



**EXAMINATION REPORT
OF**

**HOMEOWNERS CHOICE PROPERTY & CASUALTY
INSURANCE COMPANY, INC.**

NAIC Company Code: 12944

TAMPA, FLORIDA

**as of
December 31, 2015**

**BY THE
FLORIDA OFFICE OF INSURANCE REGULATION**

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February 7, 2017

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2015, of the financial condition and corporate affairs of

Homeowners Choice Property & Casualty Insurance Company, Inc.
5300 West Cypress Street, Suite 100
Tampa, Florida 33607

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2011, through December 31, 2015. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office), covering the period of January 1, 2010 through December 31, 2010. This examination commenced with planning at the Office on July 12, 2016 to July 14, 2016. The fieldwork commenced on August 23, 2016, and concluded as of February 7, 2017.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles (SSAP).

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There are no current examination report findings.

Prior Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2010, along with resulting action taken by the Company in connection therewith.

Purchase of Derivative Instruments

In violation of Section 625.303, Florida Statutes, the Company purchased and sold derivative instruments which were non-interest bearing and non-interest earning without prior approval from the Office. In addition, the Company failed to properly disclose the derivative transactions within the annual statement.

Resolution: The Company no longer holds derivative instruments.

Complaint Log

The Company did not maintain a complete complaint log as required by Section 626.9541 (1) (j), Florida Statutes.

Resolution: The Company maintains a complete complaint log in accordance with Florida Statutes.

Claims Manual

The Company did not maintain a current claims procedure manual in accordance with Section 626.9541(1)(i)3.a., Florida Statutes.

Resolution: The Company maintains a current claims procedure manual in accordance with Florida Statutes.

COMPANY HISTORY

General

The Company was incorporated in Florida and commenced business on May 10, 2007.

The Company was authorized to transact insurance coverage in Florida on May 10, 2007, and is currently authorized for the following coverage(s) as of December 31, 2015.

Fire
Allied Lines

Homeowners Multi-Peril
Mobile Home Multiple-Peril

Subsequent Event: On November 2, 2016, the Company became authorized for Commercial Multi-Peril coverage.

Dividends

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder(s) in 2015 in the amount of \$16,700,000.

Capital Stock and Capital Contributions

As of December 31, 2015, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, HCI Group, Inc., which owned one hundred percent (100%) of the stock issued by the Company. The parent provided the Company \$50,503,104 in gross paid in and contributed capital as of December 31, 2015.

Surplus Notes

On March 31, 2015, the Company, with the prior approval of the Office, repaid in full its surplus note in the amount of \$4,000,000 to the holder, HCI Group, Inc. The surplus note was issued on September 27, 2011, had no maturity date and accrued interest at a rate of three percent (3%) per year, payable quarterly. The quarterly payments were made only with the prior approval of the Office, and only to the extent that the Company complied with the Florida Insurance Code.

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2015 are shown on the following page.

Directors

Name	City, State	Principal Occupation
Pareshbhai Suryakant Patel	Clearwater, Florida	President and Chairman, HCI Group, Inc.
Gregory Politis	Safety Harbor, Florida	President, Xenia Property Management
Martin Albert Traber	Tampa, Florida	Principal, Foley and Lardner, LLP
Sanjay Madhu	Tampa, Florida	President, Oxbridge Re Holdings Ltd.
Anthony Saravanos	Palm Harbor, Florida	Real Estate Division, HCI Group, Inc.

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	City, State	Title
Pareshbhai Suryakant Patel	Clearwater, Florida	President
Richard Ralph Allen	Tampa, Florida	Chief Financial Officer
Andrew Lloyd Graham	Tampa, Florida	Corporate Secretary
Brent Von Horn	Tampa, Florida	Assistant Secretary

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2015:

Audit Committee

Name	City, State	Title
Wayne Burks ¹	Tampa, Florida	Director, HCI Group, Inc.
George Apostolou	Tierra Verde, Florida	Director, HCI Group, Inc.
Harish Patel	St. Petersburg, Florida	Director, HCI Group, Inc.

¹Chairman

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

Compensation Committee

Name	City, State	Title
Martin Traber ¹	Tampa, Florida	Director, HCI Group, Inc.
George Apostolou	Tierra Verde, Florida	Director, HCI Group, Inc.
Harish Patel	St. Petersburg, Florida	Director, HCI Group, Inc.
James Macchiarola	Clearwater, Florida	Director, HCI Group, Inc.

