



**EXAMINATION REPORT
OF**

TYPTAP INSURANCE COMPANY

NAIC Company Code: 15885

**Ocala, Florida
as of
December 31, 2016**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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July 5, 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, 2016, of the financial condition and corporate affairs of

TypTap Insurance Company
3001 SE Maricamp Rd
Ocala, Florida 34471

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 15, 2016, through December 31, 2016 and commenced with planning at the Florida Office of Insurance Regulation (Office) on March 15, 2017. The fieldwork commenced on March 15, 2017, and concluded as of July 5, 2017. This is the first exam for this company.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (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 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

There are no current examination report findings.

Previous Examination Findings

There were no findings, exceptions or corrective action to be taken this is the company's first examination.

COMPANY HISTORY

General

The Company was incorporated in Florida on December 28, 2015 and commenced business on January 15, 2016.

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, 2016, the Company's capitalization was as follows:

Number of authorized common capital shares	2,500,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

Acquisitions, Mergers, Disposals, Dissolutions

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this 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, 2016 are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
Pareshbhai Suryakant Patel	Tampa, Florida	Executive Chairman, TypTap Insurance Company Chairman and President, HCI Group, Inc.
Anthony Saravanos	Tampa, Florida	President, Greenleaf Capital, LLC
Gregory Politis	Clearwater, Florida	President, Xenia Management Corporation
Martin Albert Traber	Tampa, Florida	Chairman, Skyway Capital Markets LLC
George Peter Apostolou	St. Petersburg, Florida	Owner, George Apostolou Construction Corporation

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

Senior Officers

Name	City, State	Title
Edgar Ward Blanch	Tampa, Florida	President
Pareshbhai Suryakant Patel	Tampa, Florida	Executive Chairman
Richard Ralph Allen (a)	Tampa, Florida	Chief Financial Officer
Andrew Lloyd Graham	Tampa, Florida	Corporate Secretary

(a) Effective May 16, 2017, Richard Ralph Allen was replaced by James Mark Harmsworth as Chief Financial Officer.

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2016:

Compensation Committee

Name	City, State	Title, Company Name
Wayne Robert Burks	Tampa, Florida	Chief Financial Officer, Romark, LLC
Harish Mohanbhai Patel	St. Petersburg, Florida	Chief Executive Officer, Medenet, Inc.
Gregory Politis	Clearwater, Florida	President, Xenia Management Corporation
James Joseph Macchiarola ⁽¹⁾	Palm Harbor, Florida	Retired

¹ Chairman

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

Audit Committee

Name	City, State	Title, Company Name
Wayne Robert Burks ⁽¹⁾	Tampa, Florida	Chief Financial Officer, Romark, LLC
George Peter Apostolou	St. Petersburg, Florida	Owner, George Apostolou Construction Corporation
Harish Mohanbhai Patel	St. Petersburg, Florida	Chief Executive Officer, Medenet, Inc.

¹ Chairman

Governance and Nominating Committee

Name	City, State	Title, Company Name
George Peter Apostolou	St. Petersburg, Florida	Owner, George Apostolou Construction Corporation
Harish Mohanbhai Patel ⁽¹⁾	St. Petersburg, Florida	Chief Executive Officer, Medenet, Inc.
James Joseph Macchiarola	Palm Harbor, Florida	Retired

¹ Chairman

Holding Company System

Control of the Company was maintained by its parent, HCI Group, Inc., which owned one hundred percent (100%) of the stock issued by the Company. The parent contributed \$22,500,000 in cash to the Company as of December 31, 2016.

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

Agreement to Allocate United States Federal Income Tax Liability

The Company, along with its parent, HCI Group, Inc., filed a consolidated federal income tax return. On December 31, 2016, the method of allocation between the Company and HCI Group, Inc. was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with HCI Group, Inc. and may be paid, at parent's discretion, on a quarterly basis within thirty (30) days of the date on which installments of estimated tax would have been due had each company filed its federal income tax return on a separate basis.

Cost Apportionment Contract

The Company entered into a Cost Apportionment Contract with HCI Group, Inc. and affiliated entities on January 4, 2016. The Company, HCI Group, Inc. and its affiliates may from time to time share personnel, facilities and third-party services. This agreement is to apportion the shared costs and expenses to the entity incurring the costs and expenses as if the cost or expense had been paid solely by the incurring entity. Under the terms of this agreement, apportionment of shared costs and expenses will be based upon specific identification to the incurring entity or when it is a regulated insurance company, will be borne solely by the applicable insurance company. There were no amounts paid or incurred under this agreement based on the allocation method used during 2016.

