



**EXAMINATION REPORT
OF
TOWER HILL PRIME INSURANCE COMPANY**

NAIC Company Code: 11027

**Gainesville, Florida
as of
December 31, 2018**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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May 27, 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 690-138.005, 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

Tower Hill Prime Insurance Company
7201 N.W. 11th Place
Gainesville, Florida 32605

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, 2014 through December 31, 2018. Fieldwork, which included planning meetings held at the Florida Office of Insurance Regulation (“the Office”) commenced on April 23, 2019, and concluded as of May 27, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2009 through December 31, 2013.

The examination was 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 the NAIC Statements of Statutory Accounting Principles (“SSAP”).

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 material findings or exceptions noted during the examination as of December 31, 2018.

Previous Examination Findings

The following is an update on other significant regulatory information disclosed in the previous examination.

Related Party Activities

The Company did not timely update its consolidated holding company registration statements for Tower Hill Insurance Group to include the reinsurance data compilation agreement among affiliates executed on July 24, 2014. The Company also did not notify the Office of its intention to enter into this agreement at least 30 days prior to the execution of the agreement.

The Company did not file its reinsurance data compilation service agreement as part of its holding company registration statement, but did provide it during the examination.

Subsequent Actions

The Company disclosed this agreement in the relevant consolidated holding company registration statements during the current examination period. However, The Office has no record of prior notice (i.e., a Form D) being filed with the Office concerning this agreement as required by Rule 69O-143.047, Florida Administrative Code. The agreement expired on May 31, 2018.

COMPANY HISTORY

General

On March 7, 2003, the Office approved the acquisition of all outstanding stock of Desoto Prime Insurance Company (“Desoto”) by Tower Hill Capital Holdings, LLC pursuant to a stock purchasing agreement with the insurer’s previous owner Renaissance US Holding Inc. Through a reorganization on December 22, 2004, all outstanding shares of the Company were acquired by Tower Hill Holdings Inc. (“Hill Holdings”), an insurance holding company domiciled in the state of Florida, incorporated on December 6, 2004. The purpose of the acquisition was to change the

status of the parent holding company from a limited liability company, formerly Tower Hill Capital Holdings, LLC, to a corporation under Florida law. After Hill Holdings acquired Desoto in 2004, a name change from Desoto to Tower Hill Prime Insurance Company was filed and approved by the Office on March 19, 2005.

The Company's immediate parent is Hill Holdings. The Company, together with the other four Tower Hill Insurance Companies, share common management.

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, 2018, the Company's capitalization was as follows:

Number of authorized common capital shares	30,000
Number of shares issued and outstanding	30,000
Total common capital stock	\$30,000,00
Par value per share	\$100.00

As of December 31, 2018, the Company had 30,000 shares authorized, issued and outstanding of common stock at \$100.00 par value. During 2016, the Company received surplus contributions of \$10,000,000 and \$4,000,000 from Hill Holdings. Without changing total Surplus as Regards to Policyholders, the Company reclassified \$2,998,880 out of Gross paid-in and Contributed Surplus into Common Capital Stock resulting in \$3,000,000. This was done in compliance with SSAP No. 72 and related to the expansion into the other states.

The Amended and Restated Articles of Incorporation were filed May 22, 2018 with the Office. Pursuant to a stock split, the maximum number of shares of capital stock that this Company is authorized to issue is 30,000 shares of common stock having par value of \$100.00 per share.

The Company has received capital and surplus contributions during the period under examination from its parent in the amount of \$54,000,000. During 2014, 2015, 2016 and 2017, the Company received \$20 million, \$10 million, \$14 million and \$10 million, respectively in capital and surplus contribution. No contributions were made for 2018.

Surplus Notes

The Company received the proceeds of a \$5,000,000 surplus note in February 2014 that was issued to the parent Hill Holdings, on December 31, 2013. The Company received approval of the surplus note from the Office. The principal amount and all the accrued and unpaid interest on the note are due on December 31, 2023.

