

**National Group Insurance Company in Liquidation
Insolvency Report
August 11, 2017**

Receivership Information/Reference:

Name of Receivership	National Group Insurance Company (NGIC)
Receivership Number	534
Date of Conservation	N/A
Date of Rehabilitation	August 1, 2011
Date of Liquidation	October 10, 2011

Scope:

As provided in that Provider Contract between the “Receiver of the Estate of National Group Insurance Company (NGIC)” (the Receiver being the Florida Department of Financial Services, Division of Rehabilitation and Liquidation), hereinafter referred to as “RECEIVER” and Gregory, Sharer & Stuart, P.A., hereinafter referred to as “PROVIDER” effective February 20, 2014, under Section 3, SCOPE OF WORK, states in part:

- 3.2.4 Prepare an insolvency summary report (“Insolvency Report”), pursuant to the requirements of 631.398 (3), *Florida Statutes*, relating to the history and causes of insolvency.

The document review of the files in the PROVIDER’s possession was conducted at various dates from February 20, 2014 through the date of this report, inclusive, by Daniel J. Hevia, CPA at the PROVIDER’s offices.

The authority under which this insolvency report is written is Section 631.398, Florida Statutes, which states as follows:

Title XXXVII Chapter 631
INSURER INSOLVENCY; GUARANTY OF INSURANCE PAYMENT

631.398

Prevention of insolvencies.

To aid in the detection and prevention of insurer insolvencies or impairments:

- (1) Any member insurer; agent, employee, or member of the board of directors; or representative of any insurance guaranty association may make reports and recommendations to the department or office upon any matter germane to the solvency, liquidation, rehabilitation, or conservation of any member insurer or germane to the solvency of any company seeking to do an insurance business in this state. Such reports and recommendations are confidential and exempt from the provisions of s. 119.07(1) until the termination of a delinquency proceeding.
- (2) The office shall:
 - (a) Report to the board of directors of the appropriate insurance guaranty association when it has reasonable cause to believe from any examination, whether completed or in process, of any member insurer that such insurer may be an impaired or insolvent insurer.
 - (b) Seek the advice and recommendations of the board of directors of the appropriate insurance guaranty association concerning any matter affecting the duties and responsibilities of the office in relation to the

financial condition of member companies and companies seeking admission to transact insurance business in this state.

(3) The department shall, no later than the conclusion of any domestic insurer insolvency proceeding, prepare a summary report containing such information as is in its possession relating to the history and causes of such insolvency, including a statement of the business practices of such insurer which led to such insolvency.

History. ss. 28, 39, ch. 83-38; ss. 187, 188, ch. 91-108; s. 4, ch. 91-429; ss. 2, 6, ch. 93-118; s. 385, ch. 96-406; s. 1351, ch. 2003-261.

Business:

Historical information regarding NGIC is as follows:

- **Date and Location of Incorporation:** NGIC originally incorporated in Florida on June 9, 2004¹.
- **Date the Company Began Doing Business in Florida:** NGIC was licensed to begin doing business in Florida as a property and casualty insurance company in 2006² and continued to do so through August 2011.
- **Lines of Business:** NGIC primarily wrote commercial auto and commercial property insurance coverage in Florida. The company had approximately 7,600 policyholders at the time of its liquidation. The company was licensed in Florida and Georgia, however, NGIC reported no written premiums in Georgia.
- **Certificates of Authority:** At the time of insolvency, NGIC was operating under a certificate of authority issued by the states of Florida.³
- **Geographic Areas:** At the time of insolvency, NGICs area of insurance coverage was Florida.⁴
- **Operating Results:** According to NGIC's 2010 NAIC Annual Statement⁵:
 - Premiums earned were \$296,350 and \$173,525 in 2010 and 2009, respectively.
 - Underwriting income was \$304,101 and \$352,360 in 2010 and 2009, respectively.
 - Net income was \$413,612 and \$334,680 in 2010 and 2009, respectively.
- **Ownership:** NGICs Annual Statement identified National Insurance Company (NIC) as the 100% owner of NGIC⁶. NGIC's 2010 Annual Report filed with the Florida Secretary of State listed the following officers and directors at December 31, 2010.
 - **Management:**

- **Officers**

- Carlos Manuel Benitez, Jr. – Chairman
- Edgardo Van Rhyn – President
- Edgar Rodriguez Gomez – Corporate Secretary
- Asbrubal Morales – Vice President Underwriting
- Lizbeth Perez – Vice President Finance and Treasurer

