



**EXAMINATION REPORT
OF**

**US COASTAL PROPERTY & CASUALTY
INSURANCE COMPANY**

NAIC Company Code: 15900

**Jonesville, Florida
as of
December 31, 2016**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

TABLE OF CONTENTS

| | |
|--|----|
| LETTER OF TRANSMITTAL | - |
| SCOPE OF EXAMINATION | 1 |
| SUMMARY OF SIGNIFICANT FINDINGS | 2 |
| CURRENT EXAMINATION FINDINGS | 2 |
| PREVIOUS EXAMINATION FINDINGS | 2 |
| COMPANY HISTORY | 2 |
| GENERAL | 2 |
| DIVIDENDS | 2 |
| CAPITAL STOCK AND CAPITAL CONTRIBUTIONS..... | 2 |
| SURPLUS NOTES | 2 |
| ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS | 3 |
| MANAGEMENT AND CONTROL | 3 |
| CORPORATE GOVERNANCE | 3 |
| CONTROL | 5 |
| TAX ALLOCATION AGREEMENT..... | 5 |
| COST SHARING AGREEMENT | 5 |
| CLAIMS MANAGEMENT AGREEMENT | 5 |
| MANAGING GENERAL AGENCY AGREEMENT | 5 |
| SIMPLIFIED ORGANIZATIONAL CHART | 7 |
| ACCOUNTS AND RECORDS | 8 |
| CORPORATE RECORDS REVIEW..... | 8 |
| CONFLICT OF INTEREST..... | 8 |
| CUSTODIAL AGREEMENT | 8 |
| BROKERAGE AGREEMENT | 8 |
| INVESTMENT MANAGEMENT AGREEMENT | 9 |
| TERRITORY AND PLAN OF OPERATIONS | 9 |
| TREATMENT OF POLICYHOLDERS | 9 |
| REINSURANCE | 9 |
| REINSURANCE ASSUMED..... | 10 |
| REINSURANCE CEDED..... | 10 |
| INFORMATION TECHNOLOGY REPORT | 11 |
| STATUTORY DEPOSITS | 12 |
| FINANCIAL STATEMENTS | 13 |
| ASSETS..... | 14 |
| LIABILITIES, SURPLUS AND OTHER FUNDS | 15 |
| STATEMENT OF INCOME | 16 |
| RECONCILIATION OF CAPITAL AND SURPLUS..... | 17 |
| COMMENTS ON FINANCIAL STATEMENT ITEMS | 18 |
| LIABILITIES | 18 |

| | |
|--------------------------------|-----------|
| CAPITAL AND SURPLUS | 18 |
| SUBSEQUENT EVENTS | 19 |
| CONCLUSION | 20 |

February 16, 2018

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, 2016, of the financial condition and corporate affairs of

US Coastal Property & Casualty Insurance Company
301 NW 138th Terrace
Jonesville, Florida 32669

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

SCOPE OF EXAMINATION

This examination covered the period of February 23, 2016, through December 31, 2016, and commenced with planning at the Florida Office of Insurance Regulation ("Office") on August 28, 2017, to September 1, 2017. The fieldwork commenced on August 28, 2017, and concluded as of February 16, 2018. This represents the first-year examination of the Company.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("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 (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

The findings noted during this examination period have been resolved by the Company subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

Previous Examination Findings

There were no findings from a previous examination, as this represents the first-year examination of the Company.

COMPANY HISTORY

General

The Company was incorporated in Florida on January 19, 2016, and commenced business on March 28, 2016.

Dividends

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2016, the Company's capitalization was as follows:

| | |
|--|-------------|
| Number of authorized common capital shares | 2,250,000 |
| Number of shares issued and outstanding | 2,250,000 |
| Total common capital stock | \$2,250,000 |
| Par value per share | \$1.00 |

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

Acquisitions, Mergers, Disposals, Dissolutions

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

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. The Directors serving as of December 31, 2016, are shown below.