The Company received the proceeds of a \$25,000,000 surplus note in February 2018 that was issued to the parent Hill Holdings, on December 31, 2017. The Company received approval of the surplus note from the Office. The principal amount and all the accrued and unpaid interest on the note are due on December 31, 2027.

Acquisitions, Mergers, Disposals, Dissolutions

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

MANAGEMENT AND CONTROL

Corporate Governance

Directors serving as of December 31, 2018, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
William John Shively (a)	Lexington, Kentucky	Co-Chief Executive Officer Tower Hill Insurance Group
James Nicholas Smith	St. Petersburg, Florida	Retired
Donald Carl Matz, Jr.	Gainesville, Florida	President Tower Hill Insurance Group
George Gregory King	Blowing Rock, North Carolina	Retired
Scott Kevin Billings	Fort Worth, Texas	Managing Member Blackeyed Distilling Company
Kevin Troy Kastiz	Fort Worth, Texas	President Tower Hill Insurance Group

- a) William J. Shively was the Chairman of the Board as of December 31, 2018. As planned, Mr. Shively later resigned and was replaced by Stephen Dawahare as a Board Member on July 8, 2019.

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

Senior Officers		
Name	City, State	Title
William John Shively	Lexington, Kentucky	Chief Executive Officer
Donald Carl Matz, Jr.	Gainesville, Florida	President
Stephen Eric Allnutt	Willison, Florida	Chief Underwriting Officer
Benjamin Lane Bussey III	Jacksonville, Florida	Chief Financial Officer/Treasurer
Scott Parker Rowe	Newberry, Florida	Secretary/Chief Compliance Officer
Kevin Troy Kasitz	Fort Worth, Texas	President Commercial Lines

The following were the principal internal board committees and their members as of December 31, 2018.

Audit Committee		
Name	City, State	Title, Company Name
Scott Kevin Billings ⁽¹⁾	Fort Worth, Texas	Managing Member, Blackeyed Distilling Company
James Nicholas Smith	St. Petersburg, Florida	Retired
George Gregory King	Blowing Rock, North Carolina	Retired

¹ Chairman

Holding Company System

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

Tax Allocation Agreement

The Company, along with Hill Holdings, filed a consolidated federal income tax return as of December 31, 2018. The consolidated return was prepared as if each individual corporation filed a separate return based on the income, losses, deductions and credit of such individual corporation. Tax payments by the Company were made to Hill Holdings.

Management Agreement

The Company and Hill Holdings entered into a Management Agreement on April 6, 2005 to provide certain management services including, legal counsel, accounting, investments and financial management, reinsurance assistance, risk management, human resources, administrative services, communication and information technology services, marketing services consulting and other such services as may be necessary. The agreement continues in force for a term of five (5) years and will automatically renew for successive five (5) year periods, unless otherwise terminated within the guidelines of the agreement. The management fee paid by the Company each month was equal to two percent (2%) of earned premium on new and renewed business. Fees incurred under this agreement during 2018 amounted to \$5,959,122.

Managing General Agent Agreement

The Company entered into a Managing General Agency Agreement with its affiliate, Tower Hill Insurance Group, LLC ("MGA") on July 1, 2008. The terms of the contract give the MGA authority for underwriting, premium collection, claims adjustment, and claims payment. All premium collection is facilitated through the MGA. The underwriting authority of the MGA to issue policies under this agreement is continuous until terminated. This agreement may be terminated by either party without cause, by giving the other party not less than 90 days prior written notice of such termination. The MGA retains all policy and billing fees collected by the Company less applicable premium taxes relative to such policy fees.

In addition to the foregoing provisions, the MGA is entitled to charge and retain installment fees, actual inspection fees incurred, and a per policy MGA fee of \$25. Claims administration services were included in the agreement. Claims administration fees were calculated according to a fee schedule based on size of claim. Fees incurred under this agreement during 2018 amounted to \$3,719,298.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Gainesville, Florida. The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Regions Bank executed on April 20, 2016.

