



**REPORT ON EXAMINATION  
OF  
US COASTAL INSURANCE COMPANY  
AS OF DECEMBER 31, 2022**

**EXAMINER:  
DATE OF REPORT:**

**IRENE TRAN  
MAY 23, 2024**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

May 23, 2024

Honorable Adrienne A. Harris  
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 32485 dated February 22, 2023, attached hereto, I have made an examination into the condition and affairs of US Coastal Insurance Company as of December 31, 2022, 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.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of US Coastal Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2017. This examination covered the five-year period from January 1, 2018 through December 31, 2022. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the lead state of the Cabrillo Holding Group. The examination was performed concurrently with the examination of the US Coastal Property & Casualty Insurance Company, a Florida-domiciled insurer. Florida participated in this examination.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners 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 prior report on examination.

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

US Coastal Insurance 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, an intermediate holding company incorporated on May 22, 2013 in Delaware and controlled by Cabrillo Holdings, LLC. The ultimate controlling persons of the Company are: Michael McNitt, individually and as Trustee of the McNitt Family Irrevocable Trust; Roger McNitt and Jeanne McNitt, as Trustees of the Harbor Cabrillo Trust; and Renaissance Ventures U.S. LLC.

### 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 ten members. The board meets four times during each calendar year. At December 31, 2022, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Timothy Robert Brien New York, New York	President, Cliffside Capital
Jeffrey Ryan Hershman Jonesville, Florida	Vice President, Cabrillo Holdings, LLC and its subsidiaries
James Patrick Leasure Newport Beach, California	Portfolio Manager, Aristotle Pacific Capital
Ronda Lyn Loshonkohl Jonesville, Florida	Vice President, Cabrillo Holdings, LLC and its subsidiaries
Michael Lee McNitt Gainesville, Florida	Chief Executive Officer, Cabrillo Holdings, LLC and its subsidiaries
Roger Lee McNitt La Jolla, California	Retired Regulatory Lawyer, Board Member of Cabrillo Holdings, LLC and its subsidiaries
Richard James Roth, Jr. Huntington Beach, California	Consultant, The Burkhalter Group Consulting Actuaries

As of December 31, 2022, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael Lee McNitt	President and Chief Executive Officer
Maria Isabel Moller *	Chief Financial Officer and Secretary
John William Elbl	Chief Risk Officer
Ronda Lyn Loshonkohl	Vice President
Jeffrey Ryan Hershman	Vice President

\*Maria Isabel Moller resigned effective May 31, 2023. Daniel G. Riddle replaced Ms. Moller as Chief Financial Officer and Secretary, effective on the same date.

B. Territory and Plan of Operation

As of December 31, 2022, the Company was licensed to write business in New York, New Jersey, Rhode Island, and Delaware. The Company started writing business in Rhode Island in 2022.

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:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
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 only)

Based upon 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 \$3,000,000.

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.

<u>Calendar Year</u>	<u>Total Gross Premiums</u>
2018	\$42,780,686
2019	\$37,622,180
2020	\$33,662,349
2021	\$33,471,231
2022	\$43,702,287

The Company writes personal lines property business through independent agents. In 2022, direct written premiums were mainly attributable to homeowner's multiple peril (90.6%), and fire and allied lines (8.4%). New York accounted for 60.9% of direct written premiums, followed by New Jersey (35.1%) and Rhode Island (4.0%). Business is produced through an affiliated managing general agent, Cabrillo Coastal General Insurance Agency, LLC.

## Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Personal Lines Multiple Line Excess of Loss</u> (Two layers)	<p>Layer 1: Coverage A: Property, \$1,400,000 excess of \$350,000 per risk. \$4,200,000 as respect to all risks involved in any one occurrence;</p> <p>Coverage B: Casualty, \$1,400,000 excess of \$350,000 in any one occurrence;</p> <p>Coverage C: For more than one class/line of business, \$350,000 excess of \$350,000 in any one occurrence.</p> <p>Layer 2: Coverage A Property, \$1,500,000 excess of \$1,750,000 per risk. \$3,000,000 as respect to all risks involved in any one occurrence.</p>
<u>Property Catastrophe Excess of Loss</u> (Four layers)	<p>\$128,000,000 excess \$2,000,000 per occurrence. Subject to liability limits to the reinsurer under each layer of \$14,000,000 and \$32,000,000 for Layers 1 and 2, respectively; \$70,000,000 and \$140,000,000 for Layers 3 and 4, respectively with respect to any one loss.</p>
<u>Reinstatement Premium Protection</u> (Three layers)	<p>\$58,000,000 excess \$2,000,000. Provides 100% of any reinstatement premium for loss occurrence for the first three layers of the property catastrophe excess of loss reinsurance contract.</p>

The Company had a quota share with its affiliate, US Coastal Property and Casualty Insurance Company, which provided a 25% cession on earned premiums. This agreement was commuted effective May 31, 2022, with no gain or loss.

