into account in the actuary's methods. The examination actuary concluded that a hindsight estimate under an alternative approach that addresses these theoretical issues in the opining actuary's analysis generally supports the reserves estimated by the opining actuary as of December 31, 2017. Therefore, given that the

Company's booked reserves were essentially equal to the opining actuary's estimated reserves, it was the examination actuary's opinion that booked reserves were reasonable and no adjustments were recommended to the Company's booked reserves.

In addition to addressing the issues related to its reserving methodology discussed above, we recommend that the Company's actuary book reserves using a range of estimates and ensure that at all times the Company's reserves are set no lower than the mid-point of the range of estimates established by the opining actuary, as required by Consent Order 242329-19 CO.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$37,187,560, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Subsequent to December 31, 2017, Sunz Holdings, LLC acquired Ascential Care Partners, LLC.

As of December 31, 2018, the Parent contributed an additional \$23,000,000 in capital to the Company.

Effective March 8, 2019, the Company acquired 100% of the stock of Ashmere Insurance Company.

SUMMARY OF RECOMMENDATIONS

Audit Committee

The Company did not establish an audit committee.

We recommend the Company establish an audit committee in compliance with Section 624.424(8)(c), Florida Statutes.

Conflict of Interest

We recommend the Company comply with Handbook requirements as adopted by Rule 69O-138.001, Florida Administrative Code, by ensuring each officer and director annually complete a Conflict of Interest Statement and document review of the statements in the board minutes.

Reserving Methodologies

We recommend the opining actuary adopt methods in future reserve analyses that directly address theoretical issues the examination actuary identified during our review. The Company is required to submit a formal plan for addressing actuarial issues to the Office for review and approval.

We recommend the Company establish an actuarial range of estimates for gross and net loss and loss adjustment expenses unpaid. This range should include the actuary's low and high estimate with a recommended midpoint. As required by Consent Order Consent Order No. 197470-16, the Company should ensure "...that at all times reserves will be set no lower than the mid-point of the reserves established by the opining actuary."

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Sunz 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 \$37,187,560, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, the following participated in the examination:

Amy L. Carter, CFE, CPA	Examiner-in-Charge	Examination Resources, LLC
Cecilee Houdek, CFE, CPA	Participating Examiner	Examination Resources, LLC
Rachelle Gowins, CFE, CPA	Participating Examiner	Examination Resources, LLC
Kyra Brown, MBA, APIR	Examination Manager	Office
Mary James, CFE	Participating Examiner	Office
Solomon L. Frazier, FCAS, MAAA,	Actuary Specialist	Taylor-Walker Consulting, LLC
James Gowins, CISA, AES, AFE, MCM	IT Specialist	Examination Resources, LLC

Respectfully submitted,

Brian Sewell

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