



**EXAMINATION REPORT  
OF**

**Cypress Property & Casualty Insurance Company  
Jacksonville, Florida**

**NAIC Company Code: 10953**

**as of  
December 31, 2019**

**By  
The Florida Office of Insurance Regulation**

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October 30, 2020

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 (“the NAIC”), we have conducted an examination as of December 31, 2019, of the financial condition and corporate affairs of

## **Cypress Property & Casualty Insurance Company**

12926 Gran Bay Parkway West, Suite 200  
Jacksonville, FL 32258-4469

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, 2019 and the fieldwork commenced with planning with the Florida Office of Insurance Regulation (“the Office”) on July 17, 2020. The fieldwork concluded as of October 30, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2010 through December 31, 2014.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (“the 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 the NAIC Statements of Statutory Accounting Principles (“SSAP”).

This examination report includes information obtained from the examination of the records, accounts, files and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. 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 Examination found that the Company reported loss reserves that were determined to be deficient as of December 31, 2019, and subsequent to the period under examination determined to be deficient as of December 31, 2020. The loss reserve deficiency for these prior years was related solely to the Company's Artisan/Construction line of business and unrelated to the Company's core property insurance business. (Refer to COMMENTS ON FINANCIAL STATEMENT ITEMS and SUBSEQUENT EVENTS).

Although the Company's actuaries disagreed with the findings, the Company nonetheless arranged a series of reinsurance transactions with both offshore and captive reinsurers, which included a quota share arrangement, a stop loss arrangement, and a loss portfolio transfer. These transactions addressed the identified deficiency in loss reserves for prior years.

### **Previous Examination Findings**

Accounts and Records.

The Company was not in compliance with Section 624.424 (8)(a), Florida Statutes, by not filing its 2014 audited financial report with the Office on or before June 1 for the preceding year ending December 31, 2014.

This finding was remediated.

## **COMPANY HISTORY**

### **General**

The Company was a domestic stock company that was licensed in Florida during the exam period. The Company was incorporated under Florida law on August 26, 1998 and commenced business on December 27, 1998.

## Dividends

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

## Capital Stock and Capital Contributions

As of December 31, 2019, the Company's capitalization was as follows:

Number of authorized common capital shares	7,000,000
Number of shares issued and outstanding	700,000
Total common capital stock	\$700,000
Par value per share	\$1.00

## Surplus Notes

The Company issued a surplus note to the State Board of Administration of Florida (SBA) for \$20 million on February 2, 2007, which was amended on July 1, 2008. The surplus note has a 20-year maturity with interest payable quarterly at the 10-year U.S. Treasury Bond rate. The Company made principal payments of \$558,824 and \$558,824 in 2018 and 2019, respectively. The surplus note had an outstanding principal of \$1,257,353 and \$1,816,777 as of December 31, 2019 and December 31, 2018, respectively. All payments under the note require authorization by the Office.

During 2019 and 2018, the Company paid \$42,063 and \$56,468, respectively, in interest on the note. The interest rate fluctuates quarterly at the 10-year U.S. Treasury Bond rate.

## Acquisitions, Mergers, Disposals, Dissolutions

There were no acquisitions, mergers, disposals or dissolutions during the period under examination. Subsequent to the exam period there was some activity that is covered under subsequent events.

## MANAGEMENT AND CONTROL

### Corporate Governance

The 2019 shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2019, are shown below:

<b>Directors</b>		
<b>Name</b>	<b>City, State</b>	<b>Principal Occupation, Company Name</b>
Enda McDonnell	Highland Beach, FL	Co-CEO and President, The Company
Joseph Newborg King	Darien, CT	Co-CEO, The Company
Adrian Ryan	Dublin, Ireland	Investor
Ramsey Hale Campbell	Bradenton, FL	President, Property Claims Professionals LLC
Mark Keyser	Lancaster, PA	Owner, Charter Lane Consulting LLC

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

<b>Senior Officers</b>		
<b>Name</b>	<b>City, State</b>	<b>Title</b>
Enda McDonnell <sup>(1)(2)</sup>	Highland Beach, FL	Co-CEO and President
Joseph King	Darien, CT	Co-CEO
Jay Rine <sup>(3)(4)</sup>	Jacksonville, FL	CFO and Treasurer
Sam Moore	Jacksonville, FL	Secretary
Rhonda Reno	Jacksonville, FL	Controller

(1) Jay Rine replaced Enda McDonnell as President, effective 9/28/2020.

