

IN THE CIRCUIT COURT OF THE
SECOND JUDICIAL CIRCUIT
IN AND FOR LEON COUNTY, FLORIDA

In Re: The Receivership of SOUTHERN
FAMILY INSURANCE COMPANY, a Florida
corporation.

CASE NO.: 06—CA-1060

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DEPT. OF FINANCIAL SERVICES
CLERK CIRCUIT COURT
LEON COUNTY, FLORIDA

**PETITION FOR ORDER OF LIQUIDATION,
INJUNCTION AND NOTICE OF AUTOMATIC STAY**

The Department of Financial Services of the State of Florida (hereinafter "Department"), as Receiver for Southern Family Insurance Company, by counsel, applies to this Court for the entry of an Order of Liquidation, Injunction and Notice of Automatic Stay, Appointing the Department as Receiver of Southern Family Insurance Company (herein "Respondent") for purposes of liquidation, and as grounds therefore says:

1. Southern Family Insurance Company is a Florida corporation with its principal place of business at 302 Knights Run Avenue, Suite 700, Tampa, Florida 33602, and is a domestic insurer authorized to transact an insurance business in this state. This Court ordered Respondent into rehabilitation on April 25, 2006.
2. The Receiver has been on site since April 26, 2006, and has been conducting an investigation as authorized by this Court pursuant to Chapter 631, Florida Statutes.
3. Southern Family Insurance Company has no employees. Its claims are handled by Mariah Claims Services, LLC, an affiliated claims adjusting company. Virtually all other functions required to operate the insurance company are provided by Poe Insurance Managers, LLC. Poe Insurance Managers, LLC is

also an affiliated company. This organizational structure has, thus far, proven to be an obstacle to the Receiver in executing its statutory duties.

4. Section 631.061, Florida Statutes, authorizes the Department to apply to this Court for an order directing it to liquidate a domestic insurer upon the existence of any of the grounds specified therein, which include the provisions of Section 631.051, Florida Statutes. Sections 631.061 and 631.051, Florida Statutes, authorize the Department to apply to this Court for an order directing it to liquidate a domestic insurer upon the ground that the insurer is impaired or insolvent.
5. Pursuant to the directives in the Order of Rehabilitation, the Receiver has been examining the books and records of Respondent. In the course of that examination the Receiver has determined that the degree of the insolvency of Respondent is such that it cannot be rehabilitated.
 - a. The Receiver has determined that Respondent is insolvent in that it is unable to pay its debts as they become due in the usual course of business and accordingly, Respondent is insolvent within the meaning of Sections 631.011(12), (14), and 631.051(1), Florida Statutes. See the affidavits of Joseph Boor and Claude Mueller, included in this Petition as Attachments A and B, respectively, and incorporated by reference herein.
 - b. The Receiver has determined that if all of Respondent's statutorily admitted assets were made immediately available, Respondent's liabilities exceed its statutorily admitted assets. As reflected in the

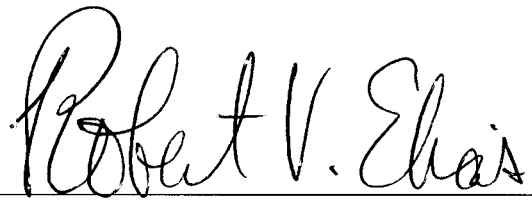
affidavits of Mr. Mueller and Mr. Boor, the best “point estimate” of the insolvency based on current data and actuarial analysis is approximately \$187.5 million. However, based on actuarial analyses, the insolvency could range between \$97 and \$301 million.

6. Respondent sustained significant losses as a result of the eight hurricanes which made land fall in Florida during the 2004 and 2005 hurricane seasons. These losses were, to a large degree, mitigated by Respondent’s program of reinsurance, which transferred the exposure to other insurers. Coverage under this program, which expires June 30, 2006, has been virtually exhausted. Thus, if a hurricane makes land fall in Florida before June 30, 2006, Southern Family will likely sustain losses for which there is no reinsurance. This would further exacerbate respondent’s insolvency. Further, Respondent has no reinsurance coverage for the next (July 1, 2006 – June 30, 2007) year.
7. Therefore, Southern Family Insurance Company is in violation of Section 631.051 (3), Florida Statutes, in that is in “such condition or is using or has been subject to such methods or practices in the conduct of its business, as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, creditors, stockholders, or the public.
8. Southern Family Insurance Company has approximately 45,000 policyholders who must be transitioned to a solvent insurer prior to the beginning of hurricane season.

