



Florida Department of Financial Services

Division of Rehabilitation and Liquidation

FedNat Insurance Company Annual Insolvency Report – January 26, 2024

Purpose of Report:

The Department of Financial Services (“DFS” or “Department”) is responsible for the administration of insurance receiverships in Florida. The Division of Rehabilitation and Liquidation (“Division”) administers the receiverships on behalf of the Department. On September 27, 2022, the Second Judicial Circuit Court in Leon County, Florida (“Court”) placed the above insurance company into receivership for purposes of liquidation. DFS was appointed to serve as the Receiver and in this capacity, DFS was authorized to plan, coordinate, and direct the affairs of the company to carry out the order of the Court. Pursuant to section 631.398, Florida Statutes, this report provides an overview of the insurance company and an initial summary of the history and causes of the insolvency to aid in the detection and prevention of insurer insolvencies or impairments in Florida. This report is intended for the Governor, President of the Senate, Speaker of the House of Representatives, and the office. The information may not be used as evidence in any proceeding brought by the Department or others to recover assets on behalf of the receivership estate as part of its duties under section 631.141(8), Florida Statutes. The submission of this report shall not be considered a waiver of any evidentiary privilege the Department may assert under state or federal law.

Company Overview

I. Company Description

FedNat Insurance Company (“FNIC” or “Company”) was a Florida domiciled property and casualty insurer located in Sunrise, Florida. The company was licensed on March 1, 1984. It wrote insurance policies that included homeowners’ multi-peril, commercial multi-peril, allied lines, fire, other liability, private passenger auto liability, boiler and private passenger auto physical damage coverage in Alabama, Florida, Louisiana, Mississippi, South Carolina, and Texas. The principal place of business was located at 14050 NW 14th Street, Suite 180, Sunrise, FL 33323.

II. Company History

FNIC was originally incorporated in the name of American United Insurance Company and changed its name to American Vehicle Insurance Company on November 23, 1983. It received a certificate

of authority under the new name from the Office of Insurance Regulation (“OIR”) on March 1, 1984. Afterwards, the company underwent two additional name changes. On January 31, 2011, the name changed to Federated National Insurance Company. Subsequently on June 4, 2018, the name changed to FedNat Insurance Company.

FNIC is part of an insurance holding company system. FNIC and the majority of its affiliates were 100% owned by FedNat Holding Company (“FedNat Holding”), a Florida Corporation. The company structure is illustrated in the next section of this document.

FNIC was party to an insurance agency master agreement with Ivantage Select Agency, Inc., an affiliate of Allstate Insurance Company and party to a managing general underwriting agreement with SageSure Insurance Managers, LLC to facilitate growth in the homeowner’s business outside of Florida. The following agreements were in effect between FNIC and its affiliates at the time of liquidation:

Holding Company System Agreements	Third-Party Agreements
Cost Sharing Agreement	Appointed Actuary Agreement
Income Tax Allocation Agreement	Custodial Agreement
Management Agreement	Independent Auditor Agreement
Managing General Agent Agreement	

Between the years of 2018 and 2022, FNIC engaged in a series of transactions to maximize its profits and sustain operational health. On January 18, 2018, the company notified OIR of its intent to discontinue writing policies in the private passenger auto line of insurance in all states where FNIC issued such policies. This included Alabama, Florida, Georgia, and Texas.

FNIC also executed transactions that led to the ownership of Monarch National Insurance Company (“Monarch” or “MNIC”), a Florida domiciled insurer. The acquisition of Monarch was completed in February 2018 by acquiring membership interests in its indirect parent, Monarch Delaware Holdings LLC, held by FedNat Holding Company’s joint venture partners. Following the closing, Monarch Delaware and Monarch Holdings were merged into MNIC. With the completion of the transactions, FNIC owned 100% of MNIC.

On March 22, 2018, FNIC notified OIR of its intent to run off all commercial general liability policies in Florida. Almost four years later, on January 28, 2022, the company informed OIR that it would run off its non-Florida business.