(2) Enda McDonnell continued to be one of the Co-CEOs.

(3) Trevor Hillier replaced Jay Rine as CFO and Treasurer, effective 9/28/2020.

(4) Mark Keyser replaced Trevor Hillier as CFO and Treasurer, effective 9/2/2021.

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2019. The first person listed on the left for each committee is the chairperson.

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes, as well as an Investment Committee and a Compensation Committee<sup>1</sup>, as follows:

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<sup>1</sup> Effective December 8, 2020, the Compensation Committee was dissolved.

<b>Audit Committee</b>		
Adrian Ryan	Ramsey Hale Campbell	Mark Keyser

<b>Investment Committee</b>		
Enda McDonnell	Joseph King	Adrian Ryan

<b>Compensation Committee</b>		
Enda McDonnell	Joseph King	Adrian Ryan

### **Holding Company System**

The following agreements were in effect between the Company and its affiliates on December 31, 2019:

#### **Tax Allocation Agreement**

Effective January 1, 2016, the Company entered into a Tax Allocation Agreement, which facilitated the Company's filing of a consolidated tax return with its parent and certain affiliates. On December 31, 2019, income tax provisions were allocated to the respective companies based on their contribution to consolidated taxable income.

#### **Cost Allocation Agreement - Software**

The Company entered into a Cost Allocation Agreement with Vista Reinsurance Intermediary and Cypress Texas Insurance Company ("Cypress Texas") on January 1, 2018. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company.

#### **Cost Allocation Agreement – Members of Group**

The Company entered into a Cost Allocation Agreement with Cypress Group Holdings, Inc. ("CGHI"), Cypress Texas, and Service First Insurance Group LLC ("SFIG") effective as of January



1, 2017. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company

### **Management Services Agreement**

The Company entered into a Service Agreement with Sound Shore Operations LLC, a Delaware limited liability company, effective January 1, 2017, to provide certain advisory and consulting services including portfolio modeling, insurance profile risk management, legal services, and financial advice to the Board of Directors or officers of the Company. This agreement also included CGHI, Cypress Texas, and SFIG.

The agreement continues in force for a term of one (1) year and will automatically renew for successive one (1) year periods, unless otherwise terminated within the guidelines of the agreement. The management fee paid by the Company is accrued on a fee for services basis, including reimbursement for out-of-pocket expenses, all of which must be reasonable and customary.

Subsequent to the conclusion of field work, the Company noted that this agreement was terminated as of December 31, 2020.

### **Managing General Agent Agreement**

The Company entered into a Managing General Agency (MGA) Agreement with its affiliate SFIG on January 1, 2018. This Agreement may be terminated by either party without cause upon the giving of 180 days' prior written notice. SFIG is responsible for the production, binding, policy issuance, claims handling and servicing of Policies pursuant to the terms of this Agreement. MGA fees were 19% of gross premium written from personal lines, 25% of gross premium written from commercial lines, and a \$25 fee for each policy. Claims administration services were included in the agreement. Claims administration fees were 0.75% of gross premium written.

## **Referral Agreement with Allied Restoration and Construction LLC**

The Company entered into the Referral Agreement with Allied Restoration and Construction LLC (“Allied”) on April 4, 2016. Allied will provide necessary services related to water damage mitigation, remediation, restoration, and construction services to the Company’s policyholders. In consideration for the referrals made to Allied, Allied shall charge the Company, and any policyholder referred by the Company, the most favorable pricing it gives to any other party with whom it deals. The Company shall pay for such charges subject to the terms, conditions, and limits in the relevant insurance policy, with any balance to be paid by the policyholder. Invoicing for Allied’s services shall take place at the intervals and by the process so indicated in the relevant insurance policy unless the policyholder has given Allied permission to charge the Company directly pursuant to a written agreement. If no specification as to invoicing is made within the relevant policy(ies) of insurance, billing may be issued on a cumulative basis.