Independent Auditor Agreement

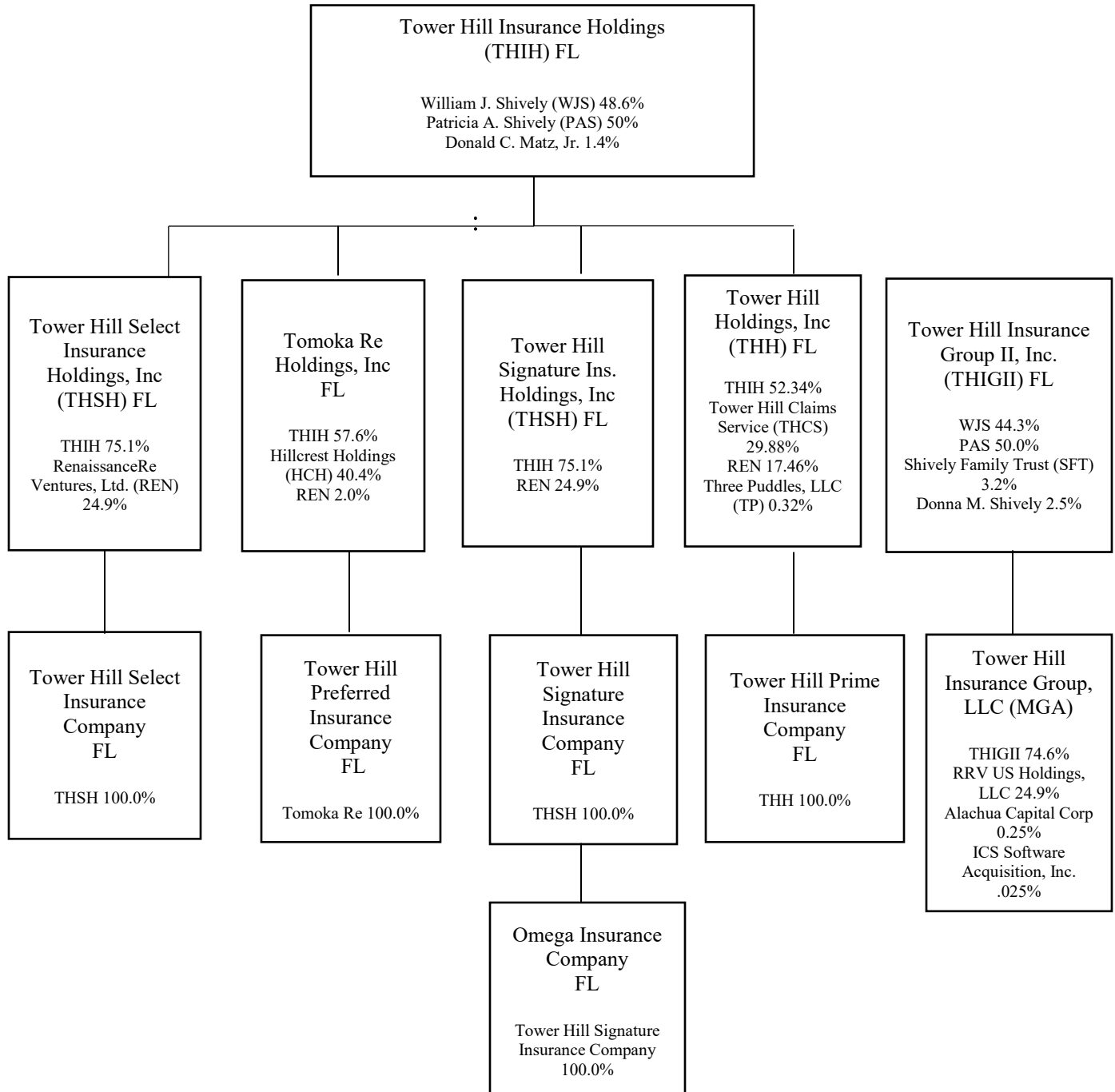
An independent CPA firm PricewaterhouseCoopers LLP audited the Company's statutory basis financial statements annually for the years 2017 and 2018. Supporting work papers were prepared by the CPA firm. KPMG audited the Company's statutory basis financial statements annually for the years 2016, 2015 and 2014.

