REPORT ON EXAMINATION

OF

US COASTAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT	JUNE 3, 2019
EXAMINER	ADEBOLA AWOFESO

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NEW YORK STATE OF OPPORTUNITY.
Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

June 24, 2019

Honorable Linda A. Lacewell
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31714 dated September 26, 2018**,** attached hereto, I have made an examination into the condition and affairs of US Coastal Insurance Company as of December 31, 2017, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate US Coastal Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's administrative office located at 301 NW 138th Terrace, Jonesville, FL 32669.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. This is the first financial examination of the Company after the organization examination, which was conducted as of November 12, 2013. This examination covered the period from November 13, 2013 through December 31, 2017. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the lead state of the Cabrillo Holdings Group. The examination of the Company was performed concurrently with the examination of US Coastal Property & Casualty Insurance Company ("USCPCIC"). The other state participating in this examination was Florida.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify current and 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. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

Company history
Management and control
Territory and plan of operation
Reinsurance
Holding company description
Financial statement presentation
Loss review and analysis
Significant subsequent events
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation contained in the report on organization.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on May 22, 2013. It became licensed on December 9, 2013 and commenced business on February 17, 2014.

The Company is a wholly-owned subsidiary of US Coastal Holdings, LLC, a privately-held company incorporated on May 22, 2013 in Delaware, which is controlled by Cabrillo Intermediate Holdings, LLC. ("Cabrillo"). Cabrillo is owned by Michael McNitt (50.78%), Roger McNitt (20.45%), Jeanne McNitt (20.45%), and 27 minority investors (8.32%).

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than 13 members. The board meets four times during each calendar year. At December 31, 2017, the board of directors was comprised of the following eight members:

Name and Residence	Principal Business Affiliation
Timothy Robert Brien New York, NY	President, Cliffside Capital
Jeffrey Ryan Hershman Chalfont, PA	Vice President, Cabrillo Holdings, LLC
James Patrick Leasure Newport Beach, CA	Senior Managing Director, Portfolio Management & Research, Pacific Asset Management LLC
Ronda Lyn Loshonkohl Jonesville, FL	Vice President, Cabrillo Holdings, LLC
Michael Lee McNitt Gainesville, FL	Chief Executive Officer, Cabrillo Holdings, LLC

Name and Residence	Principal Business Affiliation
Roger Lee McNitt La Jolla, CA	Of Counsel, Blanchard Krasner & French
John Walter Rollins High Springs, FL	Chief Risk Officer, Cabrillo Holdings, LLC
Richard James Roth, Jr. Huntington Beach, CA	Consultant, Bickerstaff, Whatley, Ryan & Burkhalter Consulting Actuaries

As of December 31, 2017, the principal officers of the Company were as follows:

Name	Title
Michael Lee. McNitt	President and Chief Executive Officer
Mohammad Sherif Sherif *	General Counsel and Secretary
Bradley Mitchel Jones **	Chief Financial Officer and Treasurer
John Walter Rollins ***	Executive Vice President and Chief Risk Officer
Jeffrey Ryan Hershman	Vice President
Ronda Lyn Loshonkohl	Vice President

* Mohammad Sherif resigned effective December 14, 2018. Julia W. Knight was appointed to replace Mr. Sherif as General Counsel and Secretary effective the same date.

** Bradley Jones resigned effective February 15, 2019. Maria I. Moller was appointed to replace Mr. Jones as Chief Financial Officer and Treasurer effective the same date.

***John Rollins resigned effective as of March 14, 2018. John W. Elbl was appointed to replace Mr. Rollins as Chief Risk Officer effective September 4, 2018.

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in New Jersey and New York.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $1,700,000.

The following schedule shows the direct premiums written by the Company for the period under examination. The Company did not assume any business during the examination period.

Calendar Year	Total Gross Premiums
2013	$ 0
2014	$ 4,407,860
2015	$15,218,455
2016	$32,430,128
2017	$40,261,928

The Company writes personal lines property business through independent agents. It began issuing policies in February 2014 in New York, and in December 2014 in New Jersey. Business is produced through an affiliated managing general agent, Cabrillo Coastal General Insurance Agency, LLC.

