

**EXAMINATION REPORT**

**OF**

**ELEMENTS PROPERTY INSURANCE COMPANY**

**TALLAHASSEE, FLORIDA**

**AS OF**

**DECEMBER 31, 2014**

**BY THE**

**FLORIDA OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL .....</b>	<b>-</b>
<b>SCOPE OF EXAMINATION.....</b>	<b>1</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS .....</b>	<b>2</b>
CURRENT EXAMINATION FINDINGS.....	2
PRIOR EXAMINATION FINDINGS.....	2
GENERAL .....	2
DIVIDENDS .....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES .....	3
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH REINSURANCE .....	3
<b>CORPORATE RECORDS .....</b>	<b>4</b>
CONFLICT OF INTEREST.....	4
<b>MANAGEMENT AND CONTROL.....</b>	<b>4</b>
MANAGEMENT .....	4
<b>DIRECTORS.....</b>	<b>5</b>
<b>SENIOR OFFICERS .....</b>	<b>5</b>
AFFILIATED COMPANIES .....	6
<b>ORGANIZATIONAL CHART .....</b>	<b>7</b>
AGENCY AGREEMENT.....	8
MANAGING GENERAL AGENT AGREEMENT.....	8
<b>TERRITORY AND PLAN OF OPERATIONS.....</b>	<b>9</b>
TREATMENT OF POLICYHOLDERS .....	9
<b>REINSURANCE.....</b>	<b>9</b>
ASSUMED.....	9
CEDED .....	10
<b>ACCOUNTS AND RECORDS .....</b>	<b>11</b>
CUSTODIAL AGREEMENT .....	11
BROKER SERVICES AGREEMENT.....	12
INDEPENDENT AUDITOR AGREEMENT .....	12
<b>INFORMATION TECHNOLOGY REPORT .....</b>	<b>12</b>
<b>STATUTORY DEPOSITS .....</b>	<b>13</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>14</b>
<b>ASSETS .....</b>	<b>15</b>
<b>LIABILITIES, SURPLUS AND OTHER FUNDS .....</b>	<b>16</b>

<b>STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT .....</b>	<b>17</b>
<b>COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....</b>	<b>18</b>
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>19</b>
LOSS AND LOSS ADJUSTMENT EXPENSES .....	19
CAPITAL AND SURPLUS .....	19
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>ERROR! BOOKMARK NOT DEFINED.</b>
CUSTODY AGREEMENT.....	20
<b>CONCLUSION.....</b>	<b>20</b>

March 29, 2016

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

Dear Sir:

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, 2014, of the financial condition and corporate affairs of

Elements Property Insurance Company  
2367 Centerville Road  
Tallahassee, Florida 32308

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

## **SCOPE OF EXAMINATION**

This examination covered the period of September 13, 2013 through December 31, 2014. This was the first examination performed by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office on August 10, 2015 to August 14, 2015. The fieldwork commenced on August 17, 2015 and concluded as of March 29, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is 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 Statutory Accounting Principles.

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 (e.g., subjective conclusions, proprietary information, etc.), 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.

### **Prior Examination Findings**

This is the first examination performed by the Office.

## **COMPANY HISTORY**

### **General**

The Company was incorporated in Florida on September 13, 2013, and commenced business on September 27, 2013.

The Company was authorized to transact insurance coverage in Florida on September 27, 2013, and continued to be authorized for the following coverage(s) as of December 31, 2014.

Fire	Inland Marine
Allied Lines	Other Liability
Homeowners Multiple-Peril	

## **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, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$100,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Elements Property Insurance Holdings, LLC, who owned 100% of the stock issued by the Company, who in turn was 41.6% owned by AXIS Group Services, 41.6% owned by Dowling Capital Partners LP, 14.6% owned by Arch Reinsurance Company, and 2.2% owned by four (4) individuals. The Company's paid-in capital was \$24,900,000 as of December 31, 2014.

## **Surplus Notes**

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

## **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, 2014 are shown on the following page.

## Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Robert L. Ricker Tallahassee, Florida	President Elements Property Insurance Company
Linda Ventresca New York, New York	EVP, AXIS Capital
David Zwiener (a) West Hartford, Connecticut	Partner, Dowling Capital Partners
Anthony Mammolite New York, New York	EVP, Ironshore Indemnity
Laurence B. Richardson Bermuda	Senior Vice President, Arch Capital Group

(a) David Zwiener was replaced by Justin Faust on March 2, 2015.