¹Chairman

Governance and Nominating Committee

Name	City, State	Title
James Macchiarola ¹	Clearwater, Florida	Director, HCI Group, Inc.
Wayne Burks	Tampa, Florida	Director, HCI Group, Inc.
Gregory Politis	Safety Harbor, Florida	Director, HCI Group, Inc.

¹Chairman

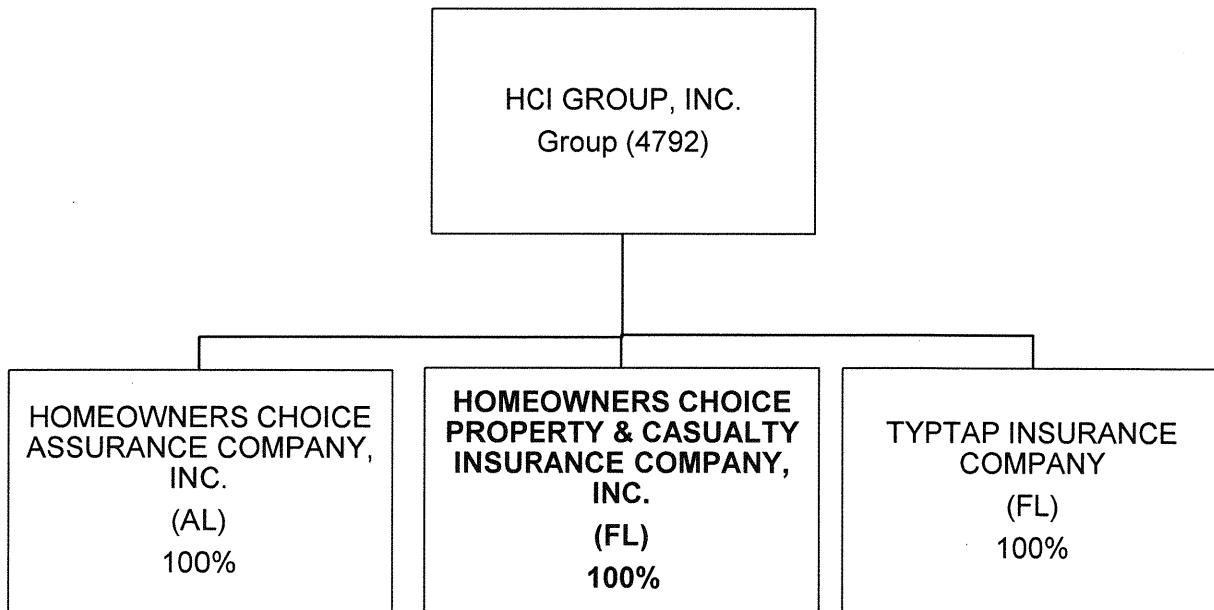
Affiliated Companies

A holding company registration statement was filed with the Office on March 31, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

Homeowners Choice Property & Casualty Insurance Company, Inc.

Simplified Organizational Chart

December 31, 2015



The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company, along with its parent, HCI Group, Inc., filed a consolidated federal income tax return. On December 31, 2015, the method of allocation between the Company and HCI Group, Inc. was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with HCI Group, Inc. Within ninety (90) days of the remittance by HCI Group, Inc. of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

Managing General Agent Agreement

The Company entered into a Managing General Agency Agreement with its affiliate, Homeowners Choice Managers, Inc. (HCM) on March 27, 2007. The agreement continues in force indefinitely, unless otherwise terminated within the guidelines of the agreement. For consideration, in part, the Company was charged a \$25 per policy fee which was imposed on each policyholder. HCM retained twenty-one and five-tenths percent (21.5%) of the Company's total written annual premium as commissions, excluding claim services and policies assumed from Citizens Property Insurance Company. The Company also paid HCM three and five-tenths percent (3.5%) of the Company's total written annual premium for claims services rendered by HCM. HCM is also eligible to receive fifty percent (50%) of all subrogation and salvage amounts recovered by HCM. HCM is due additional fees related to catastrophe services which range from \$325 per claim up to three percent (3%) of the gross loss of the claim dependent on the claim size, as well as zero and five-tenths percent (0.5%) of written premium for catastrophe response preparation fees. Fees incurred under this agreement during 2015 amounted to \$98,369,456.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (i) 3.a., Florida Statutes. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (j), Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Reinsurance Assumed

The company did not assume any risk through reinsurance during the period under examination.