- **Directors**

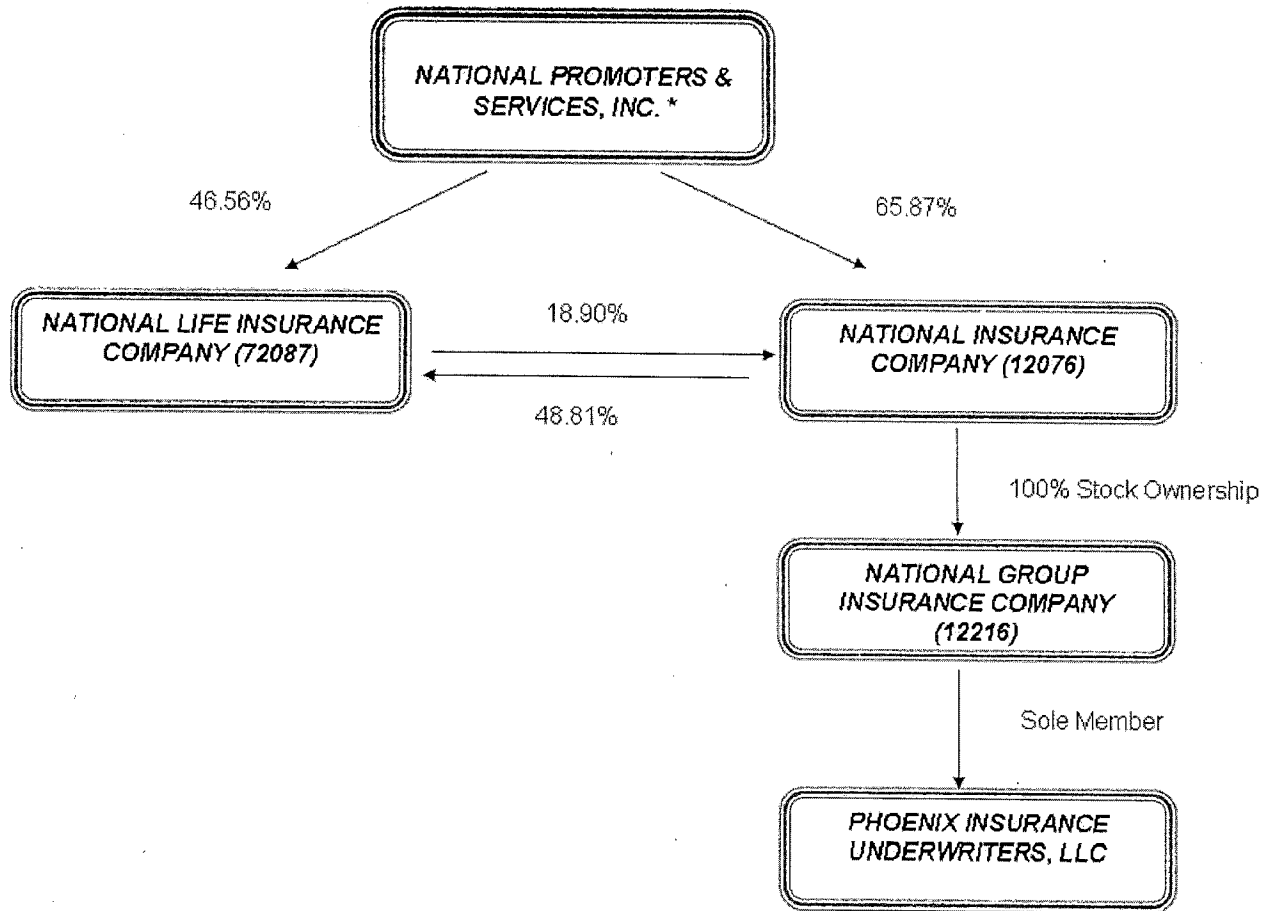
- Carlos Manuel Benitez
- Edgardo Van Rhyn
- Edgar Rodriguez Gomez
- Wallace Webster Gardner
- Fernando Rivera Munich

- **Affiliates:** NGIC’s 2010 NAIC Annual Statement identified the following affiliates⁷: NGIC is a member of the National Insurance Group (NIC) which was comprised of companies in areas such as life insurance, premium finance, information systems and adjusters. NGIC is a wholly owned subsidiary of NIC (headquartered in Puerto Rico)

As of January 31, 2006, NGIC has a wholly owned Managing General Agency, Phoenix Insurance Underwriters⁸.

- **Organization Chart:** The following Organizational Chart was taken from Schedule Y of NGIC’s 2010 NAIC Annual Statement:

ANNUAL STATEMENT FOR THE YEAR 2010 OF THE NATIONAL GROUP INSURANCE COMPANY
SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART



Background/Event of Impact:

NGIC was licensed as a property & casualty insurer in 2006 to write automobile and property insurance in the State of Florida. The company was also licensed in Georgia, but did not report any premiums in that state. The company primarily wrote commercial auto and commercial property coverage in Florida. At the time of its liquidation, NGIC had approximately 7,600 policyholder.

