FEDERATED NATIONAL HOLDING CO
Form 8-K
July 02, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 1, 2015

FEDERATED NATIONAL HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Florida	0-2500111	65-0248866
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

14050 NW 14 Street, Suite 180 Sunrise, FL	33323
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (800) 293-2532

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement.

2015-2016 Excess of Loss Reinsurance Treaties

Federated National Holding Company (the "Company," "we" or "us"), through its wholly owned subsidiary, Federated National Insurance Company ("Federated National"), has agreed upon the terms of its excess of loss catastrophe reinsurance treaties for the 2015 – 2016 hurricane season. These treaties are designed to reimburse Federated National for property losses under its homeowners' insurance policies resulting from covered events. We utilize reinsurance to reduce exposure to catastrophic risk and to help manage capital, while lessening earnings volatility and improving shareholder return, and to support the required statutory surplus requirements. Our catastrophe reinsurance program has been designed to coordinate coverage provided under various treaties with various retentions and limits.

Our private market excess of loss treaties have a term of one year beginning July 1, 2015 continuing through June 30, 2016 and all private layers have prepaid automatic reinstatement protection, which affords the Company additional coverage. These private market excess of loss treaties structure coverage into layers, with a cascading feature such that substantially all layers attach at $12.9 million for our Florida exposure. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Additionally, any unused layer protection drops down for subsequent events until exhausted. These treaties are with reinsurers that currently have an A.M. Best Company ("AM Best") or Standard & Poors rating of A- or higher, or have fully collateralized their maximum potential obligations in dedicated trusts.

The total estimated cost of $149.4 million to the Company is comprised of approximately $104.5 million for the herein referenced private reinsurance products including prepaid automatic premium reinstatement protection along with approximately $44.8 million payable to the Florida Hurricane Catastrophe Fund ("FHCF"). The combination of private and FHCF reinsurance treaties will afford us with approximately $1.82 billion of aggregate coverage with a maximum single event coverage totaling approximately $1.26 billion, exclusive of retentions. The Company has reduced its FHCF participation to 75% from 90% with a private market excess loss treaty. The Company's single event pre-tax retention for a catastrophic event in Florida is $12.9 million or 6.3% of the Company's GAAP equity as of March 31, 2015. The reinstatement treaty contains provisions for the Company to participate up to $2.5 million of a covered loss in excess of $21.5 million resulting in the Company's maximum retention of $15.4 million.

Included in this year's program are two quota share treaties, similar in terms; one for 30% and one for 10%. This is the second year of a two-year term for the 30% quota share treaty and the first year of a two-year term for the new 10% quota share treaty. For the 2015 – 2016 Catastrophic wind season only, both treaties combined provide a 40% quota share reinsurance treaty for the Company's in-force new and renewal homeowners' insurance program in the State of Florida.

The original two-year quota share reinsurance treaty provides 30% of $200 million of aggregate catastrophe coverage per year with maximum single event coverage of 30% of $100 million per year. The new two-year quota share reinsurance treaty provides 10% of $200 million of aggregate catastrophe coverage per year with maximum single event coverage of 10% of $100 million per year. The projected cost of the quota share treaties are included in the $149.4 million amount referenced above. The quota share treaties contain commutation provisions for the Company to share profits based on loss experience during the term of the respective treaties.

Included in the $149.4 million is a charge for non-Florida risks. The total estimated cost for the non-Florida operations total $3.9 million to the Company is for private reinsurance including prepaid automatic premium reinstatement projection. The non-Florida Excess of Loss treaties afford Federated National additional coverage down to a $5.0 million retention for each of the two covered events with approximately $81.8 million of aggregate coverage with maximum single event coverage totaling approximately $40.9 million.

The cost and amounts of reinsurance are based on management's current analysis of Federated National's exposure to catastrophic risk. Our data will be subjected to exposure level analysis as of various dates during the period ending December 31, 2015. This analysis of our exposure level in relation to the total exposures to the FHCF and excess of loss treaties may produce changes in retentions, limits and reinsurance premiums as a result of increases or decreases in our exposure level.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	FEDERATED NATIONAL HOLDING COMPANY	
Date: July 2, 2015	By:	/s/ Peter J. Prygelski, III
	Name:	Peter J. Prygelski, III
	Title:	Chief Financial Officer (Principal Accounting and Financial Officer)