As of May 12, 2022, FNIC had approximately 140,000 in-force policies in Florida which primarily provided personal residential insurance coverage. On May 13, 2022, an agreement between FNIC, Monarch, Maison Insurance Company (a Louisiana domiciled affiliate), and OIR was signed by the OIR Commissioner regarding plans for early cancellation of policies. The plan included the early cancellation of approximately 56,500 FNIC policies in Florida.

To further assist the company’s growth, Maison Insurance Company, a Louisiana domiciled affiliate hereafter referred to as “Maison”, merged with and into FNIC pursuant to an Agreement and Plan

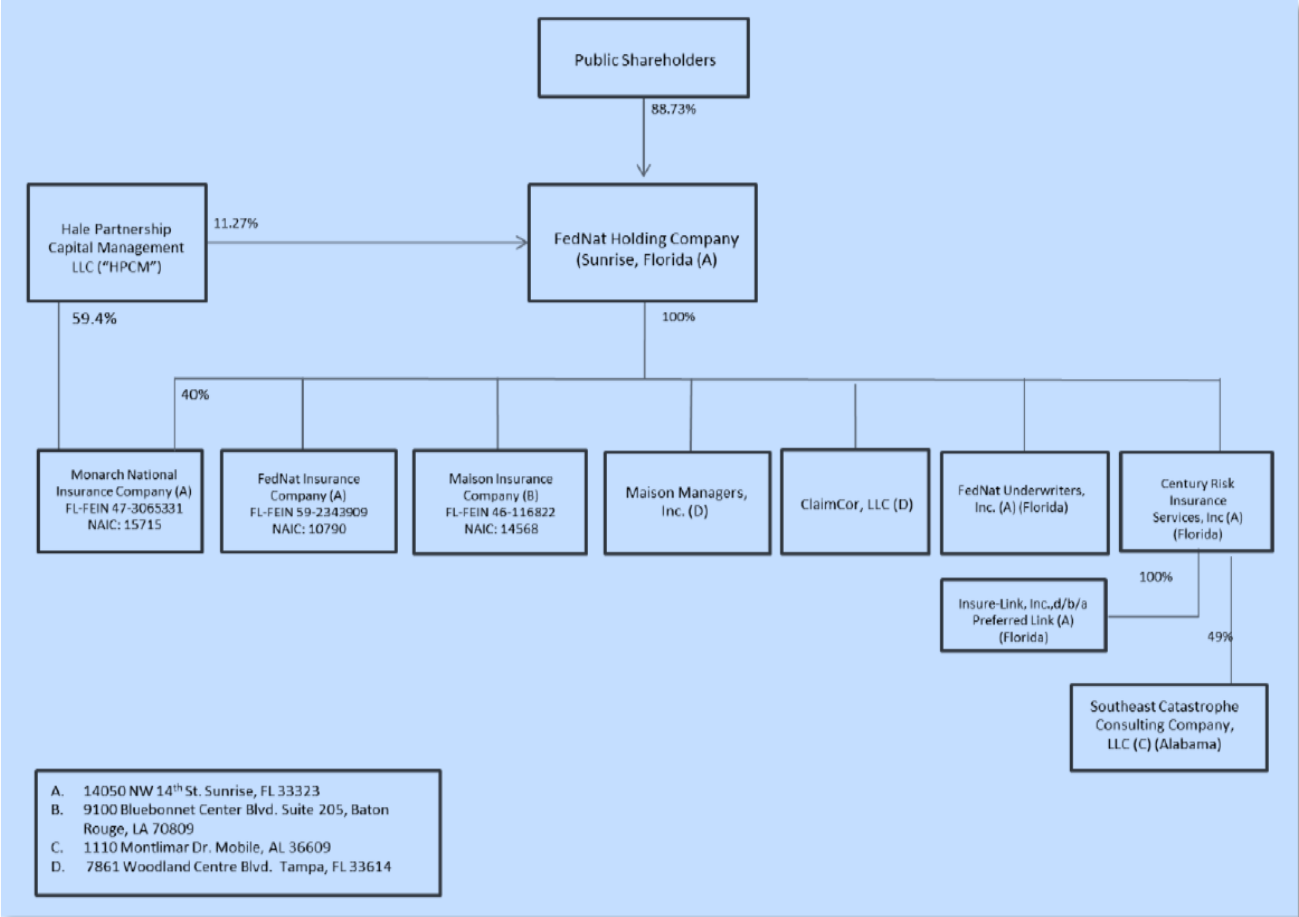
of Merger of Maison Insurance Company on May 23, 2022. FNIC was the surviving entity. All issued and outstanding capital stock of Maison was cancelled. After the merger, Maison ceased to exist as a separate entity and FNIC remained 100% owned by FedNat Holding Company.