9. Despite the opportunity for the officers and affiliates of Respondent to infuse additional capital into Southern Family Insurance Company, no additional capital has been provided.
10. Respondent is in such condition that any further attempts at rehabilitation would be futile.
11. The Receiver believes that Respondent must be liquidated immediately to protect the remaining assets of Respondent for the benefit of its policyholders, creditors and the public, as well as assuring for the orderly transition of these policyholders to one or more solvent insurers.

WHEREFORE the Receiver requests that the Court schedule and conduct a hearing on an expedited basis and subsequently enter an Order appointing the Department Receiver of Southern Family Insurance Company for purposes of liquidation.

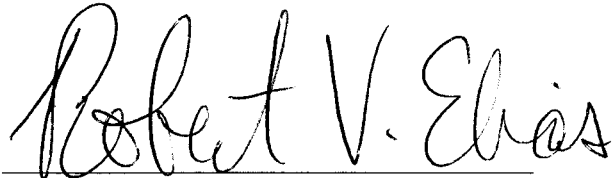
Respectfully submitted,



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Florida Department of Financial Services
Division of Rehabilitation and Liquidation
Post Office Box 110
Tallahassee, Florida 32302-0110
(850) 413-4445 - Telephone
(850) 488-1510 - Facsimile

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been furnished via facsimile and overnight mail to Richard B. Hadlow, Holland and Knight, 100 North Tampa Street, Suite 4100, Tampa, Florida 33602, and to William F. Poe, Sr., Chairman, Poe Insurance Holdings, LLC, 302 Knights Run Avenue , Suite 700, Tampa Florida 33602, this 8th day of May, 2006



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AFFIDAVIT OF JOSEPH BOOR, FCAS

BEFORE ME, the undersigned authority, appeared Joseph Boor, FCAS, who after being sworn, deposes and says:

1. I, Joseph Boor, currently hold the position of Actuary, PROPERTY & CASUALTY FINANCIAL OVERSIGHT, OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE"). I graduated from Southern Illinois University in 1979 with a Bachelor's degree in Mathematics. I received the Associate of the Casualty Actuarial Society degree in 1985 and the Fellow of the Casualty Actuarial Society degree in 1988. I have authored extensively on aspects of casualty actuarial science, including articles in the premier casualty actuarial journal and articles that are part of the course of study for the Associate degree of the Casualty Actuarial Society, and am a frequent speaker at actuarial meetings. I have been employed by the OFFICE since June 29, 2004. My responsibilities include evaluating the loss and loss adjustment expense reserves of Florida companies in connection with normal triennial exams of insurance companies performed by the OFFICE; performing loss reserve studies in connection with internal requests by OFFICE staff; review of reinsurance documents to assess transfer of risk, and special reviews of actuarial reports performed by other actuaries.

2. SOUTHERN FAMILY INSURANCE COMPANY (the COMPANY) is currently a domestic stock insurer in the State of Florida licensed pursuant to Section 624.401, Florida Statutes, and is subject to the jurisdiction and regulation of the OFFICE.

3. I have independently reviewed the loss and loss adjustment expense reserve needs of SOUTHERN FAMILY INSURANCE COMPANY as of December 31, 2005 using the most current data available as I began my review (loss and outside adjuster cost data through February 28, 2006, inside adjuster cost data through December 31, 2005). Relevant aspects of my review include:

- (A) As of December 31, 2005, SOUTHERN FAMILY INSURANCE COMPANY posted loss and loss expense reserves in the amount of \$24,741,120.
- (B) I evaluate the needed loss and loss adjustment expense reserves of SOUTHERN FAMILY INSURANCE COMPANY, as of December 31, 2005, at \$216,771,000 (rounded to the nearest thousand).
- (C) Consequently, in my professional opinion, the loss and loss adjustment expense reserves listed on the accounting records of SOUTHERN FAMILY INSURANCE COMPANY, as of December 31, 2005, were inadequate by \$192,030,000 (rounded to the nearest thousand).
- (D) Of critical importance to establishing the appropriate net loss and loss adjustment expense reserves of SOUTHERN FAMILY INSURANCE COMPANY is an evaluation of the catastrophe reinsurance program employed by SOUTHERN FAMILY INSURANCE COMPANY. My analysis of the catastrophe reinsurance program, which is based largely on quota share reinsurance and coverage provided by the Florida Hurricane Catastrophe Fund, finds that :
 - i. The 'All Poe Companies Personal Lines Quota Share Program' limit of coverage for hurricane Wilma is exhausted. This limit applies to the personal lines business of all three insurers in the Poe Financial Group: SOUTHERN FAMILY INSURANCE COMPANY, FLORIDA PREFERRED PROPERTY INSURANCE COMPANY, and SOUTHERN FAMILY INSURANCE COMPANY. Recoveries from the reinsurers under this quota share program are capped at approximately \$350 million. Were there no cap, based on the quota share allocations of the program, the reinsurers would be responsible for approximately \$389 million. As a result of the

cap, I project that \$39 million is beyond the maximum amount the reinsurers are required to pay.. This last \$39 million in hurricane Wilma loss and loss adjustment expense costs of all the Poe companies is unreinsured, of which slightly under \$1.2 million is attributable to SOUTHERN FAMILY INSURANCE COMPANY.