NGIC reported positive net income each year from 2007 to 2010. Its total capital and surplus remained stable from \$5,441,728 at January 1, 2007 to \$6,510,786 at December 31, 2010⁹.

In 2009, and earlier years, NGIC entered into a reinsurance agreement with NIC under which NGIC ceded 100% of its insurance premiums and risk to NIC under a 100% quota-share agreement¹⁰. That agreement required that NIC make good on all claims arising from business written by NGIC in return for substantially all of the premiums generated from that business. NGIC received approximately a 35% commission for generating the business and referring the reinsurance to NIC. NIC did not provide any security under this reinsurance agreement.

On 5/12/10 the Office of the Insurance Commissioner for Puerto Rico (OCS) took steps to strictly supervise the finances of NIC by means of communication and requisition. Specifically, since 5/12/10 OCS enjoined NIC to resolve its financial condition. In those communications the OCS advised NIC that its analysis of 2008 operations of NIC showed a substantial reduction in operating cash flows, net losses and an adverse change in liquidity, for which NIC was required to present a strategic plan to solve this situation. On June 11, 2010 A.M. Best downgraded NIC to B+ rating. On 7/16/2010 OCS issued an Order to Safeguard the Assets of NIC and placed NIC under the direct supervision of OCS¹¹.

NGIC and NIC continued their reinsurance arrangement until the reinsurance agreement was terminated by the OCS in early 2011. On 3/2/11 NGIC filed its 2010 annual statement with the Florida Office of Insurance Regulation (FOIR). That statement reflected a surplus of \$6,510,000. However FOIR determined that \$17,326,000 of reinsurance liability ceded to NIC was not secured or offset by other funds. Furthermore, on 5/17/11 NIC had been placed into receivership by OCS and deemed to be insolvent¹². On 6/2/11 FOIR made a determination that NGIC was insolvent as of 12/31/10¹³. On 8/1/11 NGIC was placed into receivership with the FDFS appointed as receiver. The FOIR made a determination that as of 12/31/10 NGIC had a negative surplus of \$(10, 815, 000) after taking into consideration the inability to collect on the NIC reinsurance.

A determination was made by the FOIR that NGIC was insolvent and did not maintain the statutorily required level of surplus for a P&C insurer as required by Section 624.408, Florida Statutes¹³. As a result NGIC's certification of authority was suspended effective June 2, 2011.⁸

To-date the FDFS has made recoveries in the administration of the NGIC estate of approximately \$4 million, including the collection of agents balances and third-party litigation recoveries¹⁴.

The Florida Insurance Guarantee Association (FIGA) will incur actual and projected losses on NGIC claims of more than \$25 million. These claims were the responsibility of NIC under the reinsurance agreement.

Underwriting Results:

Underwriting results for NGIC's years ended December 31, 2010, 2009, 2008 and 2007 as reported in its annual statement were as follows¹⁵:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Underwriting Income				
Net Premiums Earned	\$ -	\$ 110,075	\$ 173,525	\$ 296,350
Underwriting Expenses				
Commissions	\$ (787,353)	\$ (1,146,752)	\$ (1,548,821)	\$ (1,638,971)
Boards Boards	\$ 31,186	\$ 2,845	\$ 98,672	\$ 7,384
Surveys & Underwriting Report	\$ 48,285	\$ 503,158	\$ 528,632	\$ 593,493
Payroll & Payroll Related	\$ 402,221	\$ 253,410	\$ 117,116	\$ 154,504
Insurance	\$ 29,901	\$ 24,462	\$ 35,024	\$ 55,502
Depreciation	\$ 13,398	\$ 38,712	\$ 52,578	\$ 52,236
Rent	\$ 73,304	\$ 79,335	\$ 66,238	\$ 53,936
Equipment	\$ 35,485	\$ 39,308	\$ 50,884	\$ 66,726
Printing & Stationary	\$ 15,526	\$ 27,096	\$ 30,427	\$ 13,297
Postage & Telephone	\$ 41,842	\$ 30,678	\$ 22,871	\$ 29,373
Legal & Audit	\$ 37,775	\$ 61,798	\$ 1,038	\$ 82,813
Taxes & Licenses	\$ (30,614)	\$ 207,974	\$ 352,827	\$ 514,432
Other	\$ 32,299	\$ 12,584	\$ 13,679	\$ 7,524
Total Underwriting Expenses	\$ (56,745)	\$ 134,608	\$ (178,835)	\$ (7,751)
Net Underwriting Gain (Loss)	\$ 56,745	\$ (24,533)	\$ 352,360	\$ 304,101

The above analysis did not reveal any significant trends in operations from 2007 to 2010 since during this period substantially all of NGIC's policies were reinsured through its parent company, NIC, on a 100% quota-share basis. Accordingly, NGIC did not retain any of the risk of the policies it issued, except for the substantial credit risk that NIC might not be able to honor the reinsurance agreement with NGIC. Because

100% of the NGIC policies were reinsured through NIC, the premium and loss activity related to these ceded policies do not reflect directly on NGIC's annual statement.