On September 8, 2022, FedNat Holding Company and a group of investors managed by Hale Partnership Capital Management LLC (“Hale Investors”) entered into a Stock Purchase Agreement and closed the sale of 30,000 shares of Monarch’s common stock that was held by FNIC to the Hale Investors for \$2.5 million. As a result of this transaction, Hale Investors increased their ownership of Monarch’s outstanding common stock to 70% and FNIC reduced its ownership of Monarch’s common stock to 30%. FNIC retained two seats on Monarch’s Board of Directors and continued to provide managing general agent services, including claims and policy administration, to Monarch through FedNat Holding’s wholly owned subsidiary, FedNat Underwriters Inc.

As of the date of liquidation, FNIC did not own any real property or have employees that solely worked for the company. FedNat Holding directly employed 209 individuals who performed work for the insurance company and affiliates.

III. Corporate Structure

The below organizational chart represents FNIC’s corporate structure as of June 22, 2022, the date of the last financial statement on file with OIR. It does not include the transactions that occurred after this date as described in the previous section of this document.



Pre-Receivership Operations and Activities

I. Financial Statement

The financial statement that was prepared by FNIC as of June 30, 2022 illustrated the below figures. The company experienced a decline of \$115 million in surplus in a six-month period.

Description	December 31, 2021	June 30, 2022
Net Admitted Assets	\$586,823,461	\$260,868,925
Total Liabilities	\$456,606,235	\$244,916,343
Surplus as Regards Policyholders	\$130,217,226	\$15,952,583

II. Policy and Claims Information

Prior to receivership, FNIC possessed the below number of policies as of July 31, 2022:

Policies	
State	In-force Policies
Texas	5,379
Florida	0
Alabama	0
Louisiana	0
Mississippi	0
South Carolina	0
Company Total	5,379

As of the date of liquidation, FNIC, due to its merger with Maison, had 2,786 in-force Texas homeowners insurance policies. The remaining policies had either been cancelled, non-renewed, or transferred to Monarch prior to the initiation of receivership proceedings.

Claims (As of August 31, 2022)		
State	Count	Loss Reserve
Texas	338	\$6,958,472.68
Florida	2,657	\$43,801,107.01
Alabama	6	\$41,785.66
Louisiana	1,391	\$47,000,484.08
Mississippi	0	\$0.00
South Carolina	23	\$351,472.54
Company Total	4,415	\$98,153,321.97

The above claims include the original FNIC claims and the original Maison claims that were assumed by FNIC in the company merger that was completed in August 2022. The Florida total also includes 580 legacy commercial general liability claims.

III. Relevant Events Prior to Receivership

Date	Event
09/19/22	FNIC Board of Directors consents to receivership.
09/21/22	DFS received referral for receivership from OIR.
09/23/22	DFS filed Consent Petition for Receivership with Second Judicial Circuit Court in Leon County, Florida.