Most (69%) of the Company's ceded business was to authorized reinsurers, with the remainder ceded to unauthorized reinsurers.

All significant 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, Statement 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

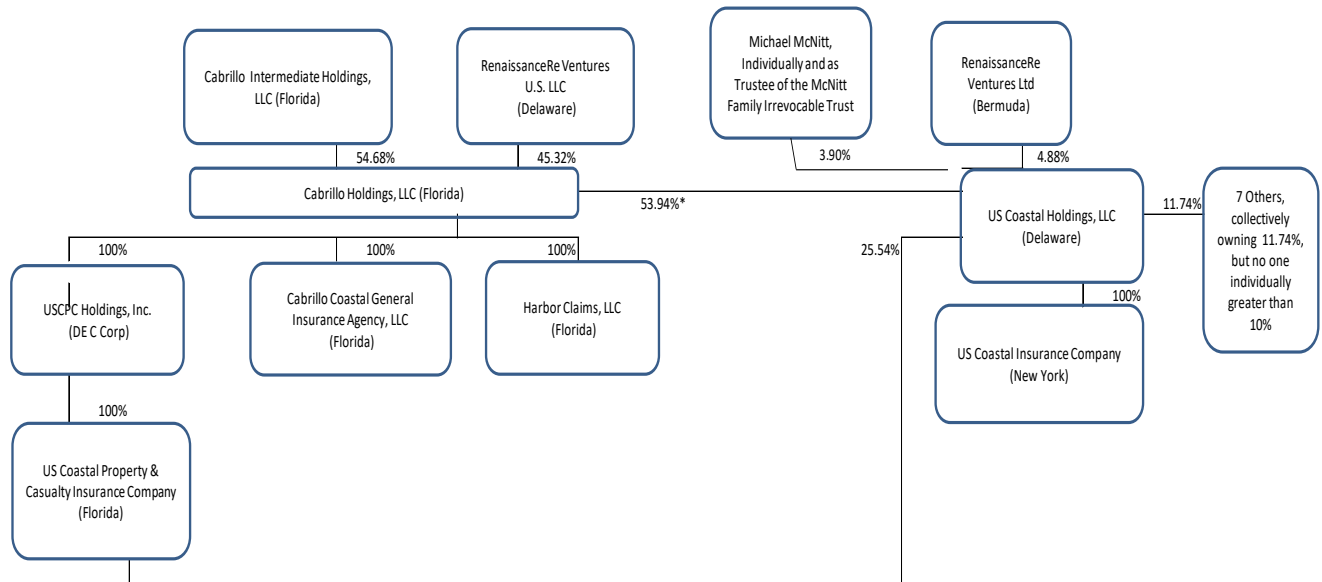
The Company is a member of the Cabrillo Holding Group (the “Group”). The Company is a wholly owned subsidiary of US Coastal Holdings, LLC. Its affiliate, US Coastal Property & Casualty Insurance Company, is wholly owned by USCPC Holdings, Inc.

Cabrillo Holdings, LLC owns 53.94% (and 100% of the voting interest) of US Coastal Holdings, LLC and wholly owns USCPC Holdings, Inc. Cabrillo Holdings, LLC is owned by Cabrillo Intermediate Holdings, LLC (54.68%), and RenaissanceRe Ventures US LLC (45.32%), an indirect subsidiary of RenaissanceRe Holdings Ltd., a public company listed on the NYSE. The Company’s ultimate controlling persons are Michael McNitt, individually and as Trustee of the McNitt Family Irrevocable Trust; Roger McNitt and Jeanne McNitt, as Trustees of the Harbor Cabrillo Trust; and RenaissanceRe Ventures U.S. LLC.