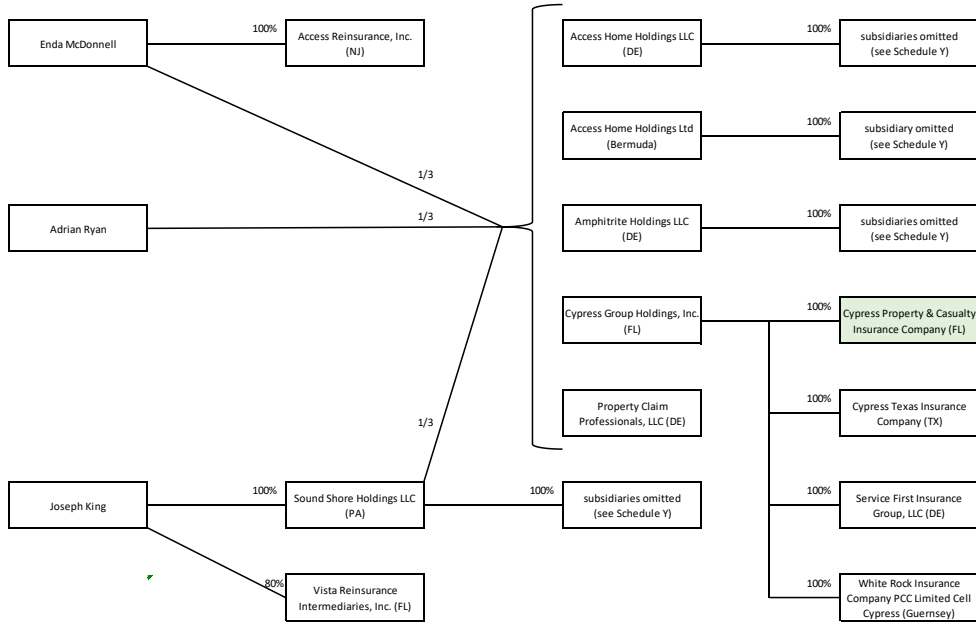
## **ACCOUNTS AND RECORDS**

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

A simplified organizational chart as of December 31, 2019, reflecting the holding company system, is shown on the following page. Schedule Y of the Company’s 2019 annual statement provided a list of all related companies of the holding company system.

# Simplified Organization Chart

## December 31, 2019



## TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in Florida on December 27, 1998, and is currently authorized for the following lines of business as of December 31, 2019:

Line Written	Net Premium Written as of December 31, 2019
Fire	\$2,247,661
Allied Lines	\$938,329
Homeowners Multiple Peril	\$13,420,779
Inland Marine	\$1,368,765
Other Liability	\$8,810,089
Total Net Premium Written	\$26,785,623

## 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 reinsurance during the period of this examination.

### Reinsurance Ceded

The Company utilizes several different reinsurance structures to protect itself from various sources of loss. The Company maintains reinsurance programs that include quota share, stop loss, and catastrophe reinsurance provided by the FHCF and other reinsurers, as described below.

1. The Company has a Catastrophe Excess of Loss ("Cat XOL"), Per Occurrence,
2. Catastrophe Excess of Loss ("Cat XOL"), Aggregate,
3. Per Risk (Facultative Basis),
4. Quota Share, and
5. Stop Loss.

## **FINANCIAL STATEMENTS**

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; statutory Statement of Income; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2019. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2019. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

**Cypress Property & Casualty Insurance Company**  
**Assets**  
**December 31, 2019**

	Per Company
Bonds	\$60,103,476
Cash and short-term investments	\$13,522,469
Other Investments	\$2,800,000
Subtotal cash and invested assets	\$76,425,945
Interest income due and accrued	\$299,640
Agents' balances	
Uncollected premium	\$2,460,925
Deferred premium	\$3,869,741
Amounts recoverable from reinsurer	\$1,143,560
Current federal and foreign income taxes recoverable	\$1,594,200
Net deferred tax asset	\$1,490,082
Receivable from parent, subsidiaries and affiliates	\$322,097
Aggregate write-in for other than invested assets	\$314,105
<b>Totals</b>	<b>\$97,794,229</b>

**Cypress Property & Casualty Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2019**

	Per Company
Losses	\$20,379,682
Loss adjustment expenses	\$7,412,907
Other expenses	\$1,031,236
Taxes, licenses and fees	\$160,707
Borrowed money	\$5430
Unearned premiums	\$18,057,649
Advance premiums	\$1,143,595
Funds held under reinsurance treaties	\$23,008,694
Ceded reinsurance premiums payable	(\$1,248,597)
Aggregate write-in for liabilities	\$2,529,082
<b>Total liabilities</b>	<b>\$72,480,385</b>
Common capital stock	\$700,000
Surplus notes	\$1,257,353
Gross paid-in and contributed surplus	\$48,159,857
Unassigned funds (surplus)	(\$24,803,366)
Surplus as regards policyholders	\$25,313,844
<b>Total liabilities, surplus and other funds</b>	<b>\$97,794,229</b>

