



Florida Department of Financial Services

Division of Rehabilitation and Liquidation

Southern Fidelity Insurance Company Annual Insolvency Report - October 15, 2023

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”).

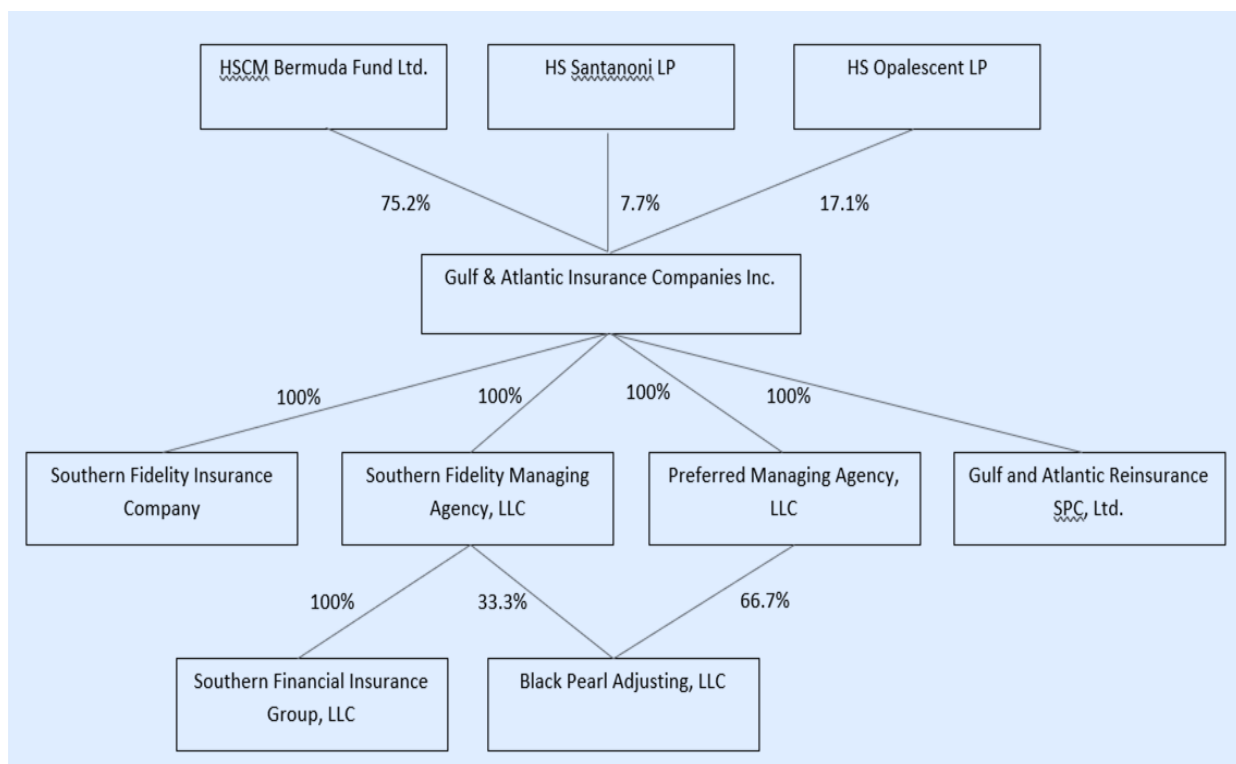
Southern Fidelity Holding Company, (“SFHC”) was SFIC’s parent and it owned one hundred percent (100%) of the capital stock of SFIC. SFHC contributed \$7.5 million to SFIC in its formation in 2005. SFHC no longer has any ownership stake in the company. SFIC was currently wholly owned by Gulf and Atlantic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

SFIC's financial statement as of April 30, 2022, illustrated the following figures for net admitted assets, liabilities, and surplus as regards policyholders:

Description	December 31, 2021	April 30, 2022
Net Admitted Assets	\$327,384,952	\$328,965,214
Total Liabilities	\$285,275,964	\$298,807,763
Surplus as Regards Policyholders	\$42,108,988	\$30,157,451

II. Policy and Claims Information

Prior to receivership, Southern Fidelity had the below number of policies and pending claims in each of the below states:

Policy and Claims Information			
State	In-Force Policies	Claims Count	Loss Reserve
Florida	77,972	4,142	\$100,429,003
Louisiana	42,357	2452	\$64,913,871
Mississippi	645	15	\$135,246
South Carolina	25,615	349	\$4,171,703
Unknown	0	1	\$35,160
Company Total	146,589	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.

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 and continues in that role.

II. Receivership Events

The below chart identifies relevant activities that has occurred during SFIC’s receivership period.

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

Post-Receivership Information (Figures Represent Comprehensive Totals from Date of Liquidation to October 1, 2023)	
Description	Figure
(1) Funds Recovered from Reinsurance	\$43,263,243.11
(2) Sale of Properties Owned by Southern Fidelity Insurance Company	\$13,600,000.00
(3) Number of Lawsuits Currently Pending	2,465
(4) Number of Proof of Claims (POC) Filed in the Receivership Estate	1,380

III. Financial Statement

For a copy of the latest financial statement as of June 30, 2023, refer to the last pages of this document.

