

**REPORT ON EXAMINATION**  
**OF**  
**AMERICAN COASTAL INSURANCE**  
**COMPANY**  
**DAVIE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2008**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Davie, Florida

July 16, 2009

Kevin M. McCarty  
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, 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, 2008, of the financial condition and corporate affairs of:

**AMERICAN COASTAL INSURANCE COMPANY**  
**351 SW 136<sup>th</sup> Ave, Suite 201**  
**DAVIE, FLORIDA 33325**

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, 2008, through December 31, 2008. This is the first examination of the Company by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office on May 11, 2009, to May 14, 2009. The fieldwork commenced on May 18, 2009, and concluded as of July 16, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the

quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **Status of Adverse Findings from Prior Examination**

This was the first examination of the Company by the Office.

## **HISTORY**

### **General**

The Company was incorporated and commenced business in Florida on June 1, 2007, as American Coastal Insurance Company.

The Company was party to Consent Order 89919-07-CO filed May 23, 2007, with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the consent order.

The Company was authorized to transact the following insurance coverage in Florida as of December 31, 2008:

Allied Lines  
Fire  
Inland Marine

Commercial Multi Peril  
Homeowners Multi peril  
Other Liability

The Company only writes in the commercial multi peril line, one of the six lines they are licensed in. This was not in compliance with Section 624.430, Florida Statutes, which requires that any insurer who does not write any premiums in a kind or line of insurance within a calendar year shall have that kind or line of insurance removed from its Certificate of Authority.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

## Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

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

Control of the Company was maintained by its parent, AmCo Holding Company, which was owned by BB&T Corporation, a North Carolina corporation.

## Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2008	2007
Premiums Earned	66,643,791	1,467,845
Net Underwriting Gain/(Loss)	20,146,940	(8,479,744)
Net Income	13,821,785	(6,236,051)
Total Assets	118,640,904	56,007,906
Total Liabilities	58,847,627	26,219,640
Surplus As Regards Policyholders	59,793,277	29,788,266

## Dividends to Stockholders

The Company had not declared or paid any dividends during this examination period.

## Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Henry Wade Reece Raleigh, North Carolina	Chairman & CEO, BB&T Insurance Services, Inc.
Robert Daniel Peed Houston, Texas	President AmRisc, LP
Timothy Patrick Singletary Houston, Texas	President American Coastal Insurance Company
David Michael Pruett Mt. Airy, North Carolina	Chief Administrative Officer BB&T Insurance Services, Inc.
Andrea Lynn Holder Raleigh, North Carolina	Treasurer BB&T Insurance Services, Inc.

The Board of Directors (Board) in accordance with the Company's bylaws appointed the following senior officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
Henry Wade Reece	Chairman
Robert Daniel Peed	Chief Executive Officer
David Michael Pruett	Vice Chairman/Secretary
Timothy Patrick Singletary	President
Andrea Lynn Holder	Vice President/Treasurer

Following are the principal internal Board committees and their members as of December 31, 2008:

**Audit Committee**

Henry Wade Reece\*  
Robert Daniel Peed  
David Michael Pruett

**Investment Committee**

Andrea Lynn Holder\*  
Timothy Patrick Singletary

\* Indicates committee chair

**Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

**Corporate Records**

The recorded minutes of the shareholder, 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 accordance with Section 607.1601, Florida Statutes, except as follows.

The Company did not have any investments approved by the Board or an investment committee as of December 31, 2008 and was not in compliance with Section 625.304, Florida Statutes.

**Subsequent event:** Investments were subsequently approved by the Investment Committee on May 28, 2009.

The custodial agreement did not meet the requirements of Rule 690.143.042, Florida Administrative Code., in that there was no authorization by a resolution of the Board of Directors

of the Company or of an authorized committee thereof as evidence of approval of the custodial agreement.

**Subsequent event:** The Board approved the Custodial Agreement at its Board meeting on January 12, 2009.

In reviewing the MGA contract with AmRisc, LP and the subcontractor, CJW & Associates, there was no evidence in either contract for a provision to continue claims service after the termination of the contracts by either party.

**Subsequent event:** On June 12, 2009, the Company amended its claims handling agreement to include a provision requiring CJW & Associates, Inc., the Company's third-party claims administrator, to continue providing claims service to the Company in the event the claims Handling Agreement is Terminated.