Receivership Activities

I. Liquidation

On September 27, 2022, FNIC was ordered into receivership for purposes of liquidation, injunction, and notice of automatic stay (Case No. 2022 CA 001688) by the Second Judicial Circuit Court in Leon County, Florida. DFS was the court-appointed Receiver of FNIC pursuant to Chapter 631, Part I, Florida Statutes.

II. Receivership Events

The below chart identifies relevant activities that have occurred during FNIC’s receivership period.

Date	Event
09/27/22	Liquidation Order Entered
09/27/22	DFS website updated to reflect the receivership
09/27/22	First day of onsite receivership activities at FNIC in Sunrise, FL
09/29/22	Notice of Receivership emailed to Agents (Total: 28,756)
09/29/22	Notice of Receivership mailed to policyholders (Total: 4,855)
10/27/22	Policies cancelled
11/11/22	First phase of transitioning claim files and data to the guaranty associations to ensure continuity of the processing of claims
11/18/22	Last day of onsite receivership activities at FNIC
09/27/23	Claims Filing Deadline

Post-Receivership Information (Figures Represent Comprehensive Totals from Date of Liquidation to January 19, 2024)	
Description	Figure
(1) Funds Recovered from Reinsurance	\$15,112,418.50
(2) Funds Recovered from Subrogation	\$1,994.192.10
(3) Number of Lawsuits Currently Pending*	1,561
(4) Number of Proof of Claims (POC) Filed in the Receivership Estate*	747

*Information as of January 18, 2024

III. Financial Statement

To date, DFS has not filed an unaudited financial statement for FNIC. DFS continues to work through issues related to commingled data.

IV. Guaranty Associations

Upon entering receivership, guaranty associations were activated to provide continued resolution and payment of covered claims on behalf of FNIC. They included the Florida Insurance Guaranty Association, Alabama Insurance Guaranty Association, Georgia Insurers Insolvency Pool, Louisiana Insurance Guaranty Association, Mississippi Insurance Guaranty Association, South Carolina Property and Casualty Insurance Guaranty Association, and Texas Property and Casualty Insurance Guaranty Association. A summary of FNIC's claims liabilities reported by all guaranty associations as of June 30, 2023, are listed below.

Class	Description of Claim	Total Liabilities
1	Administrative Expenses of Guaranty Associations	\$16,125,506.44
2	Loss Claims	\$112,323,109.33
3	Unearned Premium under Non-Assessable Policies	\$2,415,555.21

V. Post-Receivership Claims Information

As a result of the receivership, all policies that remained with FNIC were cancelled on October 27, 2022. As of January 18, 2024, FNIC had the below number of pending claims, litigated claims, and loss reserves in each of the below states:

Claims Information			
State	Number of Pending Claims	Number of Litigated Claims	Loss Reserve
Florida	845	426	\$30,926,319.38
Louisiana	1,353	1,103	\$26,202,406.71
Mississippi	0	0	\$0.00
South Carolina	8	5	\$429,746.09
Alabama	9	3	\$123,203.36
Georgia	2	2	\$3.00
Texas	699	22	\$10,708,750.71
Company Total	2,916	1,561	\$68,390,429.25

Number of Claims Transferred to Guaranty Associations by Claim Status As of January 18, 2024	
Claim Status	Total Claims
Open Claims at Liquidation*	4,378
New Claims	689
Reopen Claims	3,367
TOTAL	8,434

*The open claims reported in this table may differ from claims initially reported as open by FNIC due to timing and data migration issues.

Insolvency Information

I. Preliminary Causal Analysis of Business Practices that Led to Insolvency

A. Pre-Liquidation

The initial issues identified by OIR that resulted in the referral of FNIC to the Department for delinquency proceedings included:

- Overstated cash balances
- Negative underwriting results
- Significant drop in net income and surplus
- Inability to pay debts as they become due in the normal course of business
- Continued adverse reserve development due to numerous catastrophic weather events in Florida, Texas, Louisiana, and other states

Despite significant capital infusions in 2020 and 2021, FNIC’s surplus as regarding to policyholders continued to decline. Additional factors included poor operational results, limited access to additional capital, and a jeopardized financial stability rating.