Directors

| Name | City, State | Principal Occupation |
|------------------------|-----------------------|--|
| Ronda Lyn Loshonkoht | Newberry, Florida | Executive Vice President – Admitted Lines Underwriting, Customer Support, and Systems/IT, Cabrillo Coastal General Insurance Agency, LLC |
| Michael Lee McNitt | Gainesville, Florida | President and Chief Executive Officer, Cabrillo Coastal General Insurance Agency, LLC and Harbor Claims, LLC |
| Roger Lee McNitt | La Jolla, California | Of Counsel, Blanchard, Krasner & French |
| Bradley Mitchell Jones | High Springs, Florida | Controller, Cabrillo Coastal General Insurance Agency, LLC; Chief Financial Officer, US Coastal Property & Casualty Insurance Company; and Chief Financial Officer, US Coastal Insurance Company |

| | | |
|-----------------------|------------------------|---|
| Jeffrey Ryan Hershman | Chalfont, Pennsylvania | President – E&S Division, Cabrillo Coastal General Insurance Agency, LLC, and Executive Vice President, Harbor Claims, LLC |
|-----------------------|------------------------|---|

(a) John Walter Rollins was elected to the Board effective January 26, 2017.

(b) Richard Roth Jr. was elected to the Board effective July 27, 2017.

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

Senior Officers

| Name | City, State | Title |
|------------------------|------------------------|---------------------------------------|
| Michael Lee McNitt | Gainesville, Florida | President, Chief Executive Officer |
| Bradley Mitchell Jones | High Springs, Florida | Chief Financial Officer, Treasurer |
| Ronda Lyn Loshonkohl | Newberry, Florida | Vice President |
| Jeffrey Ryan Hershman | Chalfont, Pennsylvania | Vice President |
| Mohammad Sherif | Gainesville, Florida | Secretary, General Counsel |

(a) John Walter Rollins was appointed Executive Vice President & Chief Risk Officer effective January 26, 2017.

The Company's Board did not appoint any internal committees as of December 31, 2016.

The Company did not maintain an audit committee, as required by Section 624.424(8)(c), Florida Statutes. The Board of Directors acted as the audit committee as necessary.

Subsequent Event: Effective November 6, 2017, the Company established an audit committee in compliance with Section 624.424(8)(c), Florida Statutes.

Control

Control of the Company was maintained by its parent, USCPC Holdings, Inc. which owned one hundred percent (100%) of the stock issued by the Company, which in turn was one hundred percent (100%) owned by Cabrillo Holdings, LLC. The parent contributed \$24,000,000 in cash to the Company as of December 31, 2016.

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

Tax Allocation Agreement

The Company, along with its parent, USCPC Holdings, Inc., filed a consolidated federal income tax return.

Cost Sharing Agreement

The Company entered into a Cost Sharing Agreement with USCPC Holdings, Inc., Cabrillo Holdings, LLC, Cabrillo Coastal General Insurance Agency, LLC, and Harbor Claims, LLC effective January 18, 2016. The Company did not incur any expenses in 2016 as a result of this agreement.

Claims Management Agreement

The Company entered into a Claims Management Agreement with Harbor Claims, LLC effective January 18, 2016, to provide claims management services. Harbor Claims, LLC has been granted limited authority to manage and settle claims arising under insurance policies issued by the Company. Per the Agreement, Harbor Claims, LLC has the authority for processing, investigating, adjusting, compromising, defending, litigating, supervising, and payment of claims of \$25,000 each. Claims above that amount must be approved by the Company.