There was no evidence that the Actuarial Report on Loss Reserves for the period ending December 31, 2008 was presented to the Board of Directors as per the NAIC Financial Examiners Handbook, Section 4, Part B, Section 7.a, and as adopted by Section 624.316 (1) (c), Florida Statutes and Rule 690.138.001, Florida Administrative Code.

**Subsequent event:** the Board approved the actuarial report for the period ending December 31, 2008 on June 25, 2009.

#### **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period covered by this examination.

**Surplus Debentures**

The Company did not have any surplus debentures.

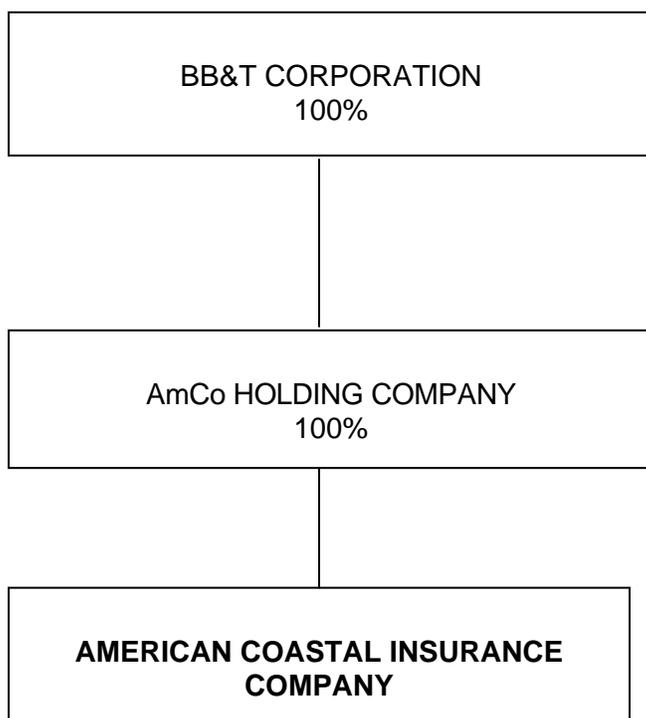
**AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 27, 2009, and previously on February 28, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

**AMERICAN COASTAL INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2008**



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

**AmRisc, LP**

The Company had a Managing General Agency Contract (MGA) with AmRisc, LP that provided the Company with comprehensive management and administration of the Company's insurance business including underwriting, claims management, premium collection, sales, marketing, agent relations and reinsurance advice. AmRisc, LP received 22.5% commission and 5% claims handling fees of net written premium which was defined as gross written premium less all returned premium. Net premiums collected were forwarded to a premium trust account within the fifteen day requirement per Section 625.012, Florida Statutes. The Agreement was filed with the Office on June 30, 2008.

**BB&T Corporation**

The Company had a Tax Sharing Agreement with BB&T Corporation. The Company filed a consolidated federal return with BB&T Corporation. The Company's taxes were computed on a separate return basis. Estimated tax payments/refunds were made on a quarterly basis. The Agreement was approved by the Office on July 22, 2008.

**Branch Banking and Trust Company**

The Company has an Investment Services Agreement and Insurance Company Custody Agreement with Branch Banking and Trust Company (BB&T). BB&T provided the Company with investment portfolio and funds management services per the investment committee's decisions and instructions. Investment reports and reconciliations were provided on a monthly basis to the Company. Fees were paid monthly to BB&T based on the portfolio. This agreement was approved by the Office on August 21, 2007.

### **BB&T Insurance Services, Inc**

This was an Accounting Services Agreement with BB&T Insurance Services, Inc. All accounting services for the Company were provided by BB&T Insurance Services, Inc. A monthly fee was paid for the services.

### **BB&T Treasury Management Agreement**

This was a Treasury Management Agreement for Treasury Management Services with Branch Banking and Trust Company covering the bank accounts held for the Company by Branch Banking and Trust Company in this services agreement.

### **Branch Banking and Trust Company**

This was an Automated Investment Sweep Agreement [U.S. Government Securities Subject to repurchase]. Interest was paid to the Company daily with the funds that were redeposited into the operating account.