B. Post-Liquidation

The Department has observed the below business practices and issues after liquidation that impacted the operations of FNIC:

- Commingling of funds amongst FNIC and its affiliates that may indicate a lack of adequate internal accounting controls.
- Use of multiple information technology vendors and legacy systems with commingled data which leads to an inability to accurately segregate FNIC data and generate reports.
- Use of the FNIC tax identification number by affiliates. In addition, the use of FNIC as the common paymaster for the affiliate companies led to a lack of clarity regarding the amount of funds owed to FNIC related to payroll.
- Adverse reserve development included litigation expenses as well as the numerous catastrophic weather events in Florida, Texas, Louisiana, and other states.

II. Insolvency Report

This document represents the annual update of the initial insolvency report as required by section 631.398(3), Florida Statutes, and will be updated annually until the submission of the final insolvency report. Under the supervision of the receivership court and pursuant to section 631.156, Florida Statutes, DFS is tasked with conducting an investigation to determine the causes of FNIC’s insolvency, including whether any laws of this state, any other state, or the Federal Government related to the solvency of FNIC were violated; to discover assets for recovery; and to determine the location of assets and their manner of recovery. DFS has hired a forensic accounting firm to assist in the investigation. Certain portions of the investigative work product may be deemed confidential as contemplated by section 119.071(1)(d)1, Florida Statutes [attorney work product exemption]; section 626.989, Florida Statutes [fraud investigation exemption]; section 119.0715, Florida Statutes [trade secrets held by an agency exemption]; and other provisions of law. The final insolvency report will be submitted within 30 days of the conclusion of the insolvency proceeding.

APPENDIX

Glossary of Terms

- **Affiliate:** Any entity which exercises control over or is controlled by the insurer, directly or indirectly through:
 - (a) Equity ownership of voting securities;
 - (b) Common managerial control; or
 - (c) Collusive participation by the management of the insurer and affiliate in the management of the insurer or the affiliate.
- **Delinquency Proceedings:** Any proceeding commenced against an insurer pursuant to Chapter 631, Part I, Florida Statutes for the purpose of liquidating, rehabilitating, reorganizing, or conserving such insurer.
- **Estate:** The insurance entity in receivership.
- **Guaranty Association:** A state-sanctioned organization that protects policyholders and claimants in the event of an insurance company's impairment or insolvency. Insurance guaranty associations are legal entities, whose members make guarantees and provide a mechanism to resolve claims. The Florida Guaranty Associations include the Florida Insurance Guaranty Association, Florida Workers' Compensation Insurance Guaranty Association, Florida Life and Health Insurance Guaranty Association, and the Florida Health Maintenance Organization Consumer Assistance Plan.
- **Initial Receivership Period:** The 90-day period after an insurance company enters receivership.
- **Insolvency:** All the assets of the insurer, if made immediately available, would not be sufficient to discharge all its liabilities or that the insurer is unable to pay its debts as they become due in the usual course of business. Insolvency also includes an impairment of surplus and an impairment of capital as defined in Chapter 631, Part I, Florida Statutes.
- **Onsite Activities:** Receivership activities occurring at the insurance company's principal place of business and/or remotely from the Division or SDR office during the initial phases of the receivership process.
- **Receiver:** A receiver, liquidator, rehabilitator, reorganizer, or conservator, as the context may require.
- **Receivership:** The placement of an insurer under the control of a receiver pursuant to a delinquency proceeding under Chapter 631, Part I, Florida Statutes.
- **Special Deputy Receiver (SDR):** A company retained by DFS to administer the receivership of an insurance company as authorized by the Court.

Division of Rehabilitation and Liquidation

325 John Knox Road, Atrium Building, Suite 101; Tallahassee, FL 32304