Reinsurance Ceded

The Company cedes a portion of its homeowners' insurance exposure to other entities under catastrophe excess of loss reinsurance treaties. The Company remains liable to its policyholders with respect to homeowners' insurance in the event that any of the reinsurers are unable to meet their obligations under the reinsurance agreements. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurer to minimize its exposure to significant losses from reinsurer insolvencies. The Company contracts with a number of reinsurers to secure its annual reinsurance coverage, which generally becomes effective June 1st each year. The Company purchases reinsurance each year, taking into consideration maximum projected losses and reinsurance market conditions. The reinsurance program for 2015/16 provides coverage,

which according to catastrophe models approved by the Office, is sufficient to cover the probable maximum loss resulting from a 1 in 223-year event.

Claddaugh Casualty Insurance Co. Ltd. (Claddaugh), an affiliate of the Company, is a participant in the Company's reinsurance treaties. During 2015, the Company ceded premiums to Claddaugh of approximately \$24,098,000 under these agreements. The ceded premium amounts for 2015 are net of \$7,180,000, as a result of the multi-year reinsurance contracts that include retrospective provisions that adjust premiums, increase the amount of future coverage, or result in profit commission in the event losses are minimal or zero.

The Company had a reinsurance treaty with Oxbridge Reinsurance Limited (Oxbridge) for the period from June 1, 2014, through May 31, 2015, under which Oxbridge assumed \$9,000,000 of the total covered exposure for approximately \$1,350,000 in premiums. Oxbridge had deposited funds into trust accounts to satisfy certain collateral requirements under its reinsurance contracts with the Company. Among the Oxbridge shareholders are Paresh Patel, HCI Group Inc.'s chief executive officer, who is also chairman of the board of directors for Oxbridge, and members of his immediate family, and three of the Company's non-employee directors, including Sanjay Madhu, who serves as Oxbridge's president and chief executive officer.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Tampa, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained custodial agreements with The Bank of New York Mellon Trust Company executed on April, 27, 2012, Wells Fargo Bank, N.A. executed on November 1, 2011, and Raymond James and Associates, Inc. executed on November 25, 2014. The agreements complied with Rule 69O-143.042, Florida Administrative Code.

Investment Management Agreement

The Company maintained an investment management agreement with Wells Capital Management, Inc. executed on November 17, 2010. The Company authorizes the investment adviser to exercise sole investment discretion in the management of the account and to direct the purchase, sale, exchange, and transfer of securities in the account consistent with the Company's investment guidelines, and objectives.

Independent Auditor Agreement

An independent CPA, Dixon Hughes Goodman LLP (Dixon Hughes), audited the Company's statutory basis financial statements annually for the years 2013, 2014 and 2015, in accordance with Section 624.424(8), Florida Statutes. Hacker, Johnson and Smith, LLC audited the Company's statutory basis financial statements annually for the years 2011 and 2012. Supporting work papers were prepared by Dixon Hughes, as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Lindsey Pittman, CISA, of Lewis & Ellis, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following was deposited with the State of Florida as required by Section 624.411, Florida Statutes.

State	Description	Par Value	Market Value
FL	Cash	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

Homeowners Choice Property & Casualty Insurance Company, Inc.

Assets

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Bonds	\$116,352,718		\$116,352,718
Stocks:			
Preferred	13,861,779		13,861,779
Common	33,307,396		33,307,396
Cash and short-term investments	171,209,987		171,209,987
Investment income due and accrued	1,358,612		1,358,612
Agents' balances:			
Uncollected premium	5,468,822		5,468,822
Deferred premium	13,720,027		13,720,027
Reinsurance recoverable	190,474		190,474
Other amounts receivable under reinsurance contracts	36,189,262		36,189,262
Current federal and foreign income tax recoverable and interest thereon	2,008,723		2,008,723
Net deferred tax asset	6,043,392		6,043,392
Receivable from parents, subsidiaries and affiliates	1,374,307		1,374,307
Aggregate write-in for other than invested assets	429,867		429,867
Totals	<u>\$401,515,365</u>		<u>\$401,515,365</u>