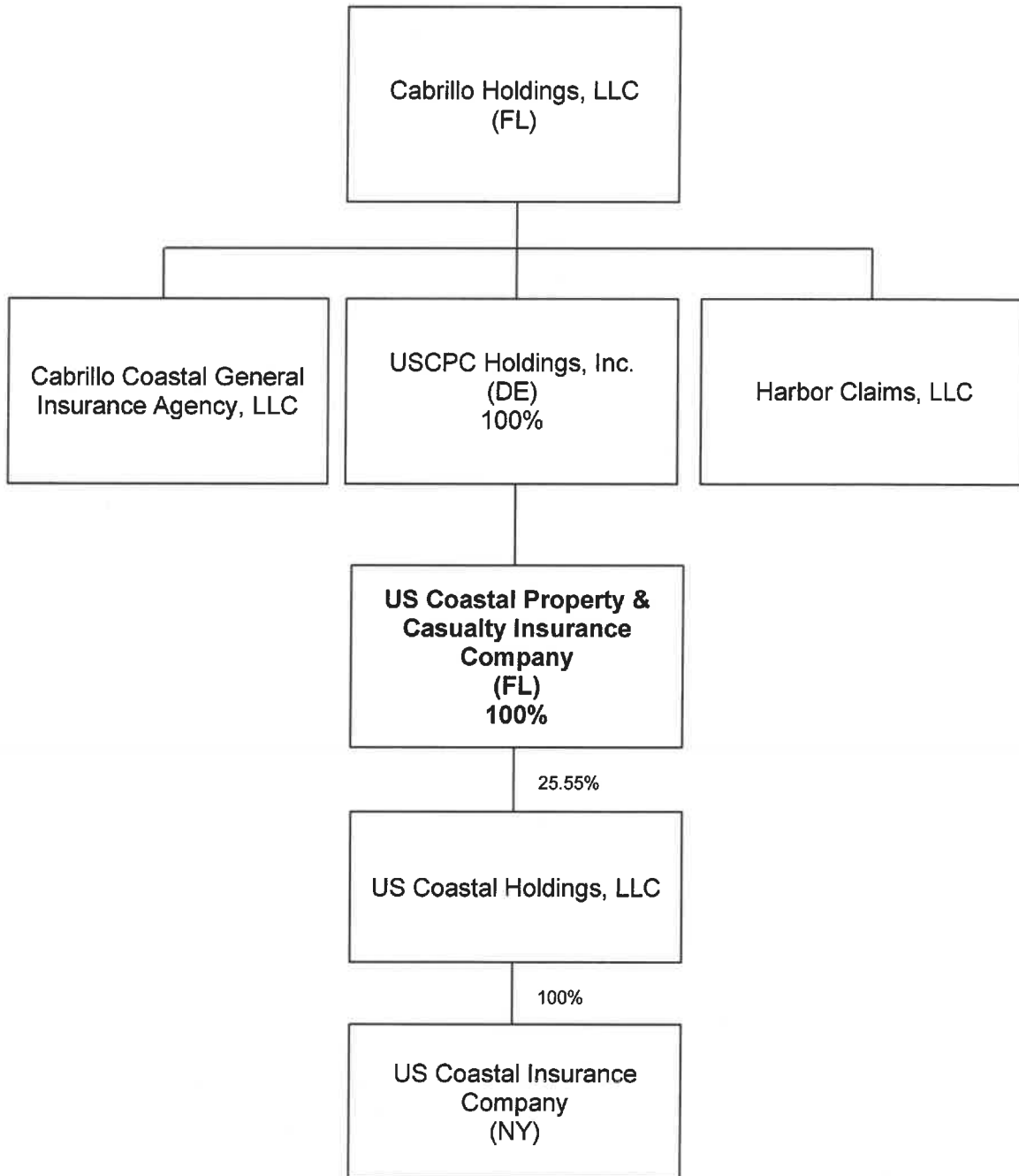
Managing General Agency Agreement

The Company entered into a Managing General Agency Agreement with its affiliate, Cabrillo Coastal General Insurance Agency ("MGA"), effective January 18, 2016. The agreement continues in force until terminated upon either party giving ninety (90) days prior written notice of

termination to the other. The Company appoints Cabrillo Coastal General Insurance Agency to supervise and conduct the writing of insurance business that the Company is authorized to write in Florida.

Schedule Y of the Company's 2016 annual statement provided a list of all related companies of the holding company group. A simplified organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page.

US Coastal Property & Casualty Insurance Company
Simplified Organizational Chart
December 31, 2016



ACCOUNTS AND RECORDS

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

Corporate Records Review

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 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 Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with US Bank National Association that was filed with the Office on April 25, 2016. The agreement was not in compliance with Consent Order 181842-15-CO, paragraph 19, subsection (j) and it was missing provision (i) of Rule 69O-143.042, Florida Administrative Code.

Subsequent Event: Effective February 20, 2018, the Company filed an amended custodial agreement in compliance with Consent Order 181842-15-CO and Rule 69O-143.042, Florida Administrative Code.