Corporate Records Review

The recorded minutes of the Shareholder, 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, including the authorization of investments.

**Tower Hill Prime Insurance Company
Simplified Organizational Chart
December 31, 2018**

A simplified organizational chart as of December 31, 2018, reflecting the holding company system, is shown below. Schedule Y of the Company's 2018 annual statement provided a list of all related companies of the holding company group.



TERRITORY AND PLAN OF OPERATIONS

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

Alabama	Illinois	New Mexico
Arizona	Indiana	North Carolina
Arkansas	Kentucky	South Carolina
Florida	Mississippi	Texas
Georgia	Missouri	Wisconsin

The Company was authorized to transact insurance in Florida on April 1, 2000, and is currently authorized for the following coverage(s) as of December 31, 2018:

Fire	Fidelity
Allied Lines	Other Liability
Homeowners Multiple Peril	Burglary
Commercial Multiple Peril	Theft
Inland Marine	

The Company's target markets include owners of apartments, townhomes and condominiums, as well as homeowner associations with total insured values under certain thresholds. Commercial lines, which is comprised of mono-line coverage on residential risks, is a growing portion of the Company's book and is expected to rise as part of the Company's expansion plans. The Company distributes its products through independent agents and current corporate strategy involves expansion into commercial and high value homeowners' business with geographic expansion into the following states: Louisiana, Michigan, Nevada, Ohio, Pennsylvania and Tennessee.

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 assumes premiums from Indian Harbor Insurance Company (Indian Harbor). This is the only significant assumed reinsurance contract within the Tower Hill Insurance Group of companies and has been in place since 2017. Assumed written premiums for 2018 was approximately \$26,921,000.

MGA is the managing general agent for Indian Harbor and therefore maintains the detailed policy information, including premiums and claims activity. The accounting entries for this reinsurance contract are made primarily based on that data. The Company assumed 70% of the business written through 2018 and is covered under the Company's reinsurance ceded program.

Reinsurance Ceded

The Company has entered into several reinsurance contracts to protect itself from excessive homeowners' multiple peril losses, excessive commercial multiple peril losses, and from catastrophic events. During the years ended December 31, 2018 and 2017, the Company ceded premiums under quota share, catastrophe excess of loss, facultative, and accident year excess of loss reinsurance agreements.

The Company began writing personal lines flood business as an endorsement on its Homeowner policies. The Company entered a new quota-share reinsurance agreement effective on April 1, 2018 related to the flood business. Under the new quota share, the Company will cede 100% of new business while retaining 0%. The Reinsurer pays the Company a 30% ceding commission.

The Company entered a new quota share reinsurance agreement for personal lines effective June 1, 2018. Under the new quota share, The Company will cede 52% of new, renewal and in-force business while retaining 48%. Previously the Company ceded 75% while retaining 25%. The new quota share change resulted in a decrease in the net reserve for unearned premiums of approximately \$2,500,000 and an increase in amounts due to reinsurers of approximately \$1,200,000 (written premiums less related expenses) which is settled within 90 days. The effect of these transactions on the Statement of Operations was an increase in underwriting income of approximately \$800,000 pre-tax which was primarily the result of the immediate recognition of commissions ceded associated with the change in unearned premiums (as required by Statutory Accounting Principles). The after-tax effect on surplus was an increase of approximately \$610,000. This was a result of the combination of current and deferred taxes which resulted in a

21% overall effective tax rate on the transaction. In accordance with statutory accounting, current taxes are reported in the Statement of Operations, while deferred taxes are reported as change in surplus.

