



**EXAMINATION REPORT  
OF**

**Heritage Property & Casualty Insurance Company  
Tampa, Florida**

**NAIC Company Code: 14407**

**as of  
December 31, 2021**

**By  
The Florida Office of Insurance Regulation**

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May 30, 2023

Michael Yaworsky  
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, 2021, of the financial condition and corporate affairs of

**Heritage Property & Casualty Insurance Company**

1401 N. Westshore Blvd  
Tampa, FL 336074

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, 2019 through December 31, 2021. The fieldwork commenced with planning with the Florida Office of Insurance Regulation (“the Office”) on June 1, 2022. Fieldwork concluded as of May 30, 2023. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2016 through December 31, 2018.

The examination was 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.

The examination was a multi-state/coordinated process. The lead state for this exam was Florida, and states that participated in this exam were Hawaii and Rhode Island. The Company writes property and casualty business and is licensed in multiple states.

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

There were no significant findings as a result of this examination.

### Previous Examination Findings

There were no significant findings in the previous examination.

## COMPANY HISTORY

### General

The Company was incorporated in Florida on August 2, 2012 and commenced business on August 17, 2012.

### Dividends

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

### Capital Stock and Capital Contributions

As of December 31, 2021, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

The Company reported capital contributions from its parent, Heritage Insurance Holdings, Inc. ("HIH") of \$14.1 million, \$11.0 million, and \$1.2 million for the years ended December 31, 2021, 2020 and 2019, respectively. The Company did not issue additional shares and recorded the capital contributions as paid in capital.

## Surplus Notes

The following surplus notes were issued to HIH in 2012 and 2013:

Date Issued	Interest Rate	Par Value	Carrying Value	Maturity Date
10/10/2012	8%	7,000,000	7,000,000	None
5/23/2013	8%	10,000,000	10,000,000	None
	Total	17,000,000	17,000,000	

The Company has not paid any interest since the third quarter of 2020. All payments are subject to prior approval by the Office.

## Acquisitions, Mergers, Disposals, Dissolutions

The Company had no acquisitions, mergers, disposals, or dissolutions during the period under examination.

## MANAGEMENT AND CONTROL

### Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2021, and as of the date of this report are shown below:

<b>Directors</b>		
<b>Name</b>	<b>City, State</b>	<b>Principal Occupation, Company Name</b>
Richard Alexander Widdicombe	Tarpon Springs, Florida	Chairman, The Company
Ernesto Jose Garateix	Tampa, Florida	President and Chief Executive Officer, The Company
Panagiotis Giorgas Apostolou	St. Petersburg, Florida	Owner, Central Parking Services, LLC; Owner & Real Estate Broker, Alexa Realty of Saint Petersburg, Inc.
Irini Barlas	Palm Harbor, Florida	Chief Financial & Operating Officer, Megastar Advisors, LLC;
Nicholas George Pappas	Palm Harbor, Florida	President & Owner, FlameStone American Grill
Joseph Vattamattam	Tampa, Florida	Chief Executive Officer, Healthmap Solutions, Inc.
Vijay Shankarrao Walvekar	Bloomfield, Michigan	Vice President, Central Home Health Care, Inc.

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>
Ernesto Jose Garateix	Tampa, Florida	President and Chief Executive Officer
Kirk Howard Lusk	Tampa, Florida	Chief Financial Officer, Treasurer, and Secretary
Sharon Ann Binnun	Palm Harbor, Florida	Chief Accounting Officer
Joseph Rene Peiso	Safety Harbor	Vice President, Compliance

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2021. The first person listed for each committee is the chairman.