### **CJW & Associates Inc.**

This was a Claims Handling Agreement between the Company and CJW & Associates, Inc. (CJW), authorizing CJW to handle claims on properties written under the Managing Agency Contract between the Company and AmRisc, LP. CJW was authorized to settle all claims on behalf of the Company up to a limit of \$100,000 without additional authority. Notwithstanding this authority, CJW was to refer all claims relating to without prejudice, law suits, denials and losses likely to exceed authority to the Company. Claims were reported to AmRisc, LP and forwarded to CJW for handling. CJW had authority to pay claims and adjust expenses under \$100,000 without approval. Claims over \$100,000 required pre-approval from the Company.

The Company used a zero balance account for claims and used positive pay as a control on the account. CJW fees were paid monthly.

**AmRisc, LP and LaSalle Bank**

This was a Premium Trust agreement. Premiums collected by AmRisc, LP were wired to the trust account. Funds were then transferred every Friday to the Company's operating account at BB&T. Monthly fees incurred were paid by AmRisc, LP and any interest earned was returned to AmRisc, LP by wire from the Company's operating account.

**Stanley Parsons Insurance Services Inc.**

This was a Rate/Rule and Form Filing agreement. This agreement provided form filings to the Office on behalf of the Company and worked along with Butler, Dunlap and Lindquist consulting on rate and form issues for the Company. There was a monthly retainer fee of \$1,000.

**Dunlap & Lindquist, LLC**

This agreement provided the Company with Actuary Consulting services for a monthly retainer fee of \$3,000.

**Allenbrook, Inc.**

This was an agreement with Phoenix and Premium Bill Software Licensing and Support. The Company used policy administration and premium billing software licensed through Allenbrook, Inc. Annual support fees were based on direct premiums written.

### **Sungard iWORKS LLC**

The Company used Sungard general ledger and reporting software. Annual support fees were fixed per the contract.

### **Mont Blanc Associates, Inc.**

The Company had a Sublease Agreement with Mont Blanc Associates, Inc. to lease offices, which served as the home office, located at Suite 201/202, 351 S.W. 136<sup>th</sup> Avenue, Davie, Florida. The lease was dated April 30, 2009 and was for a period of one-year and was renewable with three months advance written notice of non-renewal to be given by either party. The lease was for \$1,875 per month.

### **SPCi Investigations**

This was an agreement for Professional Investigative Services. This was a special investigation unit for insurance fraud recognition and investigation. An initial retainer was paid and fees were hourly per the contract.

## FIDELITY BOND AND OTHER INSURANCE

The Company's parent, BB&T Corporation, maintained fidelity bond coverage up to \$25,000,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company was identified as a named insured on the fidelity bond.

The parent company, with the Company identified as a named insured, also maintained Workers' Compensation, Directors and Officers Liability (Management Liability), General Liability, Inland Marine, Pension and Welfare, Kidnap and Ransom, and Errors and Omissions (E&O) insurance coverage with limits up to \$25,000,000 and deductibles up to \$500,000.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Compensation was allocated to certain officers of the Company as part of the MGA and Accounting Services Agreements. The money allocated to the officers was only a portion of the total compensation paid to them by their employers. Those BB&T Insurance Services, Inc. and AmRisc, LP employees who perform services for the Company have retirement and other benefits with the Company that employs them.

## 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	Certificate of Deposit	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory**

The Company was authorized to transact insurance in the state of Florida only.

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

The reviewed contracts complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### **Assumed**

The Company did not assume any reinsurance risks during the period being reviewed.

**Ceded**

The Company participated in the Florida Hurricane Catastrophe Fund (FHCF) which provided 90% coverage for up to \$253.5 million hurricane losses above \$56.8 million retention. The Company also had a \$68.5 million excess of \$15 million catastrophe excess of loss reinsurance contract in force that wrapped below and along side the 90% FHCF coverage. Additionally, a \$9.5 million excess of \$500,000 non-cat facultative automatic policy was in force as well as facultative reinsurance for individual risk exposures as deemed necessary on a specific account by account basis.

**ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Davie, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007 and 2008, 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.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

**FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this

examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**AMERICAN COASTAL INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$38,600,858		\$38,600,858
Cash	65,311,757		65,311,757
Investment income due and accrued	394,074		394,074
Uncollected premiums and agents' balances in the course of collection	11,646,929		11,646,929
Net deferred tax asset	2,687,286		2,687,286
	\$118,640,904		\$118,640,904
Totals	\$118,640,904	\$0	\$118,640,904

**AMERICAN COASTAL INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Losses	\$11,728,166		\$11,728,166
Loss adjustment expenses	280,123		280,123
Other expenses	20,597		20,597
Taxes, licenses and fees	1,552,408		1,552,408
Current federal and foreign income taxes	3,920,995		3,920,995
Unearned premium	34,200,835		34,200,835
Ceded reinsurance premiums payable	5,661,220		5,661,220
Amounts withheld	398,783		398,783
Payable to parent, subsidiaries and affiliates	1,084,500		1,084,500
<b>Total Liabilities</b>	<b>\$58,847,627</b>	<b>\$0</b>	<b>\$58,847,627</b>
Common capital stock	\$100		\$100
Gross paid in and contributed surplus	49,999,900		49,999,900
Unassigned funds (surplus)	9,793,277		9,793,277
Surplus as regards policyholders	\$59,793,277		\$59,793,277
<b>Total liabilities, surplus and other funds</b>	<b>\$118,640,904</b>	<b>\$0</b>	<b>\$118,640,904</b>

**AMERICAN COASTAL INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2008**

**Underwriting Income**

Premiums earned		\$66,643,791
	<b>Deductions:</b>	
Losses incurred		11,382,381
Loss expenses incurred		5,777,903
Other underwriting expenses incurred		29,336,567
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$46,496,851
Net underwriting gain or (loss)		\$20,146,940

**Investment Income**

Net investment income earned		\$2,929,888
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$2,929,888

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		\$0

Net income before dividends to policyholders and before federal & foreign income taxes		\$23,076,828
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$23,076,828
Federal & foreign income taxes		9,255,043
Net Income		\$13,821,785

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$29,788,266
Net Income		\$13,821,785
Change in net deferred income tax		(3,374,390)
Change in non-admitted assets		19,457,616
Change in provision for reinsurance		100,000
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$30,005,011
Surplus as regards policyholders, December 31 current year		\$59,793,277

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$12,008,289

George T. Dunlap, IV, ACAS, MAAA, Butler, Dunlap and Lindquist, LLP, rendered an opinion that the amounts recorded in the annual statement as of December 31, 2008, met the requirements of the insurance laws of Florida; were consistent with the reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and LAE obligations of the Company under the terms of its contracts and agreements.

### Actuarial Review

The Office contracted with an independent actuary, Michael W. Morro, FCAS, MAAA, INS Consultants, Inc., to perform an actuarial review. The independent actuary concluded that the carried loss and LAE reserves for American Coastal Insurance Company were reasonably stated.

### Capital and Surplus

The amount reported by the Company of \$59,793,277 exceeded the minimum required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**AMERICAN COASTAL INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2008**

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, 2008, per Annual Statement	\$59,793,277
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No Adjustments			\$0
<b>LIABILITIES:</b>			
No Adjustments			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$59,793,277

## **SUMMARY OF FINDINGS**

### **Current examination comments and corrective action**

There are no findings or items requiring corrective action resulting from the examination as of December 31, 2008.

## **SUBSEQUENT EVENTS**

Subsequent to December 31, 2008, the company's reinsurance intermediary, John B. Collins and Associates was purchased by Guy Carpenter & Co. LLC., which is licensed in the State of Florida to transact reinsurance as an intermediary.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Coastal Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as Regards Policyholders was \$59,793,277, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey Davis, CPA, CFE, Supervising Examiner, INS Regulatory Insurance Services, Inc.; Jerry Smith, CFE, INS Regulatory Insurance Services, Inc.; and Robert C. Murphy, CFE, CIE, FLMI, Examiner in Charge, INS Regulatory Insurance Services, Inc. participated in the examination.

Also, contributing to this examination was Michael Morro, FCAS, MAAA, of INS Consultants, Inc.; and Claude Granese, INS Services, Inc.

Respectfully submitted,

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James Pafford, Jr.  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation