

**EXAMINATION REPORT**

**OF**

**UNITED PROPERTY & CASUALTY INSURANCE COMPANY**

**ST. PETERSBURG, FLORIDA**

**AS OF**

**DECEMBER 31, 2014**

**BY THE**

**FLORIDA OFFICE OF INSURANCE REGULATION**

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March 18, 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

United Property & Casualty Insurance Company  
800 2<sup>nd</sup> Avenue South  
St. Petersburg, Florida 33701

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, 2010 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2005 through December 31, 2009. This examination commenced with planning at the Office on August 3, 2015 to August 5, 2015. The fieldwork commenced on August 25, 2015 and concluded as of March 18, 2016.

The examination was a multi-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**

There were no material findings noted during the examination as of December 31, 2014.

### **Prior Examination Findings**

There were no 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, 2009.

## **COMPANY HISTORY**

### **General**

The Company was incorporated in Florida on March 8, 1999, and commenced business on April 2, 1999.

The Company was authorized to transact insurance in Florida on April 2, 1999 and is currently authorized in the following lines of business, as of December 31, 2014;

Fire	Allied Lines
Homeowners Multi Peril	Other Liability
Inland Marine	Burglary & Theft

### **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	350,000
Number of shares issued and outstanding	350,000
Total common capital stock	\$3,500,000
Par value per share	\$10.00

Control of the Company was maintained by its parent, United Insurance Holdings Corp., who owned 100% of the stock issued and outstanding by the Company. The Company's parent made capital contributions to the Company of \$15,000,000 in cash in 2012 and \$30,844,618 in bonds in 2014.

## **Surplus Notes**

The Company had one outstanding surplus debenture between the Company and the State Board of Administration of Florida in the amount of \$13,529,412, as of December 31, 2014. This \$20,000,000, twenty year "Insurance Capital Build-Up Incentive Program Surplus Note" was executed September 22, 2006 and has a number of conditions including minimum capital requirements and writing ratios. The interest rate is equivalent to the 10-year U.S. Treasury Bond rate.

## **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>
Gregory Crosswell Branch Ocala, Florida	Chairman and Owner, Branch Properties Inc.
Alec Lloyd Poitevint, II Bainbridge, Georgia	Chairman and President, Southeastern Minerals, Inc.
Kent Guy Whittemore St. Petersburg, Florida	President and Shareholder, Whittemore Law Group
John Leslie Forney St. Petersburg, Florida	President and CEO, United Insurance Holding Corp.
Kern Michael Davis, M.D. St. Petersburg, Florida	President, Pathology Associates Group
William Hall Hood, III Palm Harbor, Florida	Sole Member, Hall Capital Holdings LLC
Sherrill Wayne Hudson Coral Gables, Florida	Chairman, TECO Energy, Inc.

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

## Senior Officers

<b>Name</b>	<b>Title</b>
John Leslie Forney	President, Chief Executive Officer
Bennett Bradford Martz	Chief Financial Officer
Andrew Delbridge Swenson	Vice President, Chief Information Officer
Kimberly Ann Salmon	Secretary, Chief Legal Officer
Judy Marie Copechal <sup>1</sup>	Chief Underwriting Officer

John Frances Langowski, III

Vice President of Claims

Deepak Menon<sup>2</sup>

Vice President of Operations and Business Development

Jay Kevin Williams<sup>3</sup>

Vice President of Sales and Agency Relations

<sup>1</sup> Resigned on August 29, 2015

<sup>2</sup> Named Chief Revenue Officer on December 10, 2015

<sup>3</sup> Resigned on November 13, 2015

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

<b>Audit Committee</b>	<b>Finance and Investment Committee</b>	<b>Reinsurance Committee</b>
Sherrill Hudson <sup>1</sup> Kent Whittemore Kern Davis, M.D.	Alec Poitevint <sup>1</sup> Kern Davis, M.D. Sherrill Hudson	Greg Branch <sup>1</sup> Alec Poitevint William Hood Kern Davis, M.D.