Managing General Agency Agreement

The Company entered into a Managing General Agency (MGA) Agreement with its affiliate, TypTap Management Company on January 4, 2016. The agreement continues in force for a term of three (3) years and upon renewal, for an additional one (1) year period commencing after the initial three (3) year term and any renewal term by providing written notice to the company at least ninety (90) days prior to the expiration of the initial three (3) year term or any renewal thereof. MGA fees were based on twenty-one and five-tenths percent (21.5%) of direct written premium and included a \$25 policy fee. Claims administration services were included in the agreement at three and five-tenths percent (3.5%) of total written annual premium. Catastrophe claims

administration fees were calculated according to the gross loss of each individual claim. Fees incurred under this agreement during 2016 amounted to \$628,000.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a Custodial Agreement with Raymond James & Associates as of December 2016. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Corporate Records Review

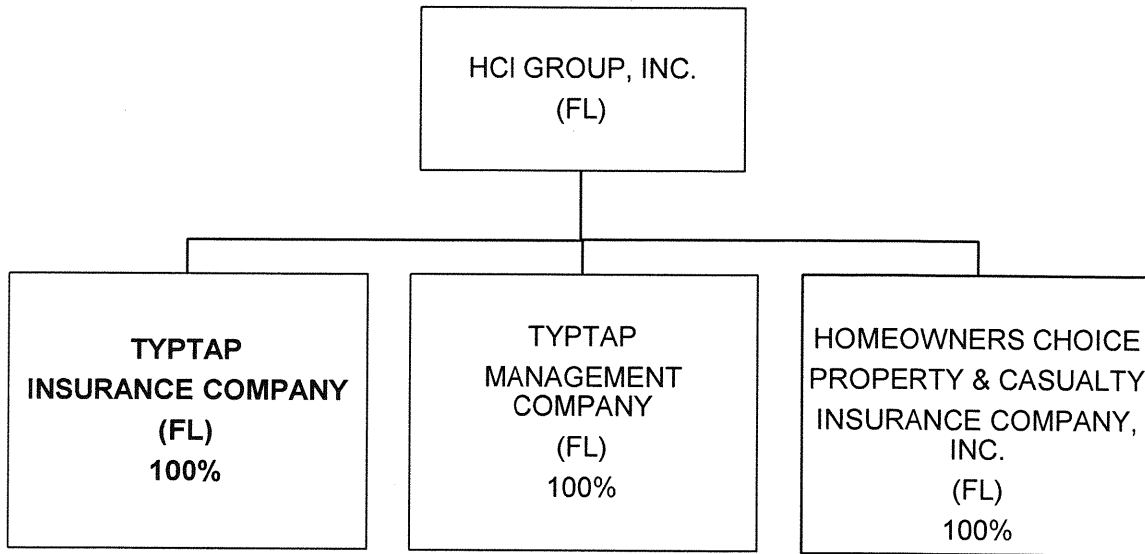
The recorded minutes of the Shareholder, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

An organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2016 annual statement provided a list of all related companies of the holding company group.

**TypTap Insurance Company
Organizational Chart
December 31, 2016**



TERRITORY AND PLAN OF OPERATIONS

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

The Company was authorized to transact insurance in Florida on January 15, 2016 and is currently authorized for the following coverage(s) as of December 31, 2016:

Allied Lines

Homeowners Multiple Peril

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 did not assume any reinsurance during the period of this examination.

Reinsurance Ceded

The Company entered into an excess of loss reinsurance contract effective June 1, 2016 to May 31, 2019 with National Liability & Fire Insurance Company, an authorized reinsurer. This treaty

covers production in Flood Zones A and V and is a combination excess of loss and aggregate losses per treaty year.

INFORMATION TECHNOLOGY REPORT

Lindsey J. Pittman, CISA, IT Examiner of Lewis & Ellis, Inc., performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Cash	\$ <u>300,000</u>	\$ <u>300,000</u>
TOTAL FLORIDA DEPOSITS		\$ <u>300,000</u>	\$ <u>300,000</u>
TOTAL OTHER DEPOSITS		<u>-</u>	<u>-</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during 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 Office, are reflected on the following pages.

TypTap Insurance Company

Assets

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents, and short-term investments	\$26,250,207		\$26,250,207
Investment income due and accrued	1,380		1,380
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	176,157		176,157
Current federal and foreign income tax recoverable and interest thereon	53,944		53,944
Net deferred tax asset	93,199		93,199
Aggregate write-in for other-than-invested assets	<u>8,970</u>		<u>8,970</u>
Totals	<u><u>\$26,583,857</u></u>	<u><u>\$0</u></u>	<u><u>\$26,583,857</u></u>

TypTap Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Losses	\$36,145		\$36,145
Other expenses	10,000		10,000
Taxes, licenses and fees	45,571		45,571
Unearned premium	1,309,583		1,309,583
Advance premium	40,315		40,315
Ceded reinsurance premiums payable	319,001		319,001
Payable to parent, subsidiaries and affiliates	96,508		96,508
Total Liabilities	\$1,857,123	\$0	\$1,857,123
Common capital stock	\$2,500,000		\$2,500,000
Gross paid in and contributed surplus	22,500,000		22,500,000
Unassigned funds (surplus)	(273,266)		(273,266)
Surplus as regards policyholders	\$24,726,734	\$0	\$24,726,734
Total liabilities, surplus and other funds	\$26,583,857	\$0	\$26,583,857

TypTap Insurance Company

Statement of Income

December 31, 2016

Underwriting Income

Premiums earned		\$657,682
	Deductions:	
Losses incurred		\$306,098
Loss expenses incurred		90,928
Other underwriting expenses incurred		730,384
Aggregate write-ins for underwriting deductions		47,725
Total underwriting deductions		<u>\$1,175,135</u>
Net underwriting gain or (loss)		(\$517,453)

Investment Income

Net investment income earned		<u>99,961</u>
Net investment gain or (loss)		\$99,961

Other Income

Net income before dividends to policyholders and before federal & foreign income taxes		(\$417,492)
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$417,492)
Federal & foreign income taxes		<u>(53,944)</u>
Net Income		<u><u>(\$363,548)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$0
Net Income		(\$363,548)
Change in net deferred income tax		93,199
Change in non-admitted assets		(2,917)
Capital changes: Paid in		2,500,000
Surplus adjustments: Paid in		<u>22,500,000</u>
Change in surplus as regards policyholders for the year		<u>\$24,726,734</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$24,726,734</u></u>

TypTap Insurance Company
Reconciliation of Capital and Surplus
December 31, 2016

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

Capital/Surplus Change during Examination Period

Surplus at January 1, 2016	Increase	Decrease	\$0
Net income		(\$363,548)	(\$363,548)
Change in net deferred income tax	\$93,199		\$93,199
Change in non-admitted assets		(\$2,917)	(\$2,917)
Capital changes: Paid in	\$2,500,000		\$2,500,000
Surplus adjustments: Paid in	\$22,500,000		\$22,500,000
Net increase (or decrease)			\$24,726,734
Surplus at December 31, 2016, per Examination			\$24,726,734

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Robert Daniel, ACAS, MAAA, of Merlinos & Associates, Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016, 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, Gregory S. Wilson, FCAS, MAAA and Kathryn Koch, ACAS, MAAA, of Lewis & Ellis, Inc., reviewed the loss and loss adjustment expense workpapers provided by the Company and they were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$24,726,734, exceeded the minimum of \$15,000,000 required by Section 624.407, Florida Statutes.

SUBSEQUENT EVENTS

Effective February 28, 2017, the Company entered into a custodial agreement with U.S. Bank, N.A. The bank will provide custody services for securities, cash and other property; income; investment and reinvestment, collectively called the assets; safekeeping of assets, cash management, transaction settlements. Custody fees are calculated and charged to the account monthly. This agreement shall remain in effect until terminated by either party giving written notice to the other thirty (30) days in advance of the termination date. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **TypTap Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

Per examination of annual financial statements, the Company's surplus as regards to policyholders was \$24,726,734, which exceeded the minimum of \$15,000,000 required by Section 624.407, Florida Statutes.

In addition to the undersigned, Amy L. Carter (CFE, CPA), Examiner-in-Charge, and April Wasleski (CPA), Participating Examiner, of Lewis & Ellis, Inc., also participated in the examination. Members of the Office who participated in the examination include Kyra Brown (MBA, APIR), Financial Examiner/Analyst Supervisor, Examination Manager, and Mary James (CFE), Financial Specialist, Participating Examiner. Additionally, Gregory S. Wilson (FCAS, MAAA) of Lewis & Ellis, Inc. and Lindsey Pittman (CISA), IT Specialist of Lewis & Ellis, Inc., are recognized for participation in the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Brian Sewell". The signature is written in a cursive, flowing style.

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