Effective July 1, 2018 the Company entered into an agreement to sell its National Flood Insurance Program (NFIP) flood book of business. On July 13, 2018 the Company fulfilled its obligations under the closing of the contract by delivering client account information along with related seller contracts and authorizations. In return, the closing payment of \$20,300,000 was received from the buyer and recorded as income by the Company. Selling costs of \$400,000 were also incurred and recorded at that point in time. In accordance with the terms of the agreement, the buyer serviced all policies within the book that renewed on or after September 1, 2018 while the company continued to service all in force agreements as of August 31, 2018 up until renewal in 2019. No significant net cash flows are expected to occur with respect to servicing these policies and once the renewal date is reached, there will be no significant continuing involvement in the book of business. The terms of the sale agreement also include a contingent “earn out payment” of up to \$7,700,000 which will be calculated and settled in 2021 base on the value of premiums written by the buyer between July 1, 2018 to June 30, 2021 using the NFIP flood book purchase from the Company. No revenue or asset has been recorded with respect to this contingent income.

INFORMATION TECHNOLOGY REPORT

Jenny Jeffers, AES, CISA, IT Specialist, Jennan Enterprises, 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 and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Cash	<u>\$2,054,369</u>	<u>\$ 2,054,369</u>
TOTAL FLORIDA DEPOSITS		<u>\$2,054,369</u>	<u>\$ 2,054,369</u>
MI	USTBND\$ 1.88%	\$ 298,535	\$ 289,521
NM	Bond 11.50%	318,435	308,906
NC	Cash	300,000	300,000
SC	USTBDS, 3.25%	<u>124,936</u>	<u>124,000</u>
TOTAL OTHER DEPOSITS		<u>\$1,041,906</u>	<u>\$ 1,022,427</u>
TOTAL STATUTORY DEPOSITS		<u><u>\$3,096,275</u></u>	<u><u>\$ 3,076,796</u></u>

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.)

Tower Hill Prime Insurance Company
Assets
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Bonds	\$136,840,844	\$ -	\$136,840,844
Common Stocks	7,948,221		7,948,221
Mortgage loans	5,290,695		5,290,695
Cash and short-term investments	71,001,998		71,001,998
Investment income due and accrued	881,784		881,784
Uncollected premium and agents' balances	22,960,833		22,960,833
Deferred premium	441		441
Amounts recoverable from reinsurers	(7,916,200)		(7,916,200)
Funds held by or deposited with reinsured	47,729,791		47,729,791
Current federal income tax recoverable	3,211,019		3,211,019
Net deferred tax asset	3,407,002		3,407,002
Aggregate write-ins for other than invested assets	1,207,646		1,207,646
Totals	<u><u>\$292,564,074</u></u>	<u><u>\$ -</u></u>	<u><u>\$292,564,074</u></u>

**Tower Hill Prime Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2018**

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 54,568,726		\$ 54,568,726
Reinsurance payable on paid losses and LAE	15,693,484		15,693,484
Loss adjustment expenses	10,172,784		10,172,784
Commissions payable	63,354		63,354
Other expenses	663,915		663,915
Taxes, licenses and fees	944,798		944,798
Unearned premium	42,811,723		42,811,723
Ceded reinsurance balances payable	47,748,082		47,748,082
Amounts withheld or retained for others	813,420		813,420
Provision for reinsurance	9,000		9,000
Payable to parent, subsidiaries and affiliates	258,795		258,795
Payable for securities	16,980		16,980
Total Liabilities	<u>\$ 173,765,061</u>	<u>\$ -</u>	<u>\$ 173,765,061</u>
Common capital stock	\$ 3,000,000		\$ 3,000,000
Surplus notes	30,000,000		30,000,000
Gross paid in and contributed surplus	96,400,159		96,400,159
Unassigned funds (surplus)	(10,601,146)		(10,601,146)
Surplus as regards policyholders	<u>\$ 118,799,013</u>	<u>\$ -</u>	<u>\$ 118,799,013</u>
Total liabilities, surplus and other funds	<u>\$ 292,564,074</u>	<u>\$ -</u>	<u>\$ 292,564,074</u>