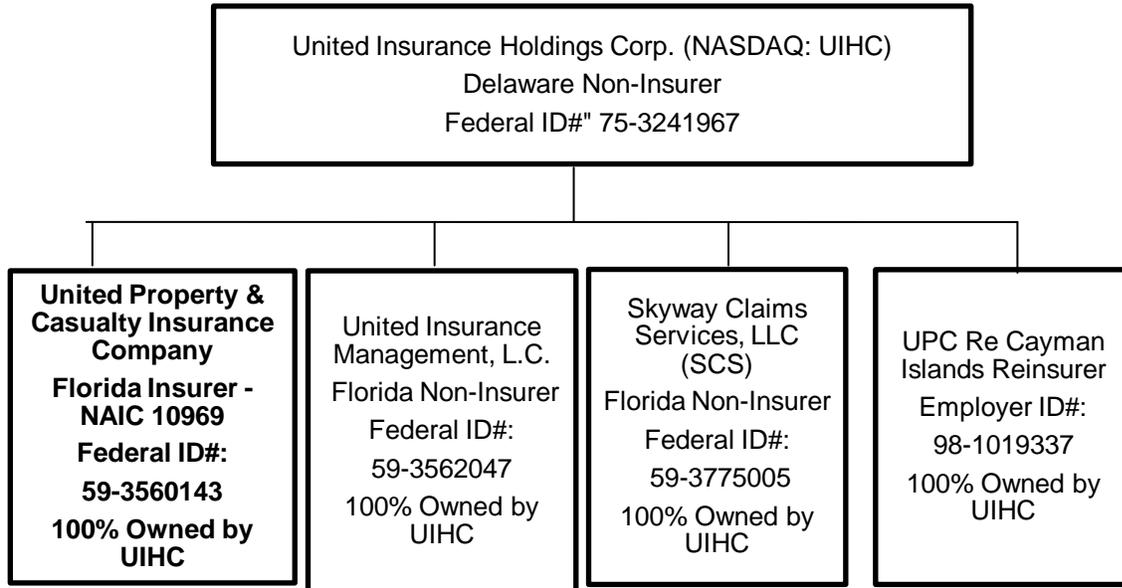
<sup>1</sup> Chairman

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 February 24, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**United Property & Casualty Insurance Company**  
**Organizational Chart**  
**December 31, 2014**



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

### **Tax Allocation Agreement**

Effective July 1, 2012, a tax allocation agreement was executed between the Company's parent, United Insurance Holdings Corporation and its affiliated companies. This agreement was amended on February 3, 2015 to include additional affiliates. The Company, along with its parent, filed a consolidated federal income tax return. Pursuant to the agreement, the income taxes were allocated to each subsidiary in proportion to the amount of taxable income that each subsidiary contributed to the consolidated taxable return.

### **Managing General Agent Agreement**

The Company had a managing general agent (MGA) agreement with United Insurance Management, L.C. The agreement was executed on March 12, 1999 and amended December 30, 2002 and September 11, 2006. Under the agreement, the MGA provides the following duties including, but not limited to, claims administration, underwriting, policy administration and marketing. In regards to policy management, the MGA is responsible for marketing, underwriting, billings, collections, terminations, reinstatements and policy issuance. In regards to claims management, the MGA is responsible for risk management, loss control services and adjustment of claims. The MGA is also responsible for maintaining the books and records of the insurance company, preparing filings and representing the Company in all its dealings in regards to reinsurance. Under this agreement, the Company agrees to pay the MGA fees equal to 31.5% of gross earned premiums attributed to policyholders plus a \$25 per policy fee. For the

year ended December 31, 2014, the Company incurred management fees equal to \$92,881,691.

### **Claims Service Agreement**

The Company has a Claims Service Agreement with Skyway Claims Services, LLC (Skyway). The agreement was executed on June 1, 2011. Under the agreement, Skyway agrees to perform adjustments services for non-catastrophe claims, catastrophe claims, and assigned claims. Fees for services vary based on the gross amount of claims from a minimum of \$290 up to 3.9% of claims over \$300,000. For the year ended December 31, 2014, the Company incurred fees under the agreement of \$1,402,076.