**Cypress Property & Casualty Insurance Company**  
**Statement of Income**  
**December 31, 2019**

	Per Company
<b>Underwriting Income</b>	
Premiums earned	\$27,633,486
<b>Deductions</b>	
Losses Incurred	\$15,229,949
Loss expenses incurred	\$10,069,207
Other underwriting expenses incurred	\$7,295,983
Total Underwriting deductions	\$32,595,139
Net underwriting gain (loss)	(\$4,961,653)
<b>Investment Income</b>	
Net investment income earned	\$1,303,692
Net realized capital gains or (losses)	\$6,184
Net investment gain or (loss)	\$1,309,876
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	(\$103,978)
Aggregate write-ins for miscellaneous income	\$13,397
Total other income	(\$90,581)
Net income before dividends to policyholders and before federal & foreign income taxes	(\$3,742,358)
Net income, after dividends to policyholders, but before federal & foreign income taxes	(\$3,742,358)
Federal & foreign income taxes	\$1,633,259
Net Income	(\$2,109,099)
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders December 31 prior year	\$25,396,341
Net Income	(\$2,109,099)
Change in net unrealized capital gains or losses	\$54
Change in non-admitted assets	\$502,070
Change in net deferred income taxes	\$338,697
Change in surplus notes	\$558,825
Surplus adjustments: Paid in	\$2,000,000
Change in surplus as regards policyholders for the year	(\$82,497)
Surplus as regards policyholders, December 31, current year	\$25,313,844

**Cypress Property & Casualty Insurance Company**  
**Reconciliation of Capital and Surplus**  
**December 31, 2019**

<b>Capital/Surplus Change during Examination Period</b>			
Surplus on December 31, 2014, per Company			\$32,830,791
	Increase	Decrease	
Net Income/(Loss)		(\$8,641,253)	(\$8,641,235)
Change in net unrealized capital gain (loss)	\$4,694		\$4,694
Change in net deferred income tax		(\$2,188,555)	(\$2,188,555)
Change in non-admitted assets	\$102,272		\$102,272
Change in surplus notes		(\$7,794,120)	(\$7,794,120)
Change in paid in surplus			11,000,000
Rounding		(3)	(3)
Surplus on December 31, 2019 per Company			\$25,313,844

An adjustment to loss reserves for the year ending December 31, 2019, which is discussed in more detail in the COMMENTS ON FINANCIAL STATEMENT ITEMS AND SUBSEQUENT EVENTS, resulted in an examination adjustment to surplus for 2019 and in the year subsequent to the period under examination. However, the Company addressed the identified loss reserve deficiency identified during this examination through a series of reinsurance transactions (refer to the SUBSEQUENT EVENTS section of this report).



## COMMENTS ON FINANCIAL STATEMENT ITEMS

### Liabilities

#### Losses and Loss Adjustment Expenses

The Office conducted a review of reserves as of December 31, 2019. The Office retained the services of Taylor-Walker Consultants, LLC (“Taylor-Walker”) to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2019. The Taylor-Walker analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The conclusions set forth in the Taylor-Walker report are based on information provided by the Company, including the 2019 Annual Statement and the related 2019 Statement of Actuarial Opinion with underlying actuarial workpapers. Taylor-Walker performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment expense and adjusting and other expense. Taylor-Walker also reviewed the Company's actuarial workpapers which reconcile the year-end 2019 data to Schedule P. The actuarial workpapers supported the conclusion that the year-end amounts were closely reconciled to the Schedule P amounts. However, based on work performed, Taylor-Walker concluded the Company's carried net and gross loss and LAE reserves at December 31, 2019, were understated, and as such, a financial adjustment was required for examination purposes. The Company and its appointed actuary disagreed with the identified loss reserve adjustment, but addressed the reserve deficiency through a series of reinsurance transactions described in various other sections of this Report.

## **SUBSEQUENT EVENTS**

### **2020 Reserve Update Review**

As a result of the 2019 reserve deficiency the Office conducted an updated review of reserves as of December 31, 2020. The Office retained the services of Taylor-Walker to conduct the updated review of the Company's loss and LAE reserves as of December 31, 2020. During the review, Taylor-Walker acknowledged the Company's favorable development experienced during 2020 related to homeowners/farmowners business. However, based on work performed, Taylor-Walker concluded the Company's carried net and gross loss and LAE reserves on December 31, 2020, was understated. This adverse development was specifically related to the Company's Artisan/Construction defect general liability line of business. As a result, the Company entered into the following reinsurance transactions that addressed the examination findings related to both 2019 and 2020.