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

## Senior Officers

<b>Name</b>	<b>Title</b>
Robert L. Ricker	President, CEO
David Zwiener (a)	CFO
Kyle B. Stuart	Vice President of Underwriting
Michael A. Reilly	Vice President of Claims
Robert L. Ricker	Assistant Secretary

(a) Resigned on January 27, 2015, and was replaced by Craig Bissell as CFO on February 1, 2015.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2014:

**Audit Committee**

Robert L. Ricker <sup>1</sup>  
Linda Ventresca  
Anthony Mammolite  
David Zwiener (a)  
Laurence B. Richardson

**Investment Committee**

Robert L. Ricker <sup>1</sup>  
Linda Ventresca  
Anthony Mammolite  
David Zwiener (a)  
Laurence B. Richardson

<sup>1</sup> Chairman

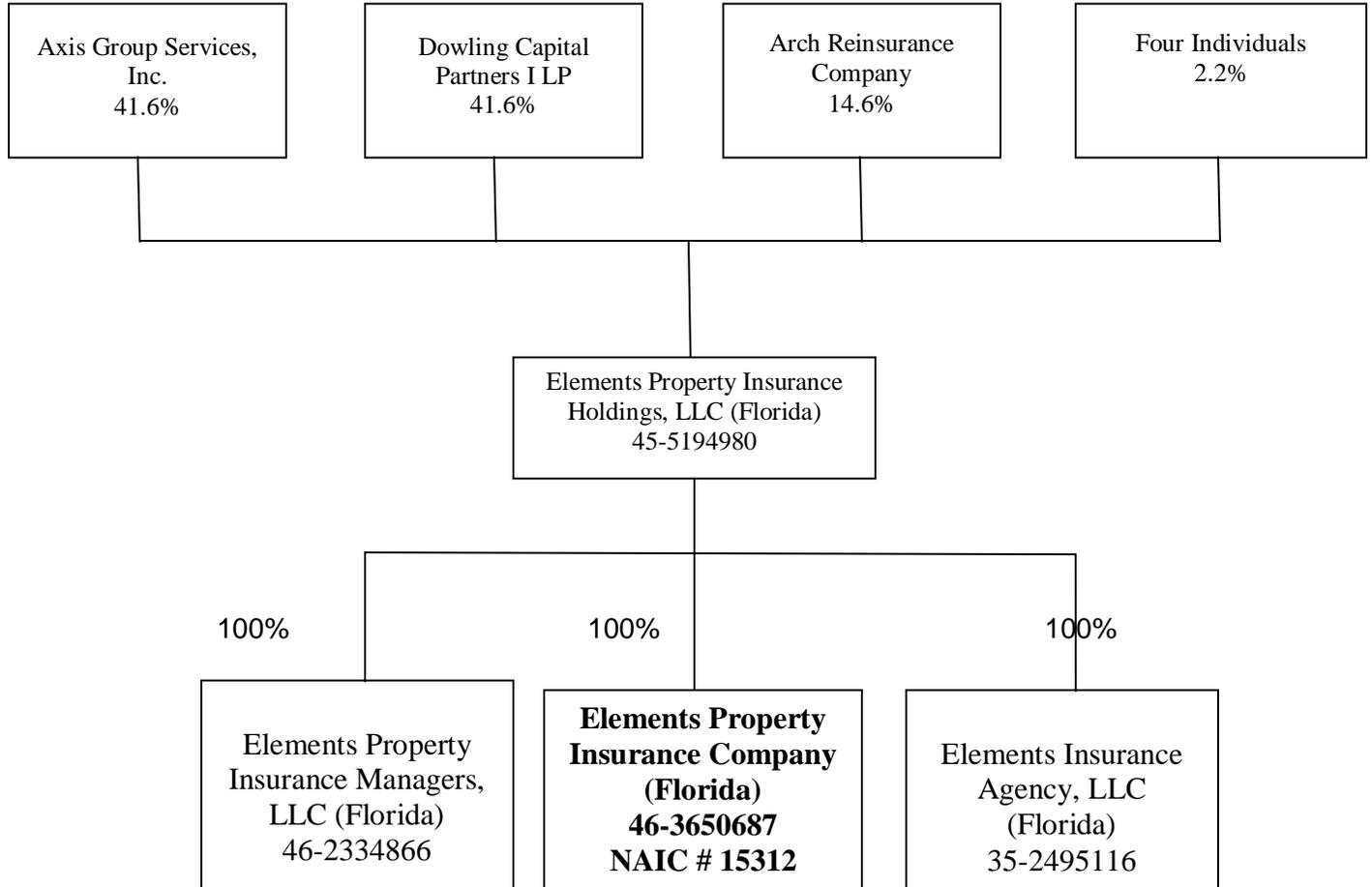
(a) Resigned on January 27, 2015, and was replaced by Justin Faust effective March 2, 2015.