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

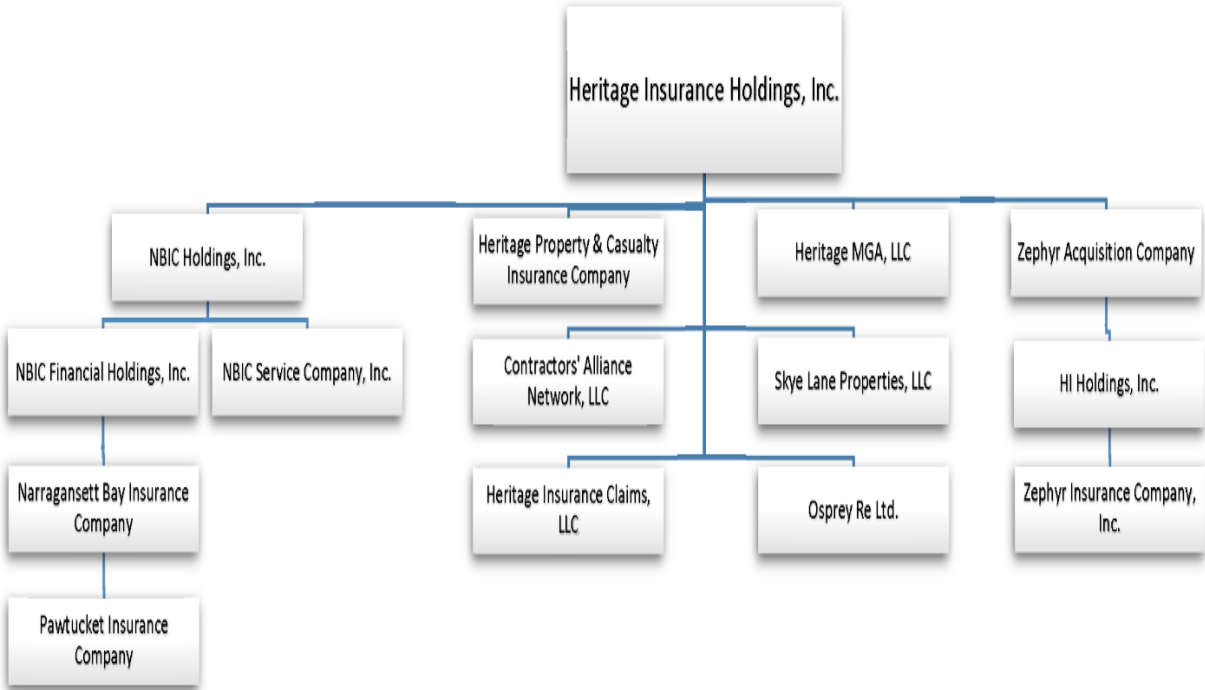
Audit Committee		
Irini Barlas	Joseph Vattamattam	Vijay Shankarrao Walvekar

Investment Committee	
Ernesto Jose Garateix	Richard Alexander Widdicombe

**Holding Company System**

Control of the Company is maintained by its parent, Heritage Insurance Holdings, Inc., a publicly traded company on the New York Stock Exchange. A simplified organizational chart as of December 31, 2021, reflecting the holding company system, is shown on below. Schedule Y of the Company’s 2021 annual statement provided a list of all related companies of the holding company group.

**Heritage Property & Casualty Insurance Company  
Organizational Chart  
December 31, 2021**





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

### **Heritage Insurance Cost Allocation Agreement**

The Company entered into a Cost Allocation Agreement with HIH, Heritage MGA, LLC (“HMGA”) and Heritage Insurance Claims on August 9, 2012. The agreement defines allocable expenses and the allocation methods used to assign the expense among the agreement’s participants.

### **Vendor Services Agreement**

The Company entered into a Vendor Services Agreement with its affiliate Contractors’ Alliance Network, LLC (“CAN”), on August 8, 2013. CAN manages the Company’s claims vendor network. During 2021, the Company paid \$46.9 million, for allocated loss adjustment expenses on behalf of the Company as well as water mitigation, mold remediation, fire restoration, repair, and management services under the terms of the agreement. Payments in 2021 also included services performed related to Hurricanes IRMA, FLORENCE, MICHAEL, SALLY, ETA, and ISAIAS related catastrophe loss mitigation.

### **Managing General Agent Agreement**

The Company entered into an exclusive Managing General Agency (“MGA”) Agreement with its affiliate, HMGA December 5, 2012. HMGA provides underwriting, policy administration, claims administration services, and executive management services under the terms of the agreement approved by the Office.

### **Lease Agreement**

HIH owns a commercial building complex, a portion of which was used for its home office facilities. HIH leases office space to the Company under the terms of a lease that runs through February 28, 2024, with the remaining space leased to non-affiliates.

### **Loan Agreement**

The Company, on December 13, 2018, loaned \$19.2 million to HIH with a 5% interest rate. The loan was approved by the Office. The loan agreement was included as part of Consent Order

No. 2337737-18-CO. Under the terms of the agreement the principal amount can be repaid at any time. During 2021, \$1,555,200 of principal was paid, reducing the balance of the loan to \$13,996,800 at December 31, 2021. Interest payments of \$788,400 were paid in 2021.

### **Reinsurance Agreement**

The Company is party to a Reinsurance Contract with its captive reinsurance affiliate, Osprey Re Ltd. (“Osprey”).

## **ACCOUNTS AND RECORDS**

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

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in the following states:

- Alabama
- Florida
- Georgia
- Mississippi
- North Carolina
- South Carolina

The Company was authorized to transact insurance in Florida on August 17, 2012, and is currently authorized for the following lines of business in Florida as of December 31, 2021:

- Fire
- Allied Lines
- Other Liability
- Commercial Multi-Peril
- Homeowners Multi-Peril
- Mobile Home Multi-Peril

The Company primarily writes Homeowners Multi-Peril policies, which accounts for over 75% of the direct premiums written, in the states where it is licensed or eligible.

The total direct premium written as of December 31, 2021 was \$652,324,186 of which over 85% was written in Florida.

## **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 examination period.

### **Reinsurance Ceded**

As of December 31, 2021, the Company's ceded reinsurance program consisted of catastrophe excess of loss reinsurance provided by agreements with various commercial reinsurers through reinsurance intermediary Aon Benfield, as well as with their affiliate Osprey. The Company also participated in the Florida Hurricane Catastrophe Fund ("FHCF"). The Company retains aggregate catastrophe losses, from all events, exceeding its reinsurance coverage.

The Company's reinsurance is segmented into layers of coverage to protect for excess property catastrophe losses and loss adjustment expense (LAE). The Company's 2020-2021 reinsurance program incorporates the mandatory coverage required by law to be placed with the FHCF, as well as private reinsurance below, alongside and above the FHCF layer and aggregate reinsurance coverage. The reinsurance program also included purchasing significant third-party catastrophe coverage and sponsor catastrophe bonds issued by Citrus Re.

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

## **FINANCIAL STATEMENTS**

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; statutory Statement of Income; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2021. 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, 2021. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

**Heritage Property & Casualty Insurance Company**  
**Assets**  
**December 31, 2021**  
(as reported by the Company)

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 467,538,362	\$ 0	\$467,538,362
Stocks			
Preferred stocks	51,116,650		51,116,650
Common stocks	1,198,700		1,198,700
Cash and short-term investments	152,295,758		152,295,758
Other invested assets	17,065,039		17,065,039
Subtotals, cash and invested assets	689,214,509		689,214,509
Investment income due and accrued	4,222,906		4,222,906
Premiums and considerations			
Uncollected premiums and agents' balances	6,125,340	458,435	5,666,905
Deferred premiums, agents' balances and installments	24,224,527		24,224,527
Reinsurance			
Amounts recoverable from reinsurers	9,616,681		9,616,681
Current federal and foreign income taxes recoverable and interest thereon	8,436,428		8,436,428
Net deferred tax asset	11,310,809	1,355,159	9,955,650
Receivable from parent, subsidiaries and affiliates	5,396,149		5,396,149
Aggregate write-in for other than invested assets	1,830,545	1,119,856	710,689
<b>Total</b>	<b>\$ 760,377,894</b>	<b>\$ 2,933,450</b>	<b>\$ 757,444,444</b>

**Heritage Property & Casualty Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2021**  
(as reported by the Company)

Losses	\$ 196,234,663
Reinsurance payable on paid losses and loss adjustment expenses	226,000
Loss adjustment expenses	30,317,714
Other expenses	1,446,424
Taxes, licenses and fees	(1,482,975)
Borrowed money and interest thereon	19,227,924
Unearned premiums	175,242,230
Advance premiums	14,208,138
Ceded reinsurance premiums payable	116,185,000
Funds held by company under reinsurance treaties	72,905,000
Amounts withheld or retained by company for account of others	1,072
Remittances and items not allocated	3,188,563
Payable to parent, subsidiaries and affiliates	7,442,769
Payable for securities	1,500,000
Aggregate write-in for liabilities	765,994
Total liabilities	637,408,516
Common capital stock	1,000,000
Surplus notes	17,000,000
Gross paid-in and contributed surplus	179,403,850
Unassigned funds (surplus)	(77,367,922)
Surplus as regards policyholders	120,035,928
Totals	\$ 757,444,444

**Heritage Property & Casualty Insurance Company**  
**Statement of Income**  
**December 31, 2021**  
(as reported by the Company)

<b>Underwriting Income</b>	
Premiums earned	\$ 339,881,001
<b>Deductions</b>	
Losses Incurred	218,792,308
Loss adjustment expenses incurred	57,455,366
Other underwriting expenses incurred	104,451,069
Total Underwriting deductions	380,698,743
Net underwriting gain (loss)	(40,817,742)
<b>Investment Income</b>	
Net investment income earned	4,049,416
Net realized capital gains or (losses)	(414,409)
Net investment gain or (loss)	3,635,007
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	(829,305)
Finance and service charges not included in premiums	(255)
Aggregate write-ins for miscellaneous income	536,914
Total other income	(292,646)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(37,475,381)
Dividends to policyholders	0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(37,475,381)
Federal & foreign income taxes incurred	(8,285,160)
Net Income	\$ (29,190,221)
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$ 136,300,126
Net Income	(29,190,221)
Change in net unrealized capital gains or losses less capital gains tax	(518,663)
Change in net deferred income taxes	7,851
Change in non-admitted assets	(624,477)
Capital Changes:	
Paid in	14,061,313
Change in surplus as regards policyholders for the year	(16,264,197)
Surplus as regards policyholders, December 31, current year	\$ 120,035,928