The Group writes homeowners and dwelling fire insurance in the Mid-Atlantic and Southeast regions of the United States through independent agents. It manages its resources and provides additional investment to all affiliated entities through shared ownership and common management.

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, 2022:



## Holding Company Agreements

At December 31, 2022, the Company was party to the following agreements with other 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. Pursuant to the terms of the agreement, the Company appointed Cabrillo Coastal General Insurance Agency, LLC as its managing general agent to supervise and conduct the writing of insurance covering homeowners and dwelling fire risks in New York. Amounts are settled on a monthly basis. As compensation for its services, Cabrillo receives a percentage of the collected gross written premium less cancellations plus an expense constant fee. The Company paid \$9,501,296 for services received in 2022 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”). Pursuant to the terms of the agreement, Harbor Claims is authorized to manage and settle claims arising under insurance policies issued by the Company as part of the managing general agency agreement between the Company and Cabrillo Coastal General Insurance

Agency, LLC, subject to a limit of \$25,000 each claim. As compensation for its services, Harbor Claims receives a service fee equal to the actual costs associated with administering the Company's claims program. The Company paid \$914,059 for services received in 2022 under this agreement.

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

#### Surplus Notes

On December 31, 2018, the Company ("Borrower") issued a \$2 million surplus note to Cabrillo Holdings LLC ("Lender"). Pursuant to the terms of the agreement, interest accrues from the date of issuance at an annual rate of 3.8% on the unpaid balance. Accrued interest is payable beginning March 31, 2019, and quarterly thereafter. Unpaid principal, or any part thereof, and unpaid and accrued interest is due and payable within 60 days of demand for such repayment by the Lender. All amounts to be repaid by the Borrower is subject to the prior approval of the Superintendent. In 2022, the Department approved \$76,000 of interest expense.

On August 11, 2022, the Company issued a \$1 million surplus note to Cabrillo Coastal General Insurance Agency, LLC. Pursuant to the terms of the agreement, interest shall be paid quarterly at a rate of 4.5%, commencing three months from the effective date and upon approval of the Superintendent. The effective date of the agreement is June 30, 2022. Unpaid principal, or any part thereof, and unpaid and accrued interest is due and payable within 60 days of demand for such repayment; however, all such amounts to be repaid by the Company is subject to the prior approval from the Superintendent. The Company may repay the loan at any time at its option, its discretion, subject to the prior approval from the Superintendent.

The above-noted surplus notes were approved by the Department pursuant to Section 1307 of the New York Insurance Law.

#### E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2022, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	228%
Adjusted liabilities to liquid assets	85%
Two-year overall operating	95%

### Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$42,435,980	60.44%
Other underwriting expenses incurred	28,903,677	41.17
Net underwriting gain (loss)	<u>(1,129,606)</u>	<u>(1.61)</u>
Premiums earned	<u>\$70,210,051</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 358.3% at December 31, 2022. 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.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2022, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$31,768,924	\$ 0	\$31,768,924
Common stocks (stocks)	18,200	0	18,200
Cash, cash equivalents and short-term investments	6,237,722	0	6,237,722
Investment income due and accrued	141,024	0	141,024
Uncollected premiums and agents' balances in the course of collection	2,540,266	125,891	2,414,375
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,626,589	0	2,626,589
Amounts recoverable from reinsurers	2,143,670	0	2,143,670
Other amounts receivable under reinsurance contracts	694,334	0	694,334
Net deferred tax asset	859,031	0	859,031
Receivables from parent, subsidiaries and affiliates	<u>38,237</u>	<u>0</u>	<u>38,237</u>
Total assets	<u>\$47,067,998</u>	<u>\$125,891</u>	<u>\$46,942,107</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$ 6,100,629
Commissions payable, contingent commissions and other similar charges	(33,889)
Other expenses (excluding taxes, licenses and fees)	(12,910)
Taxes, licenses and fees (excluding federal and foreign income taxes)	276,715
Current federal and foreign income taxes	301,220
Unearned premiums	18,009,305
Advance premium	1,067,692
Ceded reinsurance premiums payable (net of ceding commissions)	6,611,790
Funds held by company under reinsurance treaties	857
Payable to parent, subsidiaries and affiliates	253
Payable for securities	266,229
Aggregate write-ins for liabilities	<u>74,211</u>
Total liabilities	\$32,662,102