C. Reinsurance Ceded

The Company reinsures a portion of the risks it underwrites in an effort to manage incurred losses to a reasonable severity, remove severity of loss from a single occurrence or multiple occurrences, and provide the Company more normal financial results, which allows the Company to grow while providing surplus relief. The Company utilizes a variety of reinsurance agreements to control exposures to large property losses. As of December 31, 2017, the Company maintains property catastrophe excess of loss covers of $188 million in excess of $2 million (with specified reinstatement rights); taking into account various quota share agreements, the Company's retention equals $500,000. The Company purchased catastrophe reinsurance with expanded coverage for losses arising out of and directly occasioned by any hurricane and tropical storm declared by the US National Hurricane Center. The Company also utilizes a facultative reinsurance treaty for policies with limits exceeding a threshold specific to property business.

Effective June 1, 2017, the Company maintains a quota share reinsurance agreement, subject to a limit of $500,000 with USCPCIC, a Florida-domiciled affiliate. The agreement with this affiliate was reviewed for compliance with Article 15 of the New York Insurance Law. The reinsurance agreement was filed with the Department pursuant to the provisions of Section 1502(d) (2) of the New York Insurance Law.

The majority of the business was ceded to authorized reinsurers. The following reinsurers have related reinsurance recoverable greater than 25% of the Company's surplus:

XL Reinsurance America Inc.	$8,321,000
USCPCIC	$6,934,000
Allied World Insurance Company	$2,840,000
Partner Reinsurance Company of the US	$2,774,000

As of December 31, 2017, all of the above non-affiliated reinsurers maintained an A rating by AM Best; USCPCIC maintained an A rating by Demotech, Inc. All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62R.

Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a member of the Cabrillo Holding Group. The Company is a wholly-owned subsidiary of US Coastal Holdings, LLC, a privately-held company incorporated on May 22, 2013 in Delaware. Its affiliate, USCPCIC, was formed in 2016 and is domiciled in Florida. The Company and USCPCIC are majority-owned by Cabrillo, a Florida limited liability company formed in 2013.

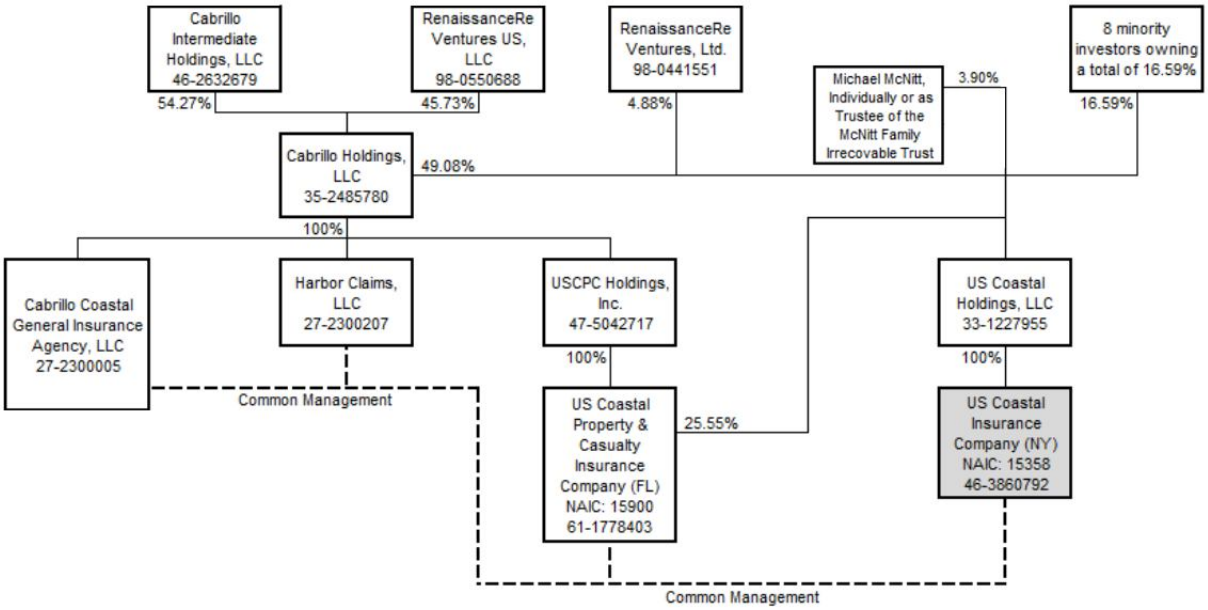
US Coastal Holdings, LLC is owned 49.08% by Cabrillo Holdings, LLC; 4.88% by RenaissanceRe Ventures Ltd.; 25.55% by US Coastal Property & Casualty Insurance Company; 3.90% by Michael L. McNitt, as Trustee of the McNitt Family Irrevocable Trust; and 16.59% by eight other individuals, collectively owning 16.59% but no one individual greater than 10%. Notwithstanding the foregoing, Cabrillo Holdings, LLC owns 100% of the voting interests in the US Coastal Holdings, LLC. Cabrillo owns 54.27% of Cabrillo Holdings, LLC.