**Heritage Property & Casualty Insurance Company**  
**Reconciliation of Capital and Surplus**  
**December 31, 2021**

<b>Capital/Surplus Change during Examination Period</b>			
Surplus at December 31, 2018, as reported by the Company			\$ 173,762,351
	Increase	Decrease	
Net Income/Loss		85,259,863	
Change in net unrealized capital gain (loss)	1,929,066		
Change in net deferred income tax	991,121		
Change in non-admitted assets	2,297,714		
Change in provision for reinsurance	13,000		
Surplus adjustment: paid in	26,302,538		
Net increase (or decrease)			(53,726,424)
Surplus at December 31, 2021 as reported by the Company			\$ 120,035,928

**Heritage Property & Casualty Insurance Company**  
**Analysis of Changes in Financial Statement Resulting from the Examination**  
**December 31, 2021**

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



## COMMENTS ON FINANCIAL STATEMENT ITEMS

### Capital and Surplus

The amount of capital and surplus reported by the Company of \$120,035,928 exceeded the minimum of \$ 48,989,974 required by Section 624.408, Florida Statutes.

### SUBSEQUENT EVENTS

A review of financial information, the Company's records, and the minutes to the meetings of the Board and Board Committees, and other information, for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. The following significant events identified subsequent to December 31, 2021, and through the date of this report are noted.

#### Due Heritage MGA, LLC

On October 31, 2022, through a Written Consent of the Board of HIH, HMGA waived its right to expenses and commissions due from the Company under the terms of the Managing General Agency Agreement through the nine months ended September 30, 2022, in the amount of \$58.3 million.

#### Net Income and Surplus Trends

Description		Amount
Net Income Trends		
	Total Net Losses for the Period Under Examination	85,259,863
	Net Losses Reported on the December 31, 2022 Annual Statement	20,019,330
	Net Losses Reported on the March 31, 2023 Quarterly Statement	13,965,934
Capital and Surplus Trends		
	Total Net Decrease in Surplus for the Period Under Examination	53,726,424
	Decrease in Surplus Reported in December 31, 2022 Annual Statement	13,361,540
	Decrease in Surplus Reported in March 31, 2023 Quarterly Statement	8,924,846

### Capital Contribution

In 2022, the Company received an additional \$6 million capital contribution from its parent, HIH, in addition to the \$26.3 million in capital contributions from HIH received during the three-year period under examination from 2019 through 2021.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Heritage Property & Casualty Insurance Company as of December 31, 2021, consistent with the insurance laws of the State of Florida.

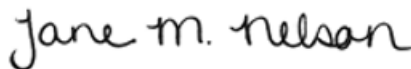
In addition to the undersigned, the following individuals from INS Regulatory Insurance Services, Inc ("INS"), INS Consultants, Inc ("INS Consultants"), INS Services, Inc ("INS Services"), the Rhode Island Department of Business Regulation, Insurance Division ("RIDBR"), and the Office also significantly participated in the examination:

Zachary Cannon	Examiner	INS
Nicholas Illuzzi, CFE, MPAC, PIR	Examiner/IT Specialist	RIDBR
Jennifer Beaudry, AFE	Examiner	RIDBR
Kathleen Holmes	Examiner/IT Specialist	RIDBR
Joseph Rapczak, CPA, CFE	Examiner	RIDBR
Casey Hengstebeck	Examiner	Office
Daniel W. Applegarth, CFE, CPA, PIR	Chief Financial Examiner	Office
Chad Mason, PIR	Examination Manager	Office
David Gordon, CISA, CFE(Fraud), CDFE	IT Specialist	INS Services
Jesse Jordan	IT Specialist	INS Services
John Pedrick, FCAS, MAAA	Consulting Actuaries	INS Consultants
Pete Vuong, FCAS, MAAA	Consulting Actuaries	INS Consultants
David Macesic, ACAS, MAAA	Consulting Actuaries	INS Consultants
Mike Morro, ACAS, MAAA	Consulting Actuaries	INS Consultants
Don Carbone, CFE, ARe	Reinsurance Specialist	INS

Respectfully submitted,



Kelly M. Willison, CPA, CFE, CFE(Fraud)  
Examiner in Charge  
INS Regulatory Insurance Services, Inc.  
Representing the Florida Office of Insurance Regulation



Jane Nelson, PIR  
Director  
Property & Casualty Financial Oversight  
Florida Office of Insurance Regulation