Homeowners Choice Property & Casualty Insurance Company, Inc.
Liabilities, Surplus and Other Funds
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Losses	\$48,117,518		\$48,117,518
Loss adjustment expenses	3,172,557		3,172,557
Other expenses	148,876		148,876
Taxes, licenses and fees	67,391		67,391
Unearned premium	97,419,227		97,419,227
Advance premium	4,983,190		4,983,190
Ceded reinsurance premiums payable	44,730,888		44,730,888
Amounts withheld or retained by company for account of others	4,388,932		4,388,932
Payable to parent, subsidiaries and affiliates	105,100		105,100
Payable for securities	67,360		67,360
Aggregate write-ins for liabilities	3,420,960		3,420,960
Total Liabilities	\$206,621,999		\$206,621,999
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	50,503,104		50,503,104
Unassigned funds (surplus)	144,389,262		144,389,262
Surplus as regards policyholders	\$194,893,366		\$194,893,366
Total liabilities, surplus and other funds	\$401,515,365		\$401,515,365

Homeowners Choice Property & Casualty Insurance Company, Inc.

Statement of Income and Capital and Surplus Account

December 31, 2015

Premiums earned		\$260,714,458
	Deductions:	
Losses incurred		\$73,576,914
Loss expenses incurred		22,901,496
Other underwriting expenses incurred		92,985,666
Aggregate write-ins for underwriting deductions		4,103,125
Total underwriting deductions		<u>\$193,567,201</u>

Net underwriting gain or (loss)	\$67,147,257
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Investment Income

Net investment income earned	\$6,734,430
Net realized capital gains or (losses)	5,348,222
Net investment gain or (loss)	<u>\$12,082,652</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$52,089)
Finance and service charges not included in premiums	616,522
Aggregate write-ins for miscellaneous income	0
Total other income	<u>\$564,433</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$79,794,342
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$79,794,342</u>
Federal & foreign income taxes	<u>22,380,967</u>
Net Income	<u><u>\$57,413,375</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$168,034,683
Net Income	\$57,413,375
Net unrealized capital gains or losses	0
Change in net unrealized capital gains or (losses)	(375,189)
Change in net deferred income tax	(5,279,283)
Change in nonadmitted assets	(4,226,943)
Change in surplus notes	(4,000,000)
Surplus adjustments: Paid in	26,723
Dividends to stockholders	(16,700,000)
Change in surplus as regards policyholders for the year	<u>\$26,858,683</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$194,893,366</u></u>

Homeowners Choice Property & Casualty Insurance Company, Inc.
Reconciliation of Capital and Surplus
December 31, 2015

No adjustments were made to surplus as regards policyholders as a result of this examination.

Analysis of Changes to Surplus

Surplus at December 31, 2010, per Annual Financial Statement			\$31,146,762
	<u>Increase</u>	<u>Decrease</u>	
Net Income (loss)	\$160,937,343		
Change in net unrealized capital gain (loss)		(\$269,713)	
Change in net unrealized foreign exchange capital gain (loss)		(\$17,055)	
Change in net deferred income tax	\$2,518,378		
Change in nonadmitted assets		(2,086,441)	
Change in paid in surplus	\$19,364,092		
Net increase (or decrease)			<u>\$163,746,604</u>
Surplus at December 31, 2015, after adjustment			<u>\$194,893,366</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm, Merlinos & Associates, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Greg Wilson, FCAS, MAAA of Lewis & Ellis, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$194,893,366, exceeded the minimum of \$15,711,345 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Cost Allocation Agreement

The Company entered into a Cost Allocation Agreement with HCI Group, Inc. on January 4, 2016. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Homeowners Choice Property & Casualty Insurance Company, Inc.** as of December 31, 2015, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards to policyholders was \$194,893,366, which exceeded the minimum of \$15,711,345 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Amy L. Carter, CFE, CPA, Examiner-in-Charge, and April Wasleski, CPA and Emily Cheng, Participating Examiners, of Lewis & Ellis, also participated in the examination. Members of the Office who participated in the examination include Connie Hare, CFE (Fraud), AFE, Financial Examiner/Analyst Supervisor, Examination Manager and Casey Hengstebeck, Reinsurance/Financial Specialist, Participating Examiner. Additionally, Greg Wilson, FCAS, MAAA, and Lindsey Pittman, CISA, of Lewis & Ellis, Inc., are recognized for participation in the examination.

Respectfully submitted,



Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation