



**EXAMINATION REPORT
OF**

**ELEMENTS PROPERTY INSURANCE
COMPANY**

NAIC Company Code: 15312

TALLAHASSEE, FLORIDA

**as of
December 31, 2015**

**BY THE
FLORIDA OFFICE OF INSURANCE REGULATION**

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February 20, 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 690-138.005, 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

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 January 1, 2015 through December 31, 2015. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of September 13, 2013 through December 31, 2014. This examination commenced with planning at the Office on July 20, 2016 to July 22, 2016. The fieldwork commenced on August 29, 2016 and concluded as of February 20, 2017.

The examination was a single 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. The examination also included 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

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements.

Reinsurance

The Company was not in compliance with the NAIC Annual Statement Instructions, as adopted by Rule 69O-138.001, Florida Administrative Code, due to the fact the Company did not include one of the subscribing reinsurers in Schedule F of the Annual Statement. The reinsurer not listed, Arch Reinsurance Company, was inadvertently grouped with Arch Reinsurance Ltd., a subscribing reinsurer in some of the Company's other reinsurance agreements. The amount was immaterial and did not result in any misstatements of the Company's financial information.

Related Party Agreements

The Company was not in compliance with Section 626.7454(5)(6), Florida Statutes, as the Managing General Agency Contract between the Company and Elements Property Insurance Managers, LLC, did not include the following provisions: within 30 days after entering into or terminating a contract with a managing general agent, the insurer shall provide written notification of the appointment or termination to the department and Office; and the provision that an insurer shall review its books and records on a quarterly basis to determine if any producer has become a managing general agent as defined in Section 626.015, Florida Statutes.

Prior Examination Findings

The findings noted in the Office's prior examination report as of December 31, 2014, were resolved by the Company subsequent to the examination date.

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 continues to be authorized for the following coverages:

| | |
|---------------------------|-----------------|
| 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, 2015, 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 (EPIH), which owned one hundred percent (100%) of the stock issued by the Company. EPIH in turn was forty-one & sixth tenths percent (41.6%) owned by AXIS Group Services, forty-one & sixth tenths percent (41.6%) owned by Dowling Capital Partners LP, fourteen & sixth tenths percent (14.6%) owned by Arch Reinsurance Company, and two & two tenths percent (2.2%)

owned by four (4) individuals. The parent contributed \$2,250,000 in cash to the Company during 2015.

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 Statement of Policy Regarding Conflict of Interest, 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 below:

Directors

| Name | City, State | Principal Occupation |
|---------------------------|----------------------------|---|
| Robert L. Ricker | Tallahassee, Florida | President, Chief Executive Officer, Elements Property Ins. Co. |
| Justin D. Faust | Avon, Connecticut | Chief Financial Officer, Dowling Capital Partners |
| Anthony Mammolite | South Plains, New Jersey | Executive Vice President, Global Property Ironshore |
| Laurence B. Richardson II | Philadelphia, Pennsylvania | Senior Vice President, Capital Markets Arch Capital Group, Ltd. |
| Linda Ventresca | New York, New York | Executive Vice President, Corporate Development, AXIS Capital Holdings, Ltd |

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

Senior Officers

| Name | City, State | Title |
|-----------------------|-----------------------|------------------------------------|
| Robert L. Ricker | Tallahassee, Florida | President, Assistant Secretary |
| Craig W. Bissell | Tallahassee, Florida | Chief Financial Officer, Treasurer |
| Kyle B. Stuart | Tallahassee, Florida | Vice President |
| Michael A. Reilly | Tallahassee, Florida | Vice President |
| Joseph R. Bouthillier | Jacksonville, Florida | Vice President |

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

Investment Committee

| Name | City, State | Title |
|---------------------------------|----------------------------|------------------------------------|
| Robert L. Ricker ⁽¹⁾ | Tallahassee, Florida | President, Chief Executive Officer |
| Justin D. Faust | Avon, Connecticut | Board Member |
| Anthony Mammolite | South Plains, New Jersey | Board Member |
| Laurence B. Richardson | Philadelphia, Pennsylvania | Board Member, Secretary |
| Linda Ventresca | New York, New York | Board Member |