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

**Affiliated Companies**

The most recent holding company registration statement was filed with the Office on April 1, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**Elements Property Insurance Company  
Organizational Chart  
December 31, 2014**



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

### **Agency Agreement**

Effective January 1, 2014, Elements Property Insurance Managers, LLC (EPIM), on behalf of the Company, entered into an Agency Agreement with Elementary Insurance Agency, LLC (Agent). Pursuant to the agreement, Agent is authorized to solicit, receive and transmit to the Company proposals for insurance contracts, bind and execute insurance contracts in accordance with the Company's underwriting and binding guidelines, provide all usual and customary services of an insurance agent, collect and receipt for premiums and retain commission of premiums. Any party may terminate this agreement by providing no less than 60 days written notice. The agreement was approved by the Office on September 27, 2013.

### **Managing General Agent Agreement**

Effective September 17, 2013, the Company entered into a Managing General Agency Agreement with Elements Property Insurance Managers, LLC (Manager). The Company authorizes the Manager to perform services related to underwriting, reinsurance, claim management, premium collection, regulatory liaison, policy advisor and consultant, accounting to the Company, Books and records maintenance, marketing and agent relations. The Manager shall deduct and retain Compensation in all lines of insurance the Company is authorized to transact. A fee of 23% of direct written premiums and 4% of assumed premiums, for all business originated or produced and services rendered. Additionally for all claims-related services, the Manager shall be entitled to deduct and retain further Compensation of 5% of earned premium. The agreement was approved by the Office on September 27, 2013. Fees incurred under this agreement during 2014 amounted to \$8,132,945.

## **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) (j), 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) (i) 3a, 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.

### **Assumed**

The Company assumed \$26,708,000 in premiums from Citizens Property Insurance Corporation during the year ended December 31, 2014.

## Ceded

As of December 31, 2014, the Company's ceded reinsurance program consisted of numerous excess of loss, and catastrophe reinsurance provided by agreements with various commercial reinsurers. The treaties were placed through reinsurance intermediary, Guy Carpenter. The Company also participated in the Florida Hurricane Catastrophe Fund (FHCF).

The Company participated in a property per risk excess of loss treaty which provides coverage up to \$700,000 in excess of retention of \$300,000 each loss each risk, subject to \$3,500,000 as respects to all losses in one contract year.

The Company has an umbrella coverage with State Farm Mutual for personal and commercial liability umbrella policies with retention of \$5,000,000 and reinsurance coverage of \$20,000,000 per occurrence per policy.

The Company had the following catastrophe excess of loss coverage through commercial reinsurers and the FHCF as of December 31, 2014, resulting in coverage of ultimate net losses of approximately \$125,000,000 for the first event and: \$81,000,000 in the second event:

- \$33,000,000 in reinsurance coverage with a retention limit of \$3,000,000
- Florida Catastrophe Hurricane Fund (FCHF) – 90% of losses up to \$47,110,326 limit with an attachment point of approximately \$17,000,000
- \$47,000,000 in reinsurance coverage with an estimated attachment point of \$78,000,000

The Company had a catastrophe excess of loss treaties in place to provide up to \$81,000,000 in excess of \$1,000,000 for the second event.

Additionally, the Company had a retention buyback contract in place to provide coverage for partial recovery of \$3,000,000 retention in case losses exceeded \$36,000,000.

The Company ceded \$13,520,000 in premiums during the year ended December 31, 2014.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

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

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Branch Banking and Trust Company (BB&T) executed on April 14, 2014. The agreement was not in compliance with Consent Order 140194-13, paragraph 24, subsection 11(i) and Rule 69O-143.042, Florida Administrative Code. The custody agreement with BB&T was missing the following provisions of Rule 69O-143.042, (e), (g), (h), (j) and (o), Florida Administrative Code. **Subsequent Event:** The BB&T Custodial Agreement was terminated on June 5, 2015.

## **Broker Services Agreement**

The Company utilized a broker services agreement with Guy Carpenter & Company to act as a reinsurance intermediary in the treaty reinsurance market. Guy Carpenter was responsible for analyzing and evaluating exposures, make recommendations regarding coverages, structures, rates, limits, retentions, coinsurance, potential reinsurers as well as other program features, assemble underwriting information, prepare placing slips, negotiate premium and coverage terms, secure reinsurers' authorizations to participate on covers, prepare preliminary contract wordings, assign lines to reinsurers, secure signed agreements to wordings from the Company and all reinsurers, and provide claims services.