Surplus and Other Funds

Common capital stock	\$3,000,000
Surplus notes	3,000,000
Gross paid in and contributed surplus	6,350,000
Unassigned funds (surplus)	<u>1,930,006</u>
Surplus as regards policyholders	<u>14,280,006</u>
Total liabilities, surplus and other funds	<u>\$46,942,108</u>

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 income for the examination period as reported by the Company was \$1,443,426, as detailed below:

Underwriting Income

Premiums earned		\$70,210,051
Deductions:		
Losses and loss adjustment expenses incurred	\$40,078,980	
Other underwriting expenses incurred	<u>28,903,677</u>	
Total underwriting deductions		<u>68,982,657</u>
Net underwriting gain or (loss)		\$ 1,227,394

Investment Income

Net investment income earned	\$1,291,521	
Net realized capital gain	<u>14,069</u>	
Net investment gain or (loss)		<u>1,305,590</u>
Net income before federal and foreign income taxes		\$ 2,532,984
Federal and foreign income taxes incurred		<u>1,089,558</u>
Net income		<u>\$ 1,443,426</u>

C. Capital and Surplus

Capital paid in is \$3,000,000 consisting of 3,000 shares of \$1,000 par value per share common stock. Gross paid in and contributed surplus is \$6,350,000. Capital paid in and gross paid in and contributed surplus did not change during the examination period.

Surplus as regards policyholders increased \$4,996,805 during the five-year examination period January 1, 2018 through December 31, 2022, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2017			\$ 9,283,201
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,443,426		
Change in net deferred income tax	592,682		
Change in non-admitted assets		\$39,300	
Change in surplus notes	<u>3,000,000</u>	<u>0</u>	
Total gains and losses	\$5,036,108	\$39,300	
Net increase (decrease) in surplus			<u>4,996,805*</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2022			<u>\$14,280,006</u>

\* Rounding difference of \$3

D. Analysis of Changes to Surplus

Surplus as regards policyholders as of December 31, 2022, as reported by the Company	\$14,280,006
Decrease in surplus due to examination change in losses and loss adjustment expenses (refer to section 4 of this report)	<u>(2,357,000)</u>
Surplus as regards policyholders as of December 31, 2022, per report on examination	<u>\$11,923,006</u>



#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The Department performed a review of the Company's loss and loss adjustment expense ("L&LAE") reserves as of December 31, 2022. The Department finds the carried reserve liability as of December 31, 2022, of \$6,100,629 deficient by \$2,357,000, representing 16.5% of surplus and 38.6% of net L&LAE reserves as of December 31, 2022. This deficiency represents the L&LAE run-off for accident years 2022 and prior as of March 31, 2024. As this deficiency has already been recognized, no further adjustment to the financial statements is necessary. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

A review of the 2022 actuarial report revealed that a high-level reconciliation of IBNR and case reserves for homeowners from 2019 through 2022 was provided in the actuarial report. No other reconciliation was provided in the report.

It is recommended that going forward, the appointed actuary include a more detailed reconciliation of the data used in the actuarial report to the data in Schedule P.

#### **5. SUBSEQUENT EVENTS**

Effective December 28, 2023, upon Department approval, the Company received a one-time commission adjustment of \$3 million from its affiliated MGA, Cabrillo Coastal General Insurance Agency, LLC.

Effective March 31, 2024, the Department approved a capital contribution to the Company of \$1.5 million from its parent, US Coastal Holdings, LLC.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Losses and loss adjustment expenses</u></p> <p>It was 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.</p> <p>The Company has complied with this recommendation.</p>	<p>15</p>

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Losses and loss adjustment expenses</u></p> <p>It is recommended that going forward, the appointed actuary include a more detailed reconciliation of the data used in the actuarial report to the data in Schedule P.</p>	<p>15</p>

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Irene Tran, CFE  
Senior Insurance Examiner

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

Irene Tran, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/S/\_\_\_\_\_  
Irene Tran

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2024.

*APPOINTMENT NO. 32485*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, Adrienne A. Harris, 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:*

***Irene Tran***

*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 she 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 22nd day of February 2023*

*ADRIENNE A. HARRIS  
Superintendent of Financial Services*

*By:*

*Joan Riddell*

*Joan Riddell  
Deputy Bureau Chief*