**Tower Hill Prime Insurance Company
Statement of Income
December 31, 2018**

Underwriting Income

Premiums earned	\$ 82,302,808
Deductions	
Losses incurred	\$ 60,039,337
Loss expenses incurred	10,774,658
Other underwriting expenses incurred	16,040,251
Total underwriting deductions	<u>\$ 86,854,246</u>
Net underwriting gain or (loss)	<u>\$ (4,551,438)</u>

Investment Income

Net investment income earned	\$ 2,518,400
Net realized capital gains or (losses)	692,657
Net investment gain or (loss)	<u>\$ 3,211,057</u>

Other Income

Finance and service charges not included in premiums	10,310
Aggregate write-ins for miscellaneous income	19,898,639
Total other income	<u>\$ 19,908,949</u>
Net income before federal & foreign income taxes	\$ 18,568,568
Federal & foreign income taxes	(62,959)
Net Income	<u>\$ 18,631,527</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$ 98,684,923
Net Income	18,631,527
Net unrealized capital gains or losses	(1,065,893)
Change in net deferred income tax	(3,805,417)
Change in non-admitted assets	3,934,873
Change in provision for reinsurance	2,419,000
Change in surplus as regards policyholders for the year	<u>\$ 20,114,090</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 118,799,013</u>

**Tower Hill Prime Insurance Company
Reconciliation of Capital and Surplus
December 31, 2018**

Capital & Surplus Change during Examination Period

Surplus at December 31, 2013, per Examination			\$ 43,773,480
	<u>Increase</u>	<u>Decrease</u>	
Net Income (loss)	\$ -	\$4,286,184	
Change in net unrealized capital gain (loss)		258,982	
Change in net deferred income tax	529,632		
Change in non-admitted assets	49,067		
Change in provision for reinsurance		8,000	
Change in surplus notes	25,000,000		
Change in paid in capital	2,999,880		
Change in paid in surplus	51,000,120		
Net increase (or decrease)			<u>\$ 75,025,533</u>
Surplus at December 31, 2018, per Examination			<u><u>\$118,799,013</u></u>

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

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Stanislav Eratt, FIA FCAS CERA, Director, Willis Towers Watson, appointed by the Board, 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 Office consulting actuary, Brent Sallay, FCAS, MAAA, Senior Consulting Actuary, of Taylor-Walker Consulting, LLP, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$118,799,013, exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

As of December 31, 2018, the Company had 30,000 shares authorized, issued and outstanding of common stock at \$100.00 par value. During 2016, the Company received surplus contributions of \$10,000,000 and \$4,000,000 from its Parent Company. Without changing total Surplus as Regards to Policyholders, the Company reclassified \$2,998,880 out of Gross paid-in and Contributed Surplus and into Common Capital Stock resulting in \$3,000,000. This was done in compliance with SSAP No. 72 and related to the expansion into the other states.

The Amended and Restated Articles of Incorporation were filed May 22, 2018 with the Office. Pursuant to a stock split, the maximum number of shares of capital stock that this Company is authorized to issue is 30,000 shares of common stock having par value of \$100.00 per share.

SUBSEQUENT EVENTS

All subsequent events have been previously disclosed in the report.

CONCLUSION

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

In addition to the undersigned, Jeffrey Good, CFE, CIE, and Michael Masuen, CFE, CISA, Participating Examiners, of The NOVO Consulting Group, LLC, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, Examination Manager and Christopher Brown, Participating Examiner. Additionally, Brent Sallay, FCAS, MAAA, Senior Consulting Actuary, and Sonya Bergquist, Actuarial Analyst, of Taylor-Walker Consulting, LLP and Jenny Jeffers, AES, CISA, IT Specialist, and Joanna J. Latham, IT Specialist of Jennan Enterprises, LLC are recognized for participation in the examination.

Respectfully submitted,

Lori Ruggiero

Lori Ruggiero, CFE, CIE, MCM
The Novo Consulting Group, LLC
Representing the Florida Office of Insurance Regulation

Daniel W. Applegarth

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