The insurance holding company system writes homeowners and dwelling fire insurance in the Mid-Atlantic and Southeast regions of the United States through independent agents, and acts an expanded market for certain captive agents. The insurers in the holding company system write policies in Florida, New Jersey and New York. The Company facilitates production of homeowners' coverage to coastal regions and other markets in need of competitive homeowner products business in New York and New Jersey.

As noted below, Cabrillo Coastal General Insurance Agency, LLC ("Cabrillo Coastal") is the managing general agent for the Company pursuant to an agreement. Cabrillo Coastal shares common management with the Company. Profits from Cabrillo Coastal are distributed up to the holding company, and the holding company manages its resources and provides additional investment in the Company.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2017:



Holding Company Agreements

At December 31, 2017, the Company was party to the following agreements with members of its holding company system:

Managing General Agency Agreement

Effective November 4, 2013, the Company entered into a managing general agency agreement with its affiliate Cabrillo Coastal General Insurance Agency, LLC (“MGA”), to provide supervision and conduct the writing of insurance business that the Company is authorized to write in New York and New Jersey. The Company paid $8,618,313 for services received in 2017 under this agreement.

Claims Management Agreement

Effective November 4, 2013, the Company entered into a claims management agreement with its affiliate Harbor Claims, LLC (“Harbor Claims”) to provide claims management services. Harbor Claims has been granted limited authority to manage and settle claims arising under insurance policies issued by the Company. Pursuant to the agreement, Harbor Claims has the authority for processing, investigating, adjusting, compromising, defending, litigating, supervising, and payment of claims, subject to a limit of $25,000 each. Claims above this amount must be approved by the Company. The Company paid $1,136,871 for services received in 2017 under this agreement.

The above-noted agreements were filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Ratios

The Company’s operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

Operating Ratios	Result
Net premiums written to policyholders’ surplus	81%
Adjusted liabilities to liquid assets	75%
Two-year overall operating	90%

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the period covered by this examination:

	Amounts	Ratio
Losses and loss adjustment expenses incurred	$14,091,117	61.94%
Other underwriting expenses incurred	8,904,871	39.14
Net underwriting gain (loss)	(247,284)	(1.09)
Premiums earned	$22,748,704	100.00%

The Company's reported risk-based capital ("RBC") score was 314.9% at December 31, 2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$13,845,316	$ 0	$13,845,316
Common stocks	24,800	0	24,800
Cash, cash equivalents and short-term investments	8,321,455	0	8,321,455
Investment income due and accrued	72,997	0	72,997
Uncollected premiums and agents' balances in the course of collection	1,860,873	78,157	1,782,716
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,375,603	0	2,375,603
Amounts recoverable from reinsurers	1,696,443	0	1,696,443
Net deferred tax asset	266,350	0	266,350
Prepaid expenses	8,434	8,434	0
Premium taxes recoverable	30,123	0	30,123
Total assets	$28,502,394	$86,591	$28,415,803

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses		$ 4,372,013
Other expenses (excluding taxes, licenses and fees)		96,722
Taxes, licenses and fees (excluding federal and foreign income taxes)		146,512
Current federal and foreign income taxes		91,437
Unearned premiums		4,544,227
Advance premiums		737,435
Ceded reinsurance premiums payable (net of ceding commissions)		8,402,594
Payable to parent, subsidiaries and affiliates		643
Deferred ceding commission		741,019
Total liabilities		$19,132,602
Surplus and Other Funds		
Common capital stock	$3,000,000	
Gross paid in and contributed surplus	6,350,000	
Unassigned funds (surplus)	(66,799)	
Surplus as regards policyholders		9,283,201
Total liabilities, surplus and other funds		$28,415,803