Reinsurance:

For all years in which it wrote insurance in Florida, NGIC reinsured substantially all of its insurance through a 100% quota-share reinsurance agreement with its parent, NIC. No security, collateral or funds were required by NIC to ensure the performance of its obligations under this reinsurance arrangement.

The following page shows information related to reinsurance excerpted from NGIC 2008, 2009 and 2010 NAIC annual statements.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Balance Sheet			
Amount Recoverable from Reinsurers	\$ -	\$ -	\$ -
Ceded Reinsurance Payable	\$ -	\$ -	\$ -
Net	\$ -	\$ -	\$ -
Part 1 and 1B- Premiums Written/Earned			
Direct Business	\$ 9,232,833	\$ 16,877,055	\$ 22,873,703
Reinsurance Ceded to Affiliate	\$ 9,122,758	\$ 16,703,530	\$ 22,577,353
Net Premiums Written Part 1	\$ 110,075	\$ 173,525	\$ 296,350
Premiums Earned, Part 1 Column 4	\$ 110,075	\$ 173,525	\$ 296,350
Part 2, Column 3, Reinsurance Recovered			
Schedule F, Part 3			
Reinsurance Premiums Ceded	\$ 9,123,000	\$ 16,704,000	\$ 22,577,000
Paid Losses and LAE	\$ -	\$ -	\$ -
Known Case Losses and LAE Reserves	\$ 1,729,000	\$ 1,711,000	\$ 3,636,000
IBNR Losses and LAE Reserves	\$ 4,308,000	\$ 4,202,000	\$ 6,143,000
Unearned Premiums	\$ 4,763,000	\$ 6,872,000	\$ 9,764,000
Subtotal	\$ 10,800,000	\$ 12,785,000	\$ 19,543,000
Ceded Balance Payable	\$ 1,699,000	\$ 1,740,000	\$ 2,217,000
Net Recoverable	\$ 9,101,000	\$ 11,045,000	\$ 17,326,000

Financial:

According to NGICs 2010 Annual Statement:

Total Surplus at 12/31/10 was a \$6,510,786. 2010. Net income was \$413,612, consisting primarily of \$304,101 Net Underwriting Income, \$326,525 Net Investment Gains, less \$217,014 of Income Tax Expense.

The capital deficiency as of the date of the receivership as determined by the Office of Insurance Regulation was (\$10,815,214) as of December 31, 2010.

Conclusions:

For all of the years that NGIC operated as an insurance company, a majority of its business was from writing commercial automobile and commercial property insurance in Florida. NGIC ceded 100% of its direct premiums and associated risk to its parent company, NIC. NGIC's surplus remained stable from 2007 to 2010, and the company showed modest profits each year.

The NGIC insolvency was a direct result of NIC being put in rehabilitation and the cancellation of the 100% quota share reinsurance agreement, which caused the involvement of FIGA as insurance guaranty association to pay claims and incur expenses.

Barring any additional third-party recoveries, the ultimate liquidation of NGIC is projected to result in net losses of approximately \$24 million.

¹ NGIC Notes to Audited Financial Statements, Note 1, for Years ended December 31, 2009 and 2008.

² NGIC's 2010 NAIC Annual Statement

³ IBID

⁴ Schedule T of NGIC's 2010 NAIC Annual Statement

⁵ Statement of Income from NGIC's 2010 NAIC Annual Statement

⁶ Schedule Y of NGIC's 2010 NAIC Annual Statement

⁷ IBID

⁸ NGIC 2010 NAIC Annual Statement Note 10

⁹Statement of Income of NGIC, 2007 to 2010 NAIC Annual Statement

¹⁰ NGIC Notes to Audited Financial Statements, Note 4 for Years ended December 31, 2009 and 2008

¹¹Commissioner of Insurance of Puerto Rico order to safeguard assets of NGIC

¹²Commissioner of Insurance of Puerto Rico rehabilitation order for NGIC

¹³Letter from FOIR dated 6/2/11

¹⁴FDFS Rehabilitation and Liquidation website – Statement of Affairs as of 9/30/16 for NGIC