### **Reinsurance Agreement**

The Company maintained reinsurance contracts with UPC Re during the examination period. The contracts were for property catastrophe excess of loss reinsurance and reinstatement premium protection. The agreements with UPC Re were commuted in October 2014. As of December 31, 2014, the Company ceded premium, loss and loss adjustment expense paid, and loss and loss adjustment expense reserves to UPC Re in the amount of \$23,487,275. The Company earned a ceding commission from UPC Re in the amount of \$12,791,133.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in the following states: Connecticut, Delaware, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, North Carolina, Rhode Island, South Carolina, Texas and Virginia.

### **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 entered into a policy assumption agreement with Citizens Property Insurance Corporation (Citizens). In conjunction with the agreement, the Company agreed to multiple Consent Orders from the Office to assume policies from Citizens. As of December 31, 2014, the Company assumed approximately \$19,000,000 in premiums.

## **Ceded**

The Company, as cedant, was party to several reinsurance contracts during the examination period with both affiliated and unaffiliated reinsurers. However, all affiliated reinsurance was commuted in October 2014. The Company had per-risk excess of loss reinsurance ceded protection for property and casualty exposures, with the retention and limit dependent on the accident year. The Company had property per-occurrence catastrophe excess of loss reinsurance ceded protection, with the retention and limit dependent on the accident year. The Company also had an arrangement with the Federal Emergency Management Agency (FEMA) that enabled the Company to write flood policies that were 100% ceded back to FEMA.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in St. Petersburg, Florida.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Synovus Trust Company executed on November 1, 2010. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

## **Independent Auditor Agreement**

An independent CPA, McGladrey, LLP audited the Company's statutory basis financial statements annually for the years 2010 through 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**

Jean Adams-Harris, CFE, CPA, CISA, AES, MCM, of Johnson Lambert, LLP 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 and with various state officials as required or permitted by law.

State	Description	Par Value	Market Value
FL	Certificate of Deposit, 0.2%	\$ 300,000	\$ 300,000
TOTAL FLORIDA DEPOSITS		\$ 300,000	\$ 300,000
GA	Cash	\$ 25,000	\$ 25,000
LA	Cash	100,000	100,000
MA	Boston MA, 5.2%, 04/01/25	102,668	112,002
NH	Boston MA, 5.2%, 04/01/25	513,341	560,008
NY	Brookhaven, 2.25%, 09/15/24	591,266	599,472
NC	Cash	300,000	300,000
SC	US Treasury, 2.5% 05/15/15	989,867	1,030,156
VA	US Treasury, 2.5% 08/15/24	<u>297,345</u>	<u>305,556</u>
TOTAL OTHER DEPOSITS		<u>\$ 2,919,487</u>	<u>\$ 3,032,194</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 3,219,487</u>	<u>\$ 3,332,194</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:

# United Property & Casualty Insurance Company

## Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 307,049,622		\$307,049,622
Stocks:			
Preferred	2,599,950		2,599,950
Common	19,469,080		19,469,080
Cash and Short-Term Investments	48,575,011		48,575,011
Other Invested Assets	2,449,236		2,449,236
Investment income due and accrued	2,100,897		2,100,897
Premiums and considerations:			
Uncollected premium	3,506,926		3,506,926
Deferred premium	23,317,608		23,317,608
Reinsurance recoverable	815,213		815,213
Net deferred tax asset	12,154,634		12,154,634
Totals	<u>\$422,038,177</u>	<u>\$0</u>	<u>\$422,038,177</u>

