



OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

FINANCIAL SERVICES
COMMISSION

RICK SCOTT
GOVERNOR

JIMMY PATRONIS
CHIEF FINANCIAL OFFICER

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ATTORNEY GENERAL

ADAM PUTNAM
COMMISSIONER OF
AGRICULTURE

November 17, 2017

The Honorable Jimmy Patronis
Chief Financial Officer
Department of Financial Services
Plaza Level 11, The Capitol
Tallahassee, FL 32399-0301

Re: Guarantee Insurance Company

Dear Chief Financial Officer Patronis:

Please be advised that the Office of Insurance Regulation (hereinafter referred to as "Office") has determined that one or more grounds exist for the initiation of delinquency proceedings, pursuant to Chapter 631, Florida Statutes, against Guarantee Insurance Company (hereinafter referred to as "GIC"). GIC is a Florida corporation, authorized to transact business as a property and casualty insurer in the state of Florida and licensed only in the line of workers compensation insurance. As specified in Sections 631.051 and 631.061, Florida Statutes, the grounds that permit the Department of Financial Services (hereinafter referred to as the "Department") to petition for an order appointing the Department as receiver and directing it to rehabilitate or liquidate the business of a domestic insurer include, that the insurer:

- (1) **Is impaired or insolvent (§631.051(1), F.S.);
Is or is about to become insolvent (§631.061(1), F.S.);**

GIC's actuary recently amended his Statement of Actuarial Opinion to report a reserve adjustment whereby GIC must increase reserves by the amount of \$42,426,547, which represents the midpoint of the actuarial range, net of reinsurance. GIC's filed financial statement as of June 30, 2017, reflects surplus as regards policyholders of \$42,189,770. Applying this adjustment, GIC's adjusted surplus as regards policyholders at June 30, 2017, is (\$236,775). Therefore, the Office finds, for the reasons set forth in the attached exhibits, that GIC has insufficient assets to pay all outstanding obligations and is insolvent.

- (2) **Is found by the office to be 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 (§631.051(3), F.S.);**

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The Office finds, for the reasons set forth in this letter and the attached exhibits, that GIC's insolvency renders its further transaction of insurance hazardous to its policyholders, subscribers, claimants, creditors, and the citizens of the state of Florida.

(3) Has willfully violated its charter or certificate of incorporation or any law of this state (§631.051(8), F.S.);

GIC reported collateral for Unauthorized Reinsurance as a liability for Funds Held by GIC under Reinsurance Treaties in the amount of \$144,591,000 as of December 31, 2016. Maintaining collateral is required under Statements of Statutory Accounting Principles 62R to qualify for reinsurance credits on business ceded under unauthorized reinsurance. GIC booked and availed itself of reinsurance credit at a time that it knew that it did not have sufficient cash and invested assets to cover this liability. Therefore, GIC knowingly filed a false financial statement with the Office in violation of Sections 624.424(1)(a) and 817.2341, Florida Statutes.

(4) Has been the victim of . . . conversion, diversion, or encumbering of its assets; forgery or fraud affecting it; or other illegal conduct in, by, or with respect to it, which if established would threaten its solvency; or that the office has reasonable cause to so believe any of the foregoing has occurred or may occur (§631.051(13), F.S.);

The Office finds, for the reasons set forth in the attached exhibits, that GIC has systematically transferred funds, totaling at least \$15,743,000, to Mr. Steve Mariano, the ultimate owner of GIC, during the calendar year 2016 and through June 2017. These transfers were made with no documented business purpose and no discernable benefit to GIC and the Office has deemed them detrimental to GIC. While Mr. Mariano benefitted individually from these transactions by receiving cash from GIC, this indebtedness diverted funds that otherwise could be used to increase the surplus of GIC and otherwise be available for the payment of policyholder claims. Section 625.332(1)(c), Florida Statutes, prohibits direct or indirect notes or other evidence of indebtedness of any director, officer, or controlling stockholder of the insurer, except as to policy loans authorized under Section 625.321, Florida Statutes. Therefore, GIC has violated Section 625.332(1)(c), Florida Statutes, by transferring these funds to Mr. Mariano. Further, the Office has identified other transactions involving parties with known association to Mr. Mariano that have been harmful to GIC.

(5) Has consented to such an order through a majority of its directors, stockholders, members, or subscribers (§631.051(11), F.S.).

The Office finds, for the reasons set forth in the attached exhibits, that GIC's Board of Directors met and executed a Joint Resolution of its Directors along with a Consent to Order of Rehabilitation or Liquidation on November 13, 2017.

Therefore, the Office is advising the Department of these determinations so that delinquency proceedings can be initiated by the Division of Rehabilitation and Liquidation. The following exhibits are attached in support of such determination:

Exhibit A – Affidavit of Virginia Christy, Director, Property & Casualty Financial Oversight, with Exhibits 1 through 3; and

Exhibit B – Affidavit of James Menck, contracted representative of the Office.

The Office is prepared to provide any additional information or assistance the Department may require to proceed as expeditiously as possible. Thank you for your attention to this matter.

Sincerely,



David Altmaier
Commissioner