Florida Department of Financial Services

Division of Rehabilitation and Liquidation

United Property and Casualty Insurance Company
Annual Insolvency Report – June 27, 2024

Purpose of Report:

The Department of Financial Services ("DFS" or "Department") is responsible for the administration of insurance receiverships in Florida. The Division of Rehabilitation and Liquidation ("Division") administers the receiverships on behalf of the Department. On February 27, 2023, the Second Judicial Circuit Court in Leon County, Florida ("Court") placed the above insurance company into receivership for purposes of liquidation. DFS was appointed to serve as the Receiver and in this capacity, DFS was authorized to plan, coordinate, and direct the affairs of the company to carry out the order of the Court. Pursuant to section 631.398, Florida Statutes, this report provides an overview of the insurance company and an annual summary of the history and causes of the insolvency to aid in the detection and prevention of insurer insolvencies or impairments in Florida. This report is intended for the Governor, President of the Senate, Speaker of the House of Representatives, and the office. The information may not be used as evidence in any proceeding brought by the Department or others to recover assets on behalf of the receivership estate as part of its duties under section 631.141(8), Florida Statutes. The submission of this report shall not be considered a waiver of any evidentiary privilege the Department may assert under state or federal law.

Company Overview

I. Company Description

United Property and Casualty Insurance Company ("UPCIC" or "Company") was a Florida domiciled property and casualty insurer located in St. Petersburg, Florida. The company was licensed on April 2, 1999, and at the time of liquidation, it actively wrote insurance policies that included homeowner's multiple peril, earthquake, boiler and machinery, inland marine, allied lines, fire, burglary and theft, and other liability in Florida, Georgia, Louisiana, North Carolina, New York, South Carolina, and Texas. UPCIC was also licensed in Connecticut, Massachusetts, New Jersey, and Rhode Island; however, the policies in these states were transitioned to other licensed insurers in 2020.

UPCIC did not have any employees. All personnel were employed by the affiliated managing general agency, United Insurance Management, L.C., and other affiliated entities. UPCIC's principal place of business was located at 800 2nd Avenue South, St. Petersburg, FL 33701.

II. Company History

UPCIC was incorporated on February 25, 1999. It received a certificate of authority from the Office of Insurance Regulation ("OIR") on April 2, 1999, and was part of an insurance holding company system. UPCIC and many of its affiliates were 100% owned by United Insurance Holding Corp ("UIHC" or "Holding Company"), a Delaware based corporation with material ownership stakes as follows: Peed FLP1, Ltd., LLP (27.4%), Leah Anneberg Peed (8.1%), and R. Daniel Peed (4.5%). There were additional insurers in the holding company system. They were American Coastal Insurance Company (FL), Interboro Insurance Company (NY), and an offshore reinsurer, UPC Re (Cayman Islands). Details of the company structure are illustrated in the next section of this document.

In September 2006, UPCIC obtained a $20,000,000 surplus note from the State Board of Administration of Florida. Several years later in the last quarter of 2019, the company experienced a significant drop in net income and surplus, negative underwriting income, and adverse reserve development due to catastrophic weather events in Florida, Texas, and Louisiana. As a result, UPCIC was required to file monthly financial statements and attend monthly conference calls with OIR. As underwriting losses continued to increase and surplus continued to decline in 2020, the company reduced its exposure in other states by entering into renewal rights agreements and transitioning policies to other licensed insurers in those states. This included Connecticut, Massachusetts, New Jersey, and Rhode Island.

In January 2022, OIR approved a plan for UPCIC to further reduce its exposure by entering an 85% quota share reinsurance agreement and a renewal rights agreement with another insurer for its business in Georgia, North Carolina, and South Carolina. The transition of the South Carolina policies began on June 1, 2022, while Georgia and North Carolina policies transitioned in the fourth quarter of 2022. In addition, UPCIC transitioned its New York policies mid-year in 2022. OIR also increased the frequency of conference calls with UPCIC to a bi-weekly schedule.

In April 2022, United Insurance Holding Corp submitted merger plans to reduce the exposure of affiliate insurance companies due to a rating downgrade of Journey Insurance Company ("Journey"), an affiliated insurer. On June 14, 2022, OIR approved Journey's merger with American Coastal Insurance Company, which was effective June 1, 2022, and on June 17, 2022, OIR approved Family Security Insurance Company's merger with and into UPCIC effective May 31, 2022, with UPCIC being the surviving entity. In addition to these actions in June 2022, UPCIC notified OIR that it would transition its flood book of business to Wright National Flood Company in the third quarter of 2022 subject to approval of the Federal Emergency Management Agency.

On July 19, 2022, UPCIC notified OIR that its financial strength rating would be downgraded which would adversely affect its participation in the secondary mortgage market. As a result, OIR approved the company's participation in the Temporary Market Stabilization Arrangement with Citizens Property Insurance Corporation.

To further stabilize the operations of the company, UPCIC notified OIR on August 3, 2022, that it intended to withdraw from the business of insurance in Florida and other states through an orderly run-off plan of approximately 161,071 Florida policies and 151,325 policies in six other states. A run-off plan was submitted on November 15, 2022, and it was approved by OIR on December 5, 2022. UPCIC was also placed into public administrative supervision by OIR when the run-off plan was approved.

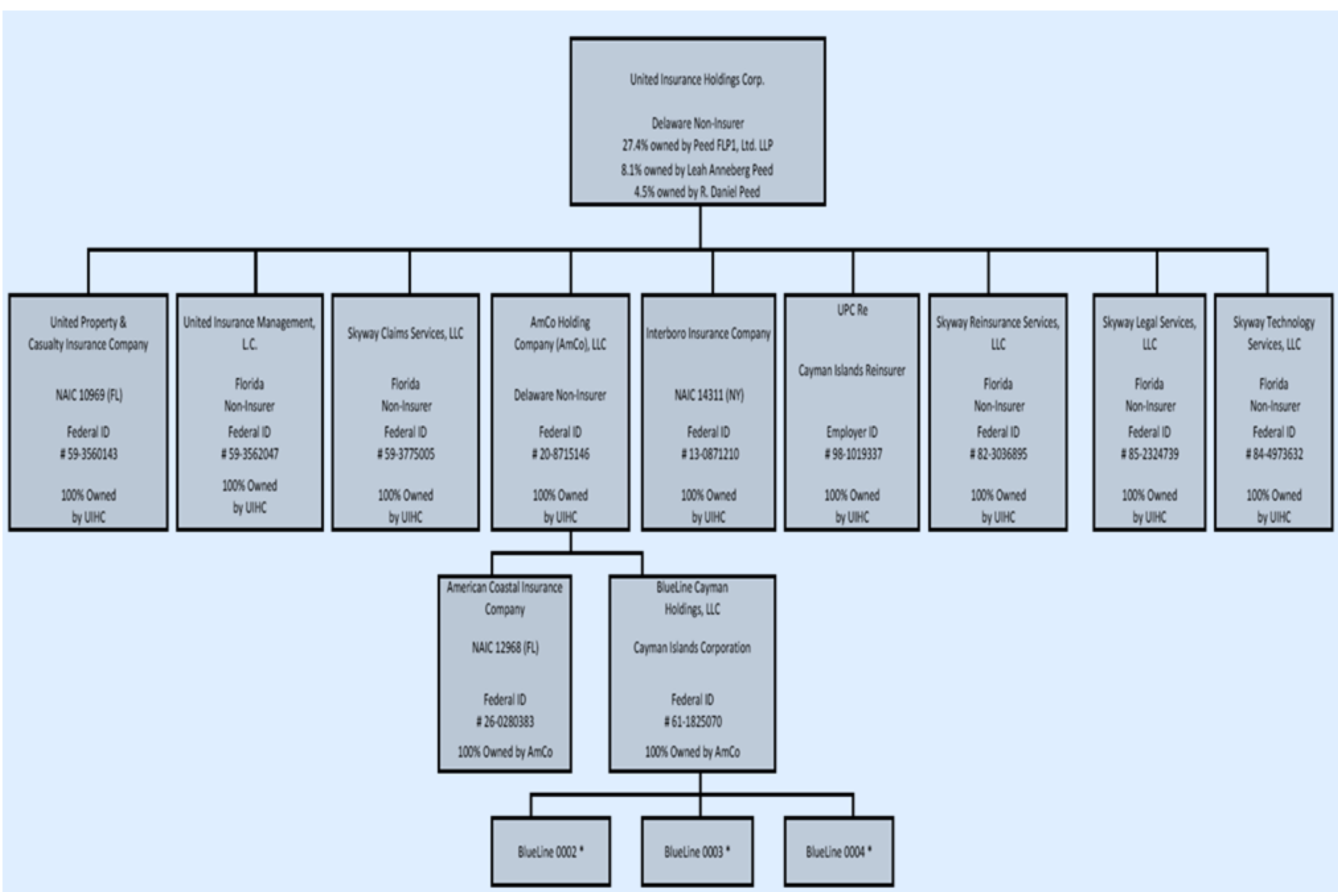
On January 23, 2023, UPCIC notified OIR of an agreement to transfer approximately 72,000 of its Florida policies to another licensed Florida insurer. OIR approved the agreement on January 31, 2023. As a result, the UPCIC policies were cancelled and re-written by Slide Insurance Company as of February 1, 2023.

On January 27, 2023, UPCIC also notified OIR that its reserves for Hurricane Ian losses were deficient by approximately $140 million when compared to its third-party actuary's mid-point estimate. The deficit would make the company insolvent if the reserves were reported at the actuary's estimated amount. Subsequently on February 6, 2023, UPCIC submitted pro forma financial statements to OIR indicating its surplus was ($217,603,217) for the period ending December 31, 2022. This surplus was the result of increased loss reserves and indicated the company was insolvent.

UPCIC had a managing general agency agreement with affiliate, United Insurance Management, L.C. (UIM) for all business services. UIM executed agreements with Skyway Claims Services, LLC, Skyway Legal Services, LLC, and Skyway Reinsurance Services, LLC for claims and policy administration, underwriting, and marketing services. The following agreements were in effect between UPCIC and its affiliates at the time of liquidation:

- Legal Services Agreement
- Federal Income Tax Allocation Agreement
- Managing General Agency Agreement
- Reinsurance Allocation Agreement

III. Corporate Structure



Pre-Receivership Operations and Activities

I. Financial Statement

UPCIC's financial statement as of November 30, 2022, illustrated the following figures for net admitted assets, liabilities, and surplus as regards policyholders:

Description	December 31, 2021	November 30, 2022
Net Admitted Assets	$765,610,288	$525,134,422
Total Liabilities	$596,365,496	$475,127,852
Surplus as Regards Policyholders	**$169,244,792**	**$50,006,570**

II. Policy and Claims Information

At the time of receivership, UPCIC had the following number of policies and pending claims in each of the below states as of February 27, 2023:

Policy and Claims Information

State	In-Force Policies	Claims Count	Loss Reserve*
Florida	53,721	15,140	$359,065,525
Louisiana	27,364	1,563	$12,740,805
New York	20,469	258	$2,624,425
North Carolina	8,135	188	$3,137,752
South Carolina	8,952	354	$6,688,105
Texas	27,619	850	$21,150,122
Rhode Island	0	29	$1,371,738
Connecticut	0	15	$384,116
Massachusetts	0	56	$4,732,267
New Jersey	0	64	$1,946,449
Georgia	0	19	$1,113,860
Company Total	**146,260**	**18,536**	**$414,955,164**

*Includes non-HCI reserves and IBNR as of 12/31/22

III. Relevant Events Prior to Receivership

Date	Event
12/05/2022	UPCIC was placed into Administrative Supervision by OIR.
02/09/2023	UPCIC Board of Directors consented to receivership.
02/16/2023	DFS received referral from OIR for receivership.
02/20/2023	DFS filed Consent Petition for Receivership with Second Judicial Circuit Court.

Receivership Activities

I. Liquidation

On February 27, 2023, UPCIC was ordered into receivership for purposes of liquidation, injunction, and notice of automatic stay (Case No. 2023 CA 000320) by the Second Judicial Circuit Court in Leon County, Florida. DFS was the court-appointed Receiver of UPCIC pursuant to Chapter 631, Part I, Florida Statutes.

II. Receivership Events

The below chart identifies relevant activities that have occurred during UPCIC's receivership period.

Date	Event
02/27/2023	Liquidation Order Entered
02/27/2023	DFS website updated to reflect the receivership
02/28/2023	First day of onsite receivership activities at UPCIC in St Petersburg, FL
03/01/2023	Notice of Receivership emailed to Agents (Total: 15,045)
03/06/2023	Notice of Receivership mailed to policyholders (Total: 135,665)
03/21/2023	First phase of transitioning claim files and data to the guaranty associations to ensure continuity of the processing of claims.
03/29/2023	Policies cancelled
03/31/2023	Last day of onsite receivership activities at UPCIC
02/27/2024	Claims Filing Deadline

Post-Receivership Information	
Description	**Figure**
(1) Funds Recovered from Reinsurance	$74,243,492.04
(2) Funds Recovered from Subrogation	$1,192,404.27
(3) Number of Lawsuits Currently Pending	2,951
(4) Number of Proof of Claims (POC) Filed in the Receivership Estate*	1,811

*Information as of June 13, 2024

III. Financial Statement

DFS filed the unaudited financial statement of affairs as of December 31, 2023, for UPCIC with the Receivership court on May 16, 2024. For a copy of the statement, refer to the last pages of this document.

IV. Guaranty Associations

Upon entering receivership, guaranty associations were activated to provide continued resolution and payment of covered claims on behalf of UPCIC. They included the Connecticut Insurance Guaranty Association, Florida Insurance Guaranty Association, Georgia Insurance Insolvency Pool, Hawaii Insurance Guaranty Association, Louisiana Insurance Guaranty Association, Massachusetts Insurance Insolvency Fund, New Jersey Property-Liability Insurance Guaranty Association, New York Property and Casualty Fund, North Carolina Insurance Guaranty Association, Rhode Island Insurance Guaranty Association, South Carolina Property and Casualty Insurance Guaranty Association, and the Texas Property and Casualty Insurance Guaranty Association. A summary of UPCIC's claims liabilities reported by all guaranty associations as of December 31, 2023, is listed below.

Class	Description of Claim	Total Liabilities
1	Administrative Expenses of Guaranty Associations	$62,939,031.28
2	Loss Claims	$520,556,006.69
3	Unearned Premium under Non-Assessable Policies	$66,578,911.06

V. Post-Receivership Claims Information

As a result of the receivership, all policies that remained with UPCIC were cancelled on March 29, 2023. As of June 13, 2024, UPCIC had the below number of pending claims, litigated claims, and loss reserves in each of the below states:

Claims Information			
State	**Number of Pending Claims**	**Number of Litigated Claims**	**Loss Reserve**
Connecticut	17	10	$531,686.76
Florida	3,036	1,625	$89,436,209.72
Georgia	8	2	$97,251.00
Hawaii	1	0	$57,000.00
Louisiana	1,359	1,123	$23,830,506.46
Massachusetts	51	18	$1,427,936.67
New Jersey	33	26	$2,048,411.79
New York	235	85	$9,771,951.13
North Carolina	101	4	$1,039,462.62
Rhode Island	33	12	$1,176,088.90
South Carolina	52	21	$713,028.83
Texas	378	25	$5,717,150.19
Company Total	**5,304**	**2,951**	**$135,846,684.07**

Number of Claims Transferred to Guaranty Associations by Claim Status as of June 13, 2024	
Claim Status	**Total Claims**
Open Claims at Liquidation*	18,568
New Claims	3,118
Reopen Claims	9,706
TOTAL	**31,392**

*The open claims reported in this table may differ from claims initially reported as open by UPCIC due to timing and data migration issues.

Insolvency Information

I. Preliminary Causal Analysis of Business Practices that Led to Insolvency

A. Pre-Liquidation

The initial issues identified by OIR that resulted in the referral of UPCIC to the Department for delinquency proceedings included:

- Insufficient reserves
- Significant decline in underwriting results
- Continued adverse development for Florida, Louisiana, and Texas

UPCIC's losses over multiple years affected its surplus. The large percentage of litigated claims drove up its costs. The $140 million reserve deficiency related to Hurricane Ian in September 2022 resulted in the company's referral to the Department for delinquency proceedings.

B. Post-Liquidation

The Department has observed the below business practices and issues after liquidation that impacted the operations of UPCIC:

- Use of multiple information technology vendors and legacy systems with commingled data which leads to an inability to accurately segregate UPCIC data and generate reports.
- Coverage information in the policy system(s) required post liquidation manual intervention and review due to pre-receivership policy conversion and extended coverage issues. This also complicated associating claims to the converted policy number.
- Continued adverse reserve development included litigation expenses in multiple states.

II. Insolvency Report

This document represents the annual update of the initial insolvency report as required by section 631.398(3), Florida Statutes, and will be updated at least annually until the submission of the final insolvency report. Under the supervision of the receivership court and pursuant to section 631.156, Florida Statutes, DFS is tasked with conducting an investigation to determine the causes of UPCIC's insolvency, including whether any laws of this state, any other state, or the Federal Government related to the solvency of UPCIC were violated, to discover assets for recovery, and to determine the location of assets and their manner of recovery. DFS has hired a forensic accounting firm to assist in the investigation. Certain portions of the investigative work product may be deemed confidential as contemplated by section 119.071(1)(d)1, Florida Statutes [attorney work product exemption]; section 626.989, Florida Statutes [fraud investigation exemption]; section 119.0715, Florida Statutes [trade secrets held by an agency exemption]; and other provisions of law. The final insolvency report shall be submitted within 30 days of the conclusion of the insolvency proceeding.

APPENDIX

Glossary of Terms

- **Affiliate:** Any entity which exercises control over or is controlled by the insurer, directly or indirectly through:

  (a) Equity ownership of voting securities;

  (b) Common managerial control; or

  (c) Collusive participation by the management of the insurer and affiliate in the management of the insurer or the affiliate.

- **Delinquency Proceedings:** Any proceeding commenced against an insurer pursuant to Chapter 631, Part I, Florida Statutes for the purpose of liquidating, rehabilitating, reorganizing, or conserving such insurer.

- **Estate:** The insurance entity in receivership.

- **Guaranty Association:** A state-sanctioned organization that protects policyholders and claimants in the event of an insurance company's impairment or insolvency. Insurance guaranty associationsare legal entities, whose members make guarantees and provide a mechanism to resolve claims. The Florida Guaranty Associations include the Florida Insurance Guaranty Association, Florida Workers' Compensation Insurance