IV. Guaranty Associations

Upon entering receivership, guaranty associations were activated to provide continued resolution and payment of covered claims on behalf of SFIC. They included the Florida Insurance Guaranty Association, South Carolina Property and Casualty Insurance Guaranty Association, Louisiana Insurance Guaranty Association, and Mississippi Insurance Guaranty Association. A summary of SFIC's claims liabilities from all guaranty associations as of the most recent financial statement date, June 30, 2023, is listed below.

Class	Description of Claim	Total Liabilities
1	Administrative Expenses of Guaranty Associations	\$25,108,167.38
2	Loss Claims	\$154,128,704.03
3	Unearned Premium under Non-Assessable Policies	\$142,426,408.34

V. Post-Receivership Claims Information

As a result of the receivership, all policies were cancelled on July 15, 2022. As of October 1, 2023, Southern Fidelity 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	1,359	982	\$20,515,343.20
Louisiana	3,773	1,474	\$42,275,863.77
Mississippi	8	0	\$69,959.56
South Carolina	11	9	\$164,725.95
Company Total	5,151	2,465	\$63,025,892.48

Number of Claims Transferred to Guaranty Associations by Claim Status As of October 1, 2023	
Claim Status	Total Claims
Open Claims at Liquidation	6,959
New Claims	2,091
Reopen Claims	4,388
TOTAL	13,438

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 Southern Fidelity to the Department for delinquency proceedings included:

- 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, and associated litigation costs, were 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, and related litigation costs, exhausted the remaining surplus which resulted in the company’s referral for delinquency proceedings.

B. Post-Liquidation

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

- Company owned real and personal property that was used primarily as a hunting lodge. The property produced no income to the company. The total maintenance of the property

exceeded \$485,000 per year. The Department is examining whether SFIC took active measures to conceal these costs from OIR.

- The 2021 hurricane season was the third-most active season on record. Most notable of the storms that made landfall was Hurricane Ida, a Category 4 storm, that occurred approximately two weeks prior to Hurricane Nicholas, a Category 1. SFIC was unable to maintain reinsurance sufficient to enable the company to pay all of Ida's claims in full. SFIC exhausted its catastrophe reinsurance tower with Hurricane Ida and tried to obtain additional reinsurance, but they were unsuccessful.

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 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 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 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

**Florida Department of Financial Services, Division of Rehabilitation and
Liquidation
Southern Fidelity Insurance Co in Liquidation
Statement of Affairs
6/30/2023**

	<u>Estimated Realizable Value</u>
ASSETS	
Cash-Company Operating	\$2,934,410.62
SPIA-Restricted	16,934,541.12
Pooled Cash in SPIA Due from the Admin Fund	123,071,068.65
Short Term Investments	261,736.12
Accrued Interest Receivable	204,991.76
Reinsurance Recoverable	1,250.00
Accounts Receivable	42,546,421.65
Allowance - Accounts Receivables	(42,546,421.65)
Marshaled Inventory	5,639,024.00
Long Term Investments	80,245.00
Other Assets	2,202,390.00
Advance to Guaranty Associations	47,402,635.00
Total Assets	<u><u>\$198,732,292.27</u></u>
LIABILITIES	
Secured Claims	16,934,541.12
Class 1 Administrative Claims	
Class 1 - Guaranty Associations	25,108,167.38
Class 2 Loss Claims	
Class 2 - Guaranty Associations	154,128,704.03
Class 2 - Other	59,100.48
Class 3 Unearned Premium Claims under Non-assessable Policies	
Class 3 - Guaranty Associations	142,426,408.34
Class 3 - Other	2,494,725.35
Class 6 General Creditor Claims	
Class 6 - Other	1,517,255.49
Class 7 State & Local Government Claims	737,266.86
Class 11 Shareholder Claims	2,761.22
Total Liabilities	<u>\$343,408,930.27</u>
EQUITY	
Contributed Equity - State of Florida	135,796.97
Estate Equity	(144,812,434.97)
Excess (Deficiency) of Assets over Liabilities	<u>(\$144,676,638.00)</u>
Total Liabilities and Equity	<u><u>\$198,732,292.27</u></u>

**Florida Department of Financial Services, Division of Rehabilitation
and Liquidation**
Southern Fidelity Insurance Co in Liquidation
Notes to Financial Statements