Brokerage Agreement

Effective December 1, 2016, through December 31, 2017, the Company and BMS Intermediaries, Inc. entered into a Brokerage Agreement. The Agreement applies to 2016 and to the actual gross

cash revenue received by BMS during 2017 calendar year attributable to the reinsurance contracts placed by BMS for the Company.

Investment Management Agreement

Effective April 1, 2016, the Company entered into an investment management agreement with Asset Allocation & Management Company, L.L.C ("AAM"). The Company appoints AAM as an Investment Manager for the management of the assets designated to be held in the Company's investment account.

TERRITORY AND PLAN OF OPERATIONS

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

The Company was authorized to transact insurance coverage in Florida on February 23, 2016, and continued to be authorized for the following coverages as of December 31, 2016:

| | | |
|-----------------------------|------------------------|-------------------------|
| Fire | Homeowners Multi-Peril | Allied Lines |
| Other Liability | Inland Marine | Mobile Home Multi-Peril |
| Mobile Home Physical Damage | | |

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

As of December 31, 2016, the Company's assumed reinsurance program consisted of quota share reinsurance agreements with an affiliate, US Coastal Insurance Company and other unaffiliated insurers.

Reinsurance Ceded

As of December 31, 2016, the Company's ceded reinsurance program consisted of excess of loss and catastrophe reinsurance provided by agreements with various commercial reinsurers. The Company also participated in the Florida Hurricane Catastrophe Fund.

INFORMATION TECHNOLOGY REPORT

Lindsey Pittman, CISA, IT examiner, 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 securities were 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> |

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.

US Coastal Property & Casualty Insurance Company

Assets

December 31, 2016

| | Per Company | Examination Adjustments | Per Examination |
|--|-----------------------------------|------------------------------------|-----------------------------------|
| Bonds | \$17,435,927 | | \$17,435,927 |
| Cash, cash equivalents and short-term investments | 8,135,067 | | 8,135,067 |
| Other invested assets | 2,702,905 | | 2,702,905 |
| Investment income due and accrued | 67,389 | | 67,389 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in the course of collection | 653,653 | | 653,653 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 199,151 | | 199,151 |
| Funds held by or deposited with reinsured companies | 70,000 | | 70,000 |
| Net deferred tax asset | <u>515,237</u> | | <u>515,237</u> |
| TOTAL | <u><u>\$29,779,329</u></u> | | <u><u>\$29,779,329</u></u> |

US Coastal Property & Casualty Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2016

| | Per Company | Examination Adjustments | Per Examination |
|--|-----------------------------------|----------------------------|-----------------------------------|
| Losses | \$928,558 | | \$928,558 |
| Reinsurance payable on paid losses and loss adjustment expenses | 329,651 | | 329,651 |
| Loss adjustment expenses | 176,414 | | 176,414 |
| Commissions payable, contingent commissions and other similar charges | 72,137 | | 72,137 |
| Other expenses | 8,060 | | 8,060 |
| Taxes, licenses and fees | 19,717 | | 19,717 |
| Unearned premium | 4,191,887 | | 4,191,887 |
| Advance premium | 27,137 | | 27,137 |
| Ceded reinsurance premiums payable (net of ceding commissions) | <u>586,012</u> | | <u>586,012</u> |
| Total Liabilities | \$6,339,573 | | \$6,339,573 |
| | | | |
| Common capital stock | \$2,250,000 | | \$2,250,000 |
| Gross paid in and contributed surplus | 21,750,000 | | 21,750,000 |
| Unassigned funds (surplus) | <u>(560,244)</u> | | <u>(560,244)</u> |
| Surplus as regards policyholders | <u>\$23,439,756</u> | | <u>\$23,439,756</u> |
| TOTAL | <u><u>\$29,779,329</u></u> | | <u><u>\$29,779,329</u></u> |

US Coastal Property & Casualty Insurance Company
Statement of Income
December 31, 2016