- ii. The commercial lines business of SOUTHERN FAMILY INSURANCE COMPANY was also covered by a quota share reinsurance arrangement. That coverage also had a limit, or cap, which appears to be \$106 million. My best estimate suggests the commercial lines losses applied towards the cap will be \$215 million, leaving \$109 million unreinsured. Since the limit can vary with the amount of commercial lines premiums sold by the COMPANY, it is possible that this limit is slightly understated and that the COMPANY will be able to recover millions more than I presently estimate from their reinsurers. However, the massive size of the reserve inadequacy (\$192 million as discussed above), compared to their small statutory surplus (roughly \$4.5 million) makes it virtually impossible for the reinsurance limit to be high enough to change the basic conclusions about the financial health of the COMPANY.
- iii. In my best (most likely to occur) actuarial estimate of Hurricane Wilma losses, the losses eventually recoverable from the Florida Hurricane Catastrophe Fund exhaust the 'limit' (maximum amount payable, or cap) of loss recoverable from the Florida Hurricane Catastrophe Fund. Out of a reinsurance limit of \$336 million, I expect \$520 million to be incurred by SOUTHERN FAMILY INSURANCE COMPANY, leaving the last \$184 million to be either covered by the two quota share coverages (whose caps were exhausted in the process), or unreinsured . As stated earlier, at this point the three major

reinsurance coverages (the two quota share arrangements and the Florida Hurricane Catastrophe Fund) are exhausted.

- iv. The limits or caps of the remaining reinsurance treaty-type coverages available to SOUTHERN FAMILY INSURANCE COMPANY and applicable to hurricane Wilma have also been exhausted.
 - v. There is a minor amount of reinsurance coverage remaining available on individual properties insured by the COMPANY that suffer over \$24 million in damages, but it's impact is immaterial in relation to the relative sizes of the reserve inadequacy and the COMPANY's small statutory surplus.
 - vi. Because SOUTHERN FAMILY INSURANCE COMPANY is responsible for paying 100% of loss and loss adjustment expense costs once all available reinsurance is exhausted, the loss and loss adjustment expense reserves of SOUTHERN FAMILY INSURANCE COMPANY could increase significantly if direct (i.e. before the impact of reinsurance) losses develop higher than my best estimate. However, at this time it already appears that the loss reserve deficiency is greatly larger than the statutory surplus reported by the COMPANY at 12/31/05 (\$4,512,033).
- (E) My estimate of the range of most likely eventual costs for all loss and loss adjustment expense unpaid as of December 31, 2005 runs from \$126,486,000 to \$331,029,000. Notice that even the low end of this range shows a reserve deficiency (\$102 million) that is a massive multiple of the COMPANY's reported surplus at 12/31/05 (again, \$4,512,033).
- (F) The loss reserve indication is higher than might otherwise be indicated by the COMPANY because we found evidence that the COMPANY is paying (and closing) commercial lines claims much more slowly than they have paid and closed claims for the major 2004 hurricanes.

FURTHER AFFIANT SAYETH NAUGHT.

Joseph A. Boor FCA)

Joseph A. Boor, FCAS

Actuary

Bureau of Property & Casualty Financial Oversight

Office of Insurance Regulation

State of Florida

County of Leon

I HEREBY CERTIFY that on this day, before me, an officer duly authorized in the State of Florida and Leon County aforesaid to take acknowledgements, personally appeared Joseph Boor to me known to be the person described in and who executed the foregoing Affidavit, that he acknowledged before me that he executed the same, that I relied upon the following form of identification of the above named person Joseph Boor and that an oath (was)(was not) taken.

WITNESS my hand and official seal in the County and State last aforesaid this

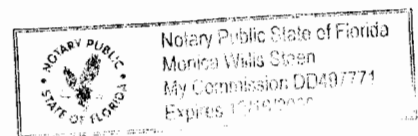
8 day of May, 2006.

Monica Willis Steen

NOTARY PUBLIC

Monica Steen

PRINTED NOTARY SIGNATURE



AFFIDAVIT OF CLAUDE MUELLER

BEFORE ME, the undersigned authority, appeared Claude Mueller, who after being sworn, deposes and says:

1. I, Claude Mueller, currently hold the position of Director with the BUREAU OF PROPERTY & CASUALTY FINANCIAL OVERSIGHT, OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE"). I graduated from Florida State University in 1989 with a Bachelor's degree in Risk Management/Insurance. I have been employed by the OFFICE since April 20, 1999. My responsibilities include directing the activities regarding the compliance, operational, and solvency audits of property and casualty insurers.