¹ Chairman

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

Audit Committee

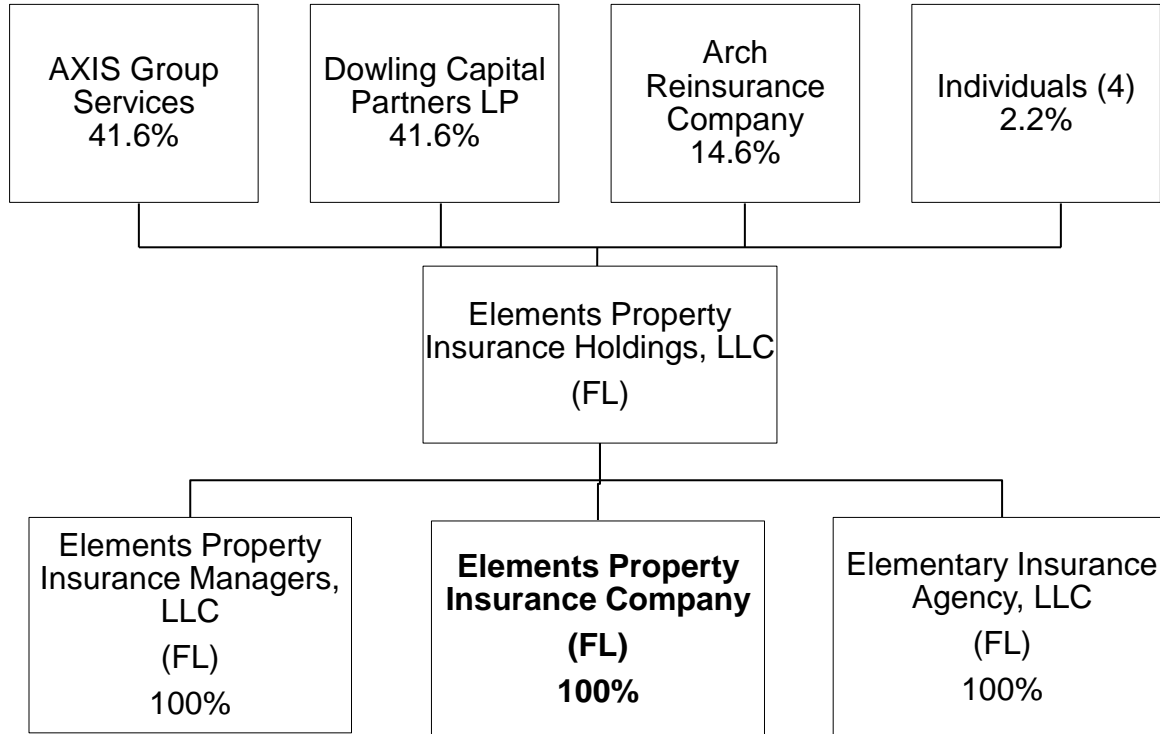
| Name | City, State | Title |
|---------------------------------|----------------------------|------------------------------------|
| Robert L. Ricker ⁽¹⁾ | Tallahassee, Florida | President, Chief Executive Officer |
| Justin D. Faust | Avon, Connecticut | Board Member |
| Anthony Mammolite | South Plains, New Jersey | Board Member |
| Laurence B. Richardson | Philadelphia, Pennsylvania | Board Member, Secretary |
| Linda Ventresca | New York, New York | Board Member |

¹ Chairman

Affiliated Companies

A holding company registration statement was filed with the Office on April 1, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**Elements Property Insurance Company
Organizational Chart
December 31, 2015**



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

Agency - Company Agreement

Effective August 1, 2014, Elements Property Insurance Managers, LLC (EPIM), on behalf of the Company, entered into an Agency – Company Agreement with Elementary Insurance Agency, LLC (Agent). Pursuant to the agreement, Agent was authorized to solicit, receive, and transmit 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 receive premiums and retain commission of premiums.

Managing General Agency Contract

Effective September 17, 2013, the Company entered into a Managing General Agency (MGA) Contract with Elements Property Insurance Managers, LLC (EPIM). EPIM provided services for underwriting, reinsurance negotiation, policy advisory and consulting, claims management, premium collection, regulatory liaison, accounting, retention of accountants and actuaries, marketing agent relations and other ministerial functions. The Company agreed to pay EPIM twenty-three percent (23%) of direct written premiums and four percent (4%) of assumed premiums for all business originated or produced and services rendered. EPIM could deduct an additional five percent (5%) of earned premiums for claims-related services.

Subsequent Event: Effective June 30, 2016, the MGA Contract was amended to include language for forgiveness of MGA fees.

Cost Sharing Agreement

Effective October 1, 2014, the Company, Elements Property Insurance Holdings, LLC, Elements Property Insurance Managers, LLC and Elements Insurance Agency, LLC entered into a Cost Sharing Agreement. The entities shared office space, facilities, furniture, equipment, computer hardware and software and certain employee services. Under the agreement, shared costs were to be determined, allocated, and charged in accordance with generally accepted cost accounting principles. Costs of services were to be determined no less than every calendar quarter and billed

within thirty (30) days after the end of each calendar quarter, with payment due within sixty (60) days after the end of each calendar quarter.

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 assumed \$1,242,000 in premiums from Citizens Property Insurance Corporation during the year ended December 31, 2015.

Reinsurance Ceded

As of December 31, 2015, 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 & Company, LLC. The Company also participated in the Florida Hurricane Catastrophe Fund (FHCF).

The Company ceded \$28,547,000 in premiums during the year ended December 31, 2015.

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:

Custody Agreement

The Company maintained a Custody Agreement with Branch Banking and Trust Company (BB&T), effective April 14, 2014. The BB&T Custody Agreement was terminated on June 5, 2015. On November 2, 2015, the Company entered into an Insurance Custody Agreement with U.S. Bank National Association. The agreements complied with Rule 69O-143.042, Florida Administrative Code.

Broker Services Agreement

The Company maintained a Broker Services Agreement with Guy Carpenter & Company, LLC (Guy Carpenter) to act as a reinsurance intermediary in the treaty reinsurance market. Guy Carpenter was responsible for analyzing and evaluating exposures; making recommendations regarding coverage, structures, rates, limits, retentions, coinsurance, potential reinsurers as well as other program features; assembling underwriting information; preparing placing slips; negotiating premium and coverage terms; securing reinsurers' authorizations; preparing preliminary contract wordings; assigning lines to reinsurers; securing signed agreements and claims services.

Independent Auditor Agreement

An independent CPA, Thomas Howell Ferguson P.A., audited the Company's statutory basis financial statements for the year 2015, 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

Francois Houde, CFE, CISA, AES of Carr, Riggs and Ingram, LLC 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, 2015

| | Per Company | Examination Adjustments | Per Examination |
|---|---------------------|----------------------------|---------------------|
| Bonds | \$24,666,221 | | \$24,666,221 |
| Cash and short-term investments | 21,019,116 | | 21,019,116 |
| Investment income due and accrued Agents' balances: | 37,574 | | 37,574 |
| Uncollected premiums | 4,174,432 | | 4,174,432 |
| Deferred premiums | 2,852,571 | | 2,852,571 |
| Current federal and foreign income tax recoverable | 2,355,513 | | 2,355,513 |
| Net deferred tax asset | 1,480,334 | | 1,480,334 |
| Receivables from parent, subsidiaries and affiliates | 139 | | 139 |
| Aggregate write-ins for other invested assets | 246,688 | | 246,688 |
| Totals | <u>\$56,832,588</u> | | <u>\$56,832,588</u> |

Elements Property Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2015

| | Per Company | Examination Adjustments | Per Examination |
|---|------------------------|------------------------------------|----------------------------|
| Losses | \$6,952,445 | | \$6,952,445 |
| Loss adjustment expenses | 1,002,691 | | 1,002,691 |
| Commissions payable | 988,136 | | 988,136 |
| Other expenses | 131,908 | | 131,908 |
| Unearned premiums | 19,872,237 | | 19,872,237 |
| Ceded reinsurance premiums payable | 2,784,469 | | 2,784,469 |
| Payable to parent, subsidiaries and affiliates | 130,642 | | 130,642 |
| Aggregate write-ins for liabilities | 24,145 | | 24,145 |
| Total Liabilities | \$31,886,673 | | \$31,886,673 |
| Common capital stock | \$100,000 | | \$100,000 |
| Gross paid in and contributed surplus | 27,150,000 | | 27,150,000 |
| Unassigned funds (surplus) | (2,304,085) | | (2,304,085) |
| Surplus as regards policyholders | \$24,945,915 | | \$24,945,915 |
| Total liabilities, surplus and other funds | \$56,832,588 | | \$56,832,588 |

Elements Property Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2015

Underwriting Income

| | |
|--------------------------------------|---------------|
| Premiums earned | \$35,542,455 |
| Deductions: | |
| Losses incurred | \$17,653,480 |
| Loss adjustment expenses incurred | 4,098,605 |
| Other underwriting expenses incurred | 17,773,972 |
| Total underwriting deductions | \$39,526,057 |
| Net underwriting gain (loss) | (\$3,983,602) |

Investment Income

| | |
|-------------------------------------|-----------|
| Net investment income earned | \$174,088 |
| Net realized capital gains (losses) | (190) |
| Net investment gain (loss) | \$173,898 |

Other Income

| | |
|--|------------|
| Net gain (loss) from agents' or premium balances charged off | (\$16,697) |
| Total other income | (\$16,697) |

| | |
|---|---------------|
| Net income before dividends to policyholder and before federal and foreign income taxes | (\$3,826,400) |
| Dividends to policyholders | 0 |
| Net income, after dividends to policyholders, and before federal and foreign income taxes | (\$3,826,400) |
| Federal and foreign income taxes | (1,566,413) |
| Net income | (\$2,259,987) |

Capital and Surplus Account

| | |
|--|--------------|
| Surplus as regards policyholders, December 31 prior year | \$25,220,276 |
| Net income | (2,259,987) |
| Change in net unrealized capital gains or (losses) | 0 |
| Change in net deferred income tax | (262,638) |
| Change in non-admitted assets | (1,736) |
| Surplus adjustments: Paid in | 2,250,000 |
| Aggregate write-ins for gains and losses in surplus | 0 |
| Examination adjustment | 0 |
| Change in surplus as regards policyholders for the year | (\$274,361) |
| Surplus as regards policyholders, December 31 current year | \$24,945,915 |

Elements Property Insurance Company
Reconciliation of Capital and Surplus
December 31, 2015

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

Capital/Surplus Change During Examination Period

| | | | |
|---|-----------------|-----------------|---------------------|
| Surplus at December 31, 2015, per Annual Financial Statement | | | \$24,945,915 |
| | <u>Increase</u> | <u>Decrease</u> | |
| Net increase (or decrease) | | | <u>\$0</u> |
| Surplus at December 31, 2015, after adjustment | | | <u>\$24,945,915</u> |

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, 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, Christopher Burkhalter, FCAS, MAAA of Bickerstaff, Whatley, Ryan and Burkhalter, 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

As of December 31, 2015, the amount of capital and surplus reported by the Company of \$24,945,915 exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Reinsurance

We recommend that the Company comply with the NAIC Annual Statement Instructions, as adopted by Rule 69O-138.001, Florida Administrative Code.

Related Party Agreements

We recommend that the Company amend its Managing General Agency Agreement with EPIM to include Section 626.7454(5)(6), Florida Statutes, with regards to the managing general agents required contract provisions.

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, 2015, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements as of December 31, 2015, the Company's surplus as regards policyholders was \$24,945,915, which exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Francois Houde, CPA, CFE, CISA, AES, Examiner-in-Charge, Beth Duncan, CPA, Robin Brown, CFE, and Daniel Bryde, Participating Examiners of Carr, Riggs and Ingram, LLC, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, MBA, Financial Examiner/Analyst Supervisor, Examination Manager, and Renata Denis, PIR, Financial Examiner/Analyst II, Participating Examiner.

Respectfully submitted,

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