



Florida Department of Financial Services
Division of Rehabilitation and Liquidation

Southern Fidelity Insurance Company Initial Insolvency Report

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 June 15, 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

Southern Fidelity Insurance Company (“SFIC”, “Southern Fidelity”, or “Company”) was a Florida domiciled property and casualty insurer located in Tallahassee, Florida. The company was licensed on April 7, 2005 and wrote property insurance including homeowners’ multi-peril, commercial multi-peril, allied lines, fire and other liability coverage policies in Florida, Louisiana, Mississippi, and South Carolina. The principal place of business was located at 2750 Chancellorsville Dr., Tallahassee, FL 32312. Southern Fidelity did not have any employees. All personnel were employed by the affiliated managing general agency, Preferred Managing Agency, LLC. (“PMA”).

II. Company History

SFIC was incorporated on March 15, 2005 and received its certificate of authority from the Office of Insurance Regulation (“OIR”) on April 7, 2005. The company commenced business by taking out

policies from Citizens Property Insurance Corporation in 2005. In September 2006, SFIC obtained a \$25,000,000 surplus note from the State Board of Administration of Florida (“SBA”).

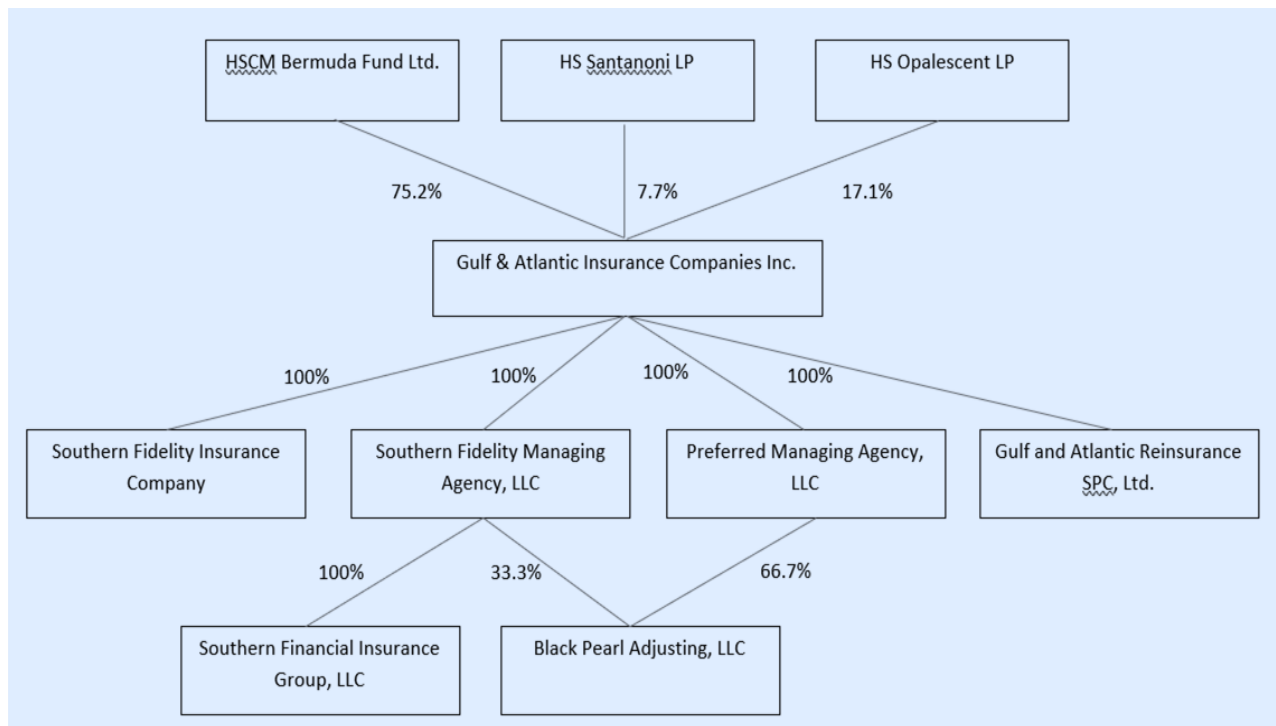
Southern Fidelity Holding Company, (“SFHC”) was SFIC’s parent and it owned one hundred percent (100%) of the capital stock of SFIC. SFHC contributed \$7.5 million to SFIC in its formation in 2005. SFHC no longer has any ownership stake in the company. SFIC is currently wholly owned by Gulf and Atlantic Insurance Companies, Inc. (“GAIC”). The current ownership of GAIC is as follows: HSCM Bermuda Fund, LLC (75.2%), HS Opalecent, LP (17.1%), and HS Santanoni, LP (7.7%).