2. SOUTHERN FAMILY INSURANCE COMPANY is currently a domestic stock insurer in the State of Florida licensed pursuant to Section 624.401, Florida Statutes, and is subject to the jurisdiction and regulation of the OFFICE.

3. The OFFICE has determined that grounds for SOUTHERN FAMILY INSURANCE COMPANY's liquidation exist pursuant to Section 631.061, Florida Statutes, in that SOUTHERN FAMILY INSURANCE COMPANY:

(A) is impaired or insolvent. The basis for this determination is summarized as follows:

(i) In its 2005 Annual Statement filed with the Office on March 1, 2006, SOUTHERN FAMILY INSURANCE COMPANY reported surplus as to policyholders of \$4,512,033 as of December 31, 2005.

(ii) In its 2005 Annual Statement filed with the Office on March 1, 2006, SOUTHERN FAMILY INSURANCE COMPANY reported net loss and loss adjustment expenses of \$24,741,120 as of December 31, 2005. Pursuant to Section 624.041(1), Florida Statutes, this is the amount necessary to pay all of an insurer's unpaid losses and claims incurred on or prior to the date of statement, whether reported or unreported, together with the expenses of adjustment or settlement thereof.

(iii) The Office has determined that SOUTHERN FAMILY INSURANCE COMPANY's reported net loss and loss adjustment expenses as of December 31, 2005 were deficient by approximately

\$192.0 million and are in fact closer to approximately \$216.8 million. This is the OFFICE's best estimate of loss and loss adjustment expense within a range of \$126.5 million to \$331.0 million.

(iv) Adjusting SOUTHERN FAMILY INSURANCE COMPANY's reported surplus as of December 31, 2005 to account for the \$192.0 million reserve deficiency renders SOUTHERN FAMILY INSURANCE COMPANY insolvent by approximately \$187.5 million. Considering the OFFICE's range of estimated loss and loss adjustment expenses, SOUTHERN FAMILY INSURANCE COMPANY is insolvent by as little as \$97.2 million or by as much as \$301.8 million.

(v) At this time, SOUTHERN FAMILY INSURANCE COMPANY has provided no evidence to the OFFICE that it has received any additional capital funds from its shareholder or any other source to cure its insolvency and therefore, SOUTHERN FAMILY INSURANCE COMPANY is unable to pay all its outstanding liabilities.

(B) is found to be in such condition as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, creditors, stockholders, or the public. The basis for this determination is summarized as follows:

(i) As stated above, SOUTHERN FAMILY INSURANCE COMPANY is insolvent and unable to pay all its outstanding liabilities.

(ii) SOUTHERN FAMILY INSURANCE COMPANY writes homeowners insurance in, and only in, the state of Florida.

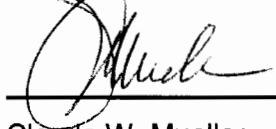
(iii) SOUTHERN FAMILY INSURANCE COMPANY has insufficient catastrophe reinsurance to honor all of its policyholder obligations, should a hurricane of any magnitude make landfall in Florida during the 2006 hurricane season which begins on June 1, 2006.

(iv) SOUTHERN FAMILY INSURANCE COMPANY has approximately 45,000 policyholders that must be transitioned to a solvent insurer prior to the beginning of hurricane season.

4. Based on the findings outlined above, the OFFICE has determined that SOUTHERN FAMILY INSURANCE COMPANY is found to be in such condition as to render its further transaction of insurance presently or prospectively hazardous to its

policyholders, creditors, stockholders, or the public. Thus, grounds exist for issuing an Order for entry into liquidation under Section 631.061, Florida Statutes.

FURTHER AFFIANT SAYETH NAUGHT.



Claude W. Mueller

Director

Bureau of Property & Casualty Financial Oversight

Office of Insurance Regulation

State of Florida

County of Leon

I HEREBY CERTIFY that on this day, before me, an officer duly authorized in the State of Florida and Leon County aforesaid to take acknowledgements, personally appeared Claude Mueller to me known to be the person described in and who executed the foregoing Affidavit, that he acknowledged before me that he executed the same, that I relied upon the following form of identification of the above named person _____ Claude Mueller and that an oath (was) (was not) taken.

WITNESS my hand and official seal in the County and State last aforesaid this _____ 8 day of May, 2006.



NOTARY PUBLIC

Monica Steen

PRINTED NOTARY SIGNATURE