Note: The Internal Revenue Service has not audited the Company's tax returns. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net loss for the examination period, November 13, 2013 through December 31, 2017, as reported by the Company, was $246,558, detailed as follows:

Underwriting Income		
Premiums earned		$22,748,704
Deductions:		
Losses and loss adjustment expenses incurred	$14,091,117	
Other underwriting expenses incurred	8,904,871	
Total underwriting deductions		22,995,988
Net underwriting loss		$ (247,284)
Investment Income		
Net investment income earned	$ 469,609	
Net realized capital gain	9,007	
Net investment gain		478,616
Net income after dividends to policyholders but before federal and foreign income taxes		$ 231,332
Federal and foreign income taxes incurred		477,890
Net income (loss)		$ (246,558)

C. Capital and Surplus Account

Surplus as regards policyholders as reported by the Company increased $2,183,201 during the examination period, detailed as follows:

Surplus as regards policyholders as reported by the Company as of November 12, 2013			$7,100,000
	Gains in Surplus	Losses in Surplus	
Net income		$246,558	
Change in net deferred income tax	$ 266,350		
Change in non-admitted assets		86,591	
Surplus adjustments paid in	2,250,000	0	
Total gains and losses	$2,516,350	$333,149	
Net increase in surplus			2,183,201
Surplus as regards policyholders as reported by the Company as of December 31, 2017			$9,283,201

At December 31, 2017, capital paid in is $3,000,000, consisting of 3,000 shares of common stock at $1,000 par value per share. Gross paid in and contributed surplus is $6,350,000, Gross paid in and contributed surplus increased by $2,250,000 during the examination period, as follows:

Date	Description	Amount
2013	Beginning paid in and contributed surplus	$4,100,000
2016	Surplus contribution	2,250,000
2017	Ending paid in and contributed surplus	$6,350,000

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $4,372,013 is the same as reported by the Company as of December 31, 2017. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including SSAP No. 55. The reported reserves are concentrated in the homeowners' multiple peril line, which is consistent with the business written by the Company.

It is recommended that future actuarial reports include detailed documentation of the derivation and selection of gross and ceded reserves and ULAE reserves, clearly labeled exhibits and reconciliation of actuarial estimates from the supporting exhibits to the summary exhibits, in order to increase compliance with ASOP 41 (Actuarial Communications), in particular sections 3.2 & 3.4.4 related to Actuarial Reports and Responsibility for Assumptions and Methods.

5. SUBSEQUENT EVENTS

On January 8, 2019, pursuant to Sections 1307 and 1505 of the New York Insurance Law, the Department approved a loan agreement for the sum of $2 million ("surplus note proceeds") between the Company and its parent company, Cabrillo Holdings, LLC, effective December 31, 2018.

6. COMPLIANCE WITH REPORT ON ORGANIZATION

The report on organization contained one recommendation as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Custodian Agreement	
	It was recommended that the Company amend its custodian agreement to incorporate the missing required provisions.	4
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Losses and loss adjustment expenses	
	It is recommended that future actuarial reports include detailed documentation of the derivation and selection of gross and ceded reserves and ULAE reserves, clearly labeled exhibits and reconciliation of actuarial estimates from the supporting exhibits to the summary exhibits.	15

Respectfully submitted,

_____________/S_____________
Adebola Awofeso
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

ADEBOLA AWOFESO being duly sworn, deposes and says that the foregoing report,

subscribed by him, is true to the best of his knowledge and belief.

___________/S/____________
Adebola Awofeso

Subscribed and sworn to before me

this_________ day of __________________, 2019.

APPOINTMENT NO. 31714

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **Maria T. Vullo**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Adebola Awofeso

as a proper person to examine the affairs of the

US Coastal Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 26th day of September, 2018

MARIA T. VULLO
Superintendent of Financial Services

By: Joan P. Riddell

Joan Riddell
Deputy Bureau Chief