Underwriting Income

| | | |
|---|--------------------|---------------|
| Premiums earned | | \$3,035,728 |
| | Deductions: | |
| Losses incurred | | \$1,513,847 |
| Loss expenses incurred | | 290,745 |
| Other underwriting expenses incurred | | 2,897,967 |
| Aggregate write-ins for underwriting deductions | | 0 |
| Total underwriting deductions | | \$4,702,559 |
| Net underwriting gain or (loss) | | (\$1,666,831) |

Investment Income

| | | |
|--|--|----------|
| Net investment income earned | | \$46,483 |
| Net realized capital gains or (losses) | | 0 |
| Net investment gain or (loss) | | \$46,483 |

Other Income

| | | |
|---|--|-----------|
| Net gain or (loss) from agents' or premium balances charged off | | \$0 |
| Finance and service charges not included in premiums | | 0 |
| Aggregate write-ins for miscellaneous income | | 100,000 |
| Total other income | | \$100,000 |

| | | |
|---|--|---------------|
| Net income before dividends to policyholders and before federal & foreign income taxes | | (\$1,520,348) |
| Dividends to policyholders | | 0 |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | | (\$1,520,348) |
| Federal & foreign income taxes | | 0 |
| Net Income | | (\$1,520,348) |

Capital and Surplus Account

| | | |
|--|--|---------------|
| Surplus as regards policyholders, December 31 prior year | | \$0 |
| Net Income | | (\$1,520,348) |
| Net unrealized capital gains or losses | | 452,905 |
| Change in non-admitted assets | | (12,452) |
| Change in net deferred income tax | | 519,651 |
| Capital changes: Paid in | | 2,250,000 |
| Surplus adjustments: Paid in | | 21,750,000 |
| Aggregate write-ins for gains and losses in surplus | | 0 |
| Examination Adjustment | | 0 |
| Change in surplus as regards policyholders for the year | | \$23,439,756 |
| Surplus as regards policyholders, December 31 current year | | \$23,439,756 |

US Coastal Property & Casualty Insurance Company
Reconciliation of Capital and Surplus
December 31, 2016

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

Capital/Surplus Change during Examination Period

| | | | |
|---|-----------------|-----------------|---------------------|
| Surplus at February 23, 2016, per Examination | | | \$23,439,756 |
| | <u>Increase</u> | <u>Decrease</u> | |
| Statement Line Item | \$0 | | \$0 |
| Statement Line Item | | \$0 | \$0 |
| Net increase (or decrease) | | | <u>\$0</u> |
| Surplus at December 31, 2016, per Examination | | | <u>\$23,439,756</u> |

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Daniel Ajun, FCAS, MAAA, Chief Actuary, Cabrillo Coastal General Insurance Agency, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016, 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 actuaries, Greg Wilson, FCAS, MAAA and Katie Koch, FCAS, MAAA, of Lewis & Ellis, Inc., reviewed the loss and loss adjustment expense workpapers provided by the Company and they were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$23,439,756, exceeded the minimum of \$20,000,000 required by Consent Order 181842-15-CO.

SUBSEQUENT EVENTS

The Office approved the Company's plan of operation to write private flood insurance on July 5, 2017.

The Company received a capital contribution in the amount of \$1,500,000 from its parent USCPC Holdings, Inc. which was approved by the Office on October 13, 2017.

John Rollins resigned as Director and Chief Risk Officer, effective as of March 14, 2018.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **US Coastal Property & Casualty Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards to policyholders was \$23,439,759, which exceeded the minimum of \$20,000,000 required by Consent Order 181842-15-CO.

In addition to the undersigned, David Palmer, CFE, Examiner-in-Charge, and Ryne Davison, CFE, and Sheila Coomes, CPA, Participating Examiners, of Lewis & Ellis, Inc., also participated in the examination. Members of the Office who participated in the examination include Marie Stuhlmuller, Financial Examiner/Analyst Supervisor, Examination Manager and Wytonia Dennis, APIR, Financial Examiner/Analyst II, Participating Examiner. Additionally, Greg Wilson, FCAS, MAAA, and Katie Koch, FCAS, MAAA, exam actuaries, and Lindsey Pittman, CISA, IT Specialist of Lewis & Ellis, Inc., are recognized for participation in the examination.

Respectfully submitted,



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