## **Independent Auditor Agreement**

An independent CPA, Thomas Howell Ferguson P.A., audited the Company's statutory basis financial statements annually for the year 2014 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

## **INFORMATION TECHNOLOGY REPORT**

Lindsey Pittman. 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	\$ 300,006	\$ 300,006
TOTAL FLORIDA DEPOSITS		<u>\$ 300,006</u>	<u>\$ 300,006</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:

## Elements Property Insurance Company

### Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$0		\$0
Cash and Short-Term Investments	52,942,917		52,942,917
Agents' Balances:			
Uncollected premium	3,585,738		3,585,738
Deferred premium	1,475,076		1,475,076
Interest and dividend income due & accrued	1,222		1,222
Receivable from parents, subsidiaries and affiliates	139		139
Net Deffered Tax Asset	1,734,857		1,734,857
Totals	<u>\$59,739,949</u>	<u>\$0</u>	<u>\$59,739,949</u>

**Elements Property Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2014**

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,813,299		\$2,813,299
Loss adjustment expenses	526,744		526,744
Commissions Payable	676,727		676,727
Other expenses	210,487		210,487
Taxes, licenses and fees	288,389		288,389
Current Federal and Foreign Income Taxes	325,900		325,900
Unearned premium	24,073,999		24,073,999
Ceded reinsurance premiums payable	572,148		572,148
Funds held by company under reinsurance	79,368		79,368
Payable to parent, subsidiaries and affiliates	121,603		121,603
Aggregate write-ins for liabilities	4,831,009		4,831,009
<b>Total Liabilities</b>	<b>\$34,519,673</b>	<b>\$0</b>	<b>\$34,519,673</b>
Common capital stock	\$100,000		\$100,000
Gross paid in and contributed surplus	24,900,000		24,900,000
Unassigned funds (surplus)	220,276		220,276
<b>Surplus as regards policyholders</b>	<b>\$25,220,276</b>	<b>\$0</b>	<b>\$25,220,276</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$59,739,949</b>	<b>\$0</b>	<b>\$59,739,949</b>

**Elements Property Insurance Company**  
**Statement of Income and Capital and Surplus Account**  
**December 31, 2014**

**Underwriting Income**

Premiums earned		\$19,779,024
	<b>Deductions:</b>	
Losses incurred		\$7,033,312
Loss expenses incurred		2,236,632
Other underwriting expenses incurred		8,986,336
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$18,256,280
Net underwriting gain or (loss)		\$1,522,744

**Investment Income**

Net investment income earned		\$62,623
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$62,623

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$7,742)
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		(\$7,742)
Net income before dividends to policyholders and before federal & foreign income taxes		\$1,577,625
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$1,577,625
Federal & foreign income taxes		1,784,074
Net Income		(\$206,449)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$24,219,223
Net Income		(\$206,449)
Net unrealized capital gains or losses		0
Change in non-admitted assets		(42,708)
Change in net deferred income taxes		1,250,210
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$1,001,053
Surplus as regards policyholders, December 31 current year		\$25,220,276

**Elements Property Insurance Company**  
**Comparative Analysis of Changes in Surplus**  
**December 31, 2014**

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2014, per Annual Statement	\$25,220,276
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			_____
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$25,220,276

## **COMMENTS ON FINANCIAL STATEMENTS**

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

An actuarial firm, Milliman, Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, 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, Gregory S. 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 \$25,220,276 exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Elements Property Insurance Company** as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings the Company's surplus as regards to policyholders was \$25,220,276 which exceeds the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, David Palmer, CFE, Examiner-in-Charge, and Kate Bolbas, CFE, Ryne Davison, CFE – Financial/Rating Analyst, Participating Examiners, of Lewis & Ellis, Inc., also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, Financial Examiner/Analyst Supervisor, Examination Manager, and Marie Stuhlmuller, Financial Specialist, Participating Examiner. Additionally, Patrick Glenn, FCAS, MAAA of Lewis & Ellis, Inc. and Lindsey Pittman, IT Specialist of Lewis & Ellis, Inc., are recognized for participation in the examination.

Respectfully submitted,

Lamar Downs, CPA  
Deputy Chief Examiner  
Florida Office of Insurance Regulation