In February of 2019, affiliates Southern Fidelity Property and Casualty, Inc. (“SFPC”) and Capitol Preferred Insurance Company (“CPIC”) were approved to merge, with CPIC being the surviving entity. On September 4, 2020, SFIC and CPIC were approved to merge, per Consent Order 269310-20, with SFIC the surviving entity.

Southern Fidelity had MGA agreements with affiliates, Southern Fidelity Managing Agency, LLC and Preferred Managing Agency, LLC, for policy servicing, claims administration, marketing and executive management services. The following agreements were in effect between SFIC and its affiliates:

- Executive Management Agreement
- Tax Sharing Agreement
- Cost Sharing Agreement
- Managing General Agency and Claims Administration Agreement
- Claims Administration Services Agreement
- Underwriting Policy Administration and Processing Management Agreement
- Technology Services Agreement

III. Corporate Structure



Pre-Receivership Operations and Activities

I. Financial Statement

The financial statement that was prepared by SFIC as of April 30, 2022 illustrated the following figures for Southern Fidelity Insurance Company:

Description of Assets	Amount
Assets	\$402,889,912
Non-Admitted Assets	\$73,924,698
Net Admitted Assets - April 30, 2022	\$328,965,214
Net Admitted Assets - December 31, 2021	\$327,384,952

Liabilities, Surplus, and Other Funds

As of April 30, 2022 - \$403,104,051

As of December 31, 2021 - \$285,275,964

II. Policy and Claims Information

Prior to receivership, Southern Fidelity possessed the below number of policies and pending claims:

Policies as of May 31, 2022	
State	In-force Policies
Florida	77,972
Louisiana	42,357
Mississippi	645
South Carolina	25,615
Company Total	146,589

Claims		
State	Count	Loss Reserve
Florida	4,142	\$100,429,003
Louisiana	2452	\$64,913,871
Mississippi	15	\$135,246
South Carolina	349	\$4,171,703
Unknown	1	\$35,160
Company Total	6,959	\$169,684,983.00

III. Relevant Events Prior to Receivership

Date	Event
06/09/22	SFIC Board of Directors consents to receivership.
06/10/22	DFS received referral for receivership from OIR.
06/13/22	DFS filed Consent Petition for Receivership with Second Judicial Circuit Court in Leon County, Florida.

Initial Receivership Activities

I. Liquidation

On June 15, 2022, SFIC was ordered into receivership for purposes of liquidation, injunction, and notice of automatic stay (Case No. 2022 CA 001008) by the Second Judicial Circuit Court in Leon County, Florida. DFS was the court-appointed Receiver of SFIC pursuant to Chapter 631, Part I, Florida Statutes.

II. Initial Receivership Events

The below chart identifies relevant activities that occurred during the initial receivership period, 90 days after the insurance company entered receivership, and the established claims filing deadline.

Date	Event
06/15/22	Liquidation Order Entered
06/15/22	DFS website updated to reflect the receivership
06/16/22	First day of onsite receivership activities at SFIC in Tallahassee, FL
06/16/22	Notice of Receivership emailed to Agents (Total: 7,696)
06/28/22	Notice of Receivership mailed to policyholders (Total: 143,818)
07/15/22	Policies cancelled
07/24/22	First phase of transitioning claim files and data to the guaranty associations to ensure continuity of the processing of claims
09/16/22	Last day of onsite receivership activities at SFIC
06/15/23	Claims Filing Deadline

Insolvency Information

I. Material Issues

The initial issues identified by OIR that resulted in the referral of Southern Fidelity to the Department for delinquency proceedings include:

- Inadequate premium rates
- Significant, sustained underwriting losses
- Inability to acquire reinsurance for the 2022 hurricane season
- Adverse development of SFIC's Louisiana claims which ultimately exhausted its surplus

Southern Fidelity's losses over the course of multiple years affected its surplus and risk-based capital. Litigated claims related to Assignment of Benefits claims drove up costs in 2014-2015. Losses from Hurricane Ida in 2021 are projected to exceed the top of the company's catastrophe reinsurance tower. Ultimately, Southern Fidelity's failure to secure a reinsurance program for the 2022 hurricane season and the late development of reserves for Louisiana claims exhausted the remaining surplus which resulted in the company's referral for delinquency proceedings.

II. Insolvency Report

This document represents the initial report of insolvency as required by section 631.398(b)2, 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 SFIC's insolvency, including whether any laws of this state, any other state, or the Federal Government related to the solvency of SFIC 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 shall 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 of Rehabilitation and Liquidation 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.

Division of Rehabilitation and Liquidation

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