### **2021 Reinsurance Transactions**

During 2021, the Company entered into a loss portfolio transfer to specifically address the adverse development in the Artisan/Construction defect general liability line of business. In addition, the company entered into a quota share contract of Artisan general liability policies effective on and after January 1, 2021.

These subsequent actions taken by the Company satisfactorily address the loss reserve inadequacy identified in this report for the prior years under examination.

### **Cypress Texas Insurance Company Merger**

Effective June 30, 2020, Cypress Texas, a Texas corporation, was merged into the Company, a Florida corporation. The Company became the surviving corporation. This merger was effectuated pursuant to resolutions adopted by the shareholders and directors of both companies, and pursuant to and in accordance with provisions of the Texas Insurance Code and the Florida Insurance Code.

This merger specified that all policies and related obligations under Cypress Texas would be assumed by the Company under the same terms and conditions as Cypress Texas. The Company Board members Enda McDonnell, Joseph King, Adrian Ryan, Hale Campbell, and Mark Keyser were retained for the remainder of their respective terms. Similarly, the Company Officers

Enda McDonnell, Joseph King, Samuel Moore, Jay Rine, and Rhonda Reno were also retained for the remainder of their respective terms. Additionally, all issued and outstanding shares from Cypress Texas were surrendered to the Company at a par value of \$1.00 per share and canceled.

### **Contribution Agreement**

Effective September 30, 2020, CGHI and the Company entered into a contribution agreement. Under the terms of this agreement, CGHI contributed, assigned, and delivered its ownership interest of Access Home Insurance Company (“Access”) to the Company. This transaction permitted CGHI to contribute all its equity interests in Access as a capital contribution to the Company. Subsequent to the examination period, Access became a wholly owned subsidiary of the Company. This agreement is governed by the laws of the State of Delaware.

Under the terms of this agreement, CGHI and the Company treated and agreed to report this contribution to the Internal Revenue Service, as a nonrecognition transaction pursuant to Section 351(a) of the Internal Revenue Code.

## **RECOMMENDATIONS**

It is recommended that the Company's actuary consider the potential for bulk development on known claims and for IBNR development beyond ten years of maturity, and demonstrate a greater responsiveness to recent adverse claims emergence in Florida.

It is recommended that the Company both monitor the continued emergence of IBNR claims on at least a quarterly basis and react appropriately to any indications of adverse development following a pattern other than that suggested by examination-adjusted reserves.

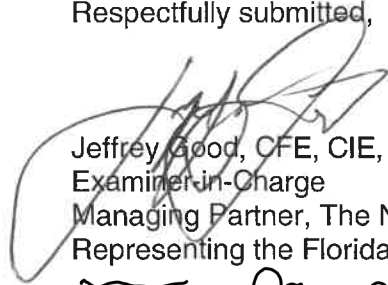
## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the Company as of December 31, 2019, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, participants from The NOVO Consulting Group, LLC, the Office, and Taylor-Walker Consulting, as shown below, are recognized for their participation in the examination:

<u>Name of Participant, Credentials</u>	<u>Function</u>	<u>Organization</u>
Lori Ruggiero, CFE, CIE, MCM	Supervising Examiner	NOVO
John Sinkiewicz, CISA, GCFA, LEH, GREM, CHFI	IT Specialist	NOVO
Mike Mausen, CFE, CISA, AES	Participating Examiner	NOVO
Raymond Conover, AIE, ARE, FLMI, MCM	Participating Examiner	NOVO
Clifton Day, MPA, CPM, CSM, MCM	Participating Examiner	NOVO
Jeffery Rockwell	Examination Manager	Office
Casey Hengstebeck	Participating Examiner	Office
Brent Sallay, FCAS, MAAA	Senior Actuary	Taylor-Walker

Respectfully submitted,



Jeffrey Good, CFE, CIE, CPCU, AIAF, ARC, MCM  
Examiner-in-Charge  
Managing Partner, The NOVO Consulting Group, LLC  
Representing the Florida Office of Insurance Regulation



Daniel W. Applegarth, CFE, CPA, PIR  
Chief Financial Examiner  
Property & Casualty Financial Oversight  
Florida Office of Insurance Regulation