**United Property & Casualty Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2014**

	Per Company	Examination Adjustments	Per Examination
Losses	\$47,297,715		\$47,297,715
Loss adjustment expenses	5,885,885		5,885,885
Other expenses	1,697,622		1,697,622
Taxes, licenses and fees	1,738,801		1,738,801
Current federal and foreign income taxes	2,866,737		2,866,737
Unearned premium	165,659,547		165,659,547
Advance premiums	8,810,228		8,810,228
Ceded reinsurance premiums payable	45,253,512		45,253,512
Funds held under reinsurance treaties	25,000		25,000
Remittances and other items not allowed	15,803		15,803
Provision for reinsurance	566,000		566,000
Payable to parent, subsidiaries and affiliates	5,641,786		5,641,786
Payable for securities	1,034,160		1,034,160
Aggregate write-ins for liabilities	9,296,832		9,296,832
<b>Total Liabilities</b>	<b>\$295,789,628</b>	<b>\$0</b>	<b>\$295,789,628</b>
Common capital stock	3,500,000		3,500,000
Surplus notes	13,529,412		13,529,412
Gross paid in and contributed surplus	79,009,618		79,009,618
Unassigned funds (surplus)	30,209,518		30,209,518
<b>Surplus as regards policyholders</b>	<b>\$126,248,548</b>	<b>\$0</b>	<b>\$126,248,548</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$422,038,176</b>	<b>\$0</b>	<b>\$422,038,176</b>

**United Property & Casualty Insurance Company**  
**Statement of Income and Capital and Surplus Account**  
**December 31, 2014**

**Underwriting Income**

Premiums earned		\$207,450,864
	<b>Deductions:</b>	
Losses incurred		\$83,335,797
Loss expenses incurred		8,093,394
Other underwriting expenses incurred		94,831,456
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$186,260,647</u>
Net underwriting gain or (loss)		\$21,190,217

**Investment Income**

Net investment income earned		\$4,673,047
Net realized capital gains or (losses)		<u>(46,943)</u>
Net investment gain or (loss)		\$4,626,104

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$68,120)
Finance and service charges not included in premiums		1,219,975
Aggregate write-ins for miscellaneous income		<u>16,203</u>
Total other income		<u>\$1,168,058</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$26,984,379
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$26,984,379
Federal & foreign income taxes		<u>14,077,488</u>
Net Income		<u><u>\$12,906,891</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$78,361,610
Net Income		\$12,906,891
Net unrealized capital gains or losses		935,814
Change in net deferred income tax		4,632,677
Change in non-admitted assets		(31,860)
Change in provision for reinsurance		(224,733)
Change in surplus notes		(1,176,470)
Surplus adjustments: Paid in		30,844,618
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		<u>0</u>
Change in surplus as regards policyholders for the year		<u>\$47,886,937</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$126,248,547</u></u>

**United Property & Casualty 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	\$126,248,548
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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			\$126,248,548

## **COMMENTS ON FINANCIAL STATEMENTS**

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

An actuarial firm, Arthur R. Randolph, II, Pinnacle Actuarial Resources, 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 actuaries, J. Doug Moulton, ACAS, MAAA of Moulton Actuarial Regulatory Services - MARS, and Andrea M. Sweeny, FCAS, MAAA, FCA of Casualty Actuarial Assistance LLC reviewed the loss and loss adjustment expense work papers 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 \$126,248,548, exceeded the minimum of \$23,754,121 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 **United Property & Casualty 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 policyholders was \$126,248,548, which exceeded the minimum of \$23,754,121 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Lori Brock, CFE, Examiner-in-Charge, and Jean Adams-Harris, CFE, CPA, CISA, AES, MCM, IT Specialist, of Johnson Lambert LLP, also participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, Financial Examiner/Analyst Supervisor, Examination Manager; Connie Hare, AFE, Financial Examiner/Analyst Supervisor, Kyra Brown, Financial Specialist and Mikhael Goldgisser, Reinsurance Financial Specialist Participating Examiners. Additionally, J. Doug Moulton, ACAS, MAAA of Moulton Actuarial Regulatory Services and Andrea M. Sweeny, FCAS, MAAA, FCA of Casualty Actuarial Assistance LLC, are recognized for participation in the examination.

Respectfully submitted,

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