Dated June 30, 2023

1. **Estate Information.** Southern Fidelity Insurance Company was a property and casualty organization domiciled in Florida placed in liquidation on June 15, 2022.
2. **Basis of Presentation.** The accompanying financial statements have been prepared on a modified cash basis of accounting using a fiscal year of July 1, 2022 through June 30, 2023. The assets are stated at their estimated realizable values, while the liabilities are stated at their gross filed amounts and are periodically adjusted as evaluated, adjudicated and/or paid. Interest is accrued and reinsurance receivables are only posted when billed to reinsurers. In addition, the statements do not provide accruals for all future administrative expenses to liquidate the estate or costs to pursue or litigate claims against others.
3. **Unaudited.** The accompanying financial statements have not been audited by an independent certified public accountant and no opinion is expressed on their compliance with generally accepted accounting principles.
4. **Pooled Investments.** The majority of the invested assets of the estates are combined into two main pooled accounts: The Receiver's operating account held at Wells Fargo and the Special Purpose Investment Account held at the State of Florida Treasury. Each estate's share of the pooled investments is presented on the accompanying financial statements as "Pooled Cash Due from the Admin Fund".
5. **Special Purpose Investment Account (SPIA) – Restricted.** Represents funds wired to the Receiver by issuers of Letters of Credit for the purpose of collateralizing Reinsurance Receivables.
6. **Short-Term Investments.** The investments are stated at fair value, which approximates market value. Market values are those provided by the depository trust institution or brokerage institution in possession of the securities at the balance sheet date. These investments consist of various accounts at Truist Bank.
7. **Reinsurance.** Reinsurance receivables have resulted from losses that have been paid and billed to the reinsurer(s). The financial statements reflect the estimated gross amount of the billed losses less an allowance for any receivable(s) where there is an uncertainty regarding collectability. The receivable amount may include paid losses that are ceded to one or more reinsurance contracts being collected on behalf of the Receiver by an intermediary or the Receiver's staff.
8. **Accounts Receivable.** These account receivables consist of a Federal Income Tax Refund and a Deferred Tax Asset Guaranty. A MOU is in progress.
9. **Allowance – Accounts Receivable.** An estimate of uncollectible amounts for certain assets.
10. **Marshaled Inventory – Real Property/Personal Property.** Assets of a durable nature such as buildings, furniture, computer equipment, and machinery. The property in this estate consists of the home office in Tallahassee, FL and the home office IT equipment.
11. **Long Term Investments.** The investments are stated at fair value, which approximates market value. Market values are those provided by the depository trust institution or brokerage institution in possession of the securities at the balance sheet date. This investment consists of government bonds at Truist Bank.
12. **Other Assets.** These assets consist of states' statutory deposits held at various financial institutions. The Schedule of Other Assets reflects the value of these deposits at June 30, 2023 or latest available, those that have been collected by the Receiver and those where the state has taken its deposit.
13. **Advance to Guaranty Association(s).** Represents funds advanced to guaranty associations for the payment of covered claims and expenses. The guaranty association is obligated to promptly return any of these funds if the Receiver determines that repayment of claims of equal or superior priority is necessary.
14. **Secured Claims.** Secured claims represent liabilities for such items as collateral for Reinsurance Receivables. This secured claim represents funds wired to the Receiver by issuers of Letters of Credit on behalf of several companies that were deposited to a segregated account until disposition of the funds can be resolved for amounts related to Reinsurance Receivables.

**Florida Department of Financial Services, Division of Rehabilitation
and Liquidation**
Southern Fidelity Insurance Co in Liquidation
Notes to Financial Statements
Dated June 30, 2023

15. **Claims.** Unless otherwise noted, the Statement of Affairs contains claim liabilities by priority class pursuant to 631.271, Florida Statutes. Unless otherwise stated, the claim liabilities reported are gross filed, un-adjudicated, and have not been reduced by any early access payments from the Florida Receiver. Claim liability numbers are based upon the most current available information and documentation provided to the Receiver from both internal and external sources.
- Class 1 & Class 3 claim liabilities are based upon Guaranty Association payments and estimates.
 - Class 2 claim liabilities are based on Guaranty Association payments and estimates and Filed Proof of Claim Forms.
 - Classes 4 – Class 11 claims liabilities are based on Filed Proof of Claim forms.
 - Filed Proof of Claims forms are currently being processed and all liabilities are subject to change.
16. **Interest Distributions.** For companies placed into receivership on or after July 1, 2012, Section 631.271, Florida Statutes authorizes the payment of interest on claims in Classes 1-9 prior to making any payment on shareholder claims. At this time, the Receiver does not anticipate having sufficient assets in this estate to pay all claims for Classes 1-9. Accordingly, this statement does not reflect an interest reserve for Classes 1-9 allowed claims.
17. **Federal Priority.** The federal government has taken the position that pursuant to 31 U.S.C.A. 3713 a federal government claim must be paid first, when a debtor to the United States is insolvent. The federal government has also taken the position that it is not subject to state insurance liquidation claim's proceedings deadlines. To establish finality, shield itself from potential liability, and ultimately discharge the estate, the Receiver will request a federal release from the U.S. Department of Justice.
18. **Contributed Equity – State of Florida.** The Receiver will, from time to time, expend public funds to carry out certain duties during the course of liquidating an insurance company. The Division accounts for these expenditures as a contribution of equity by the State.
19. **Excess (Deficiency) of Assets over Liabilities.** The excess or (deficiency) represents the estimated realizable value of assets after deducting the current estimate of liabilities. This excess or (deficiency) does not take into consideration any estimates for future administrative costs to liquidate the estate or costs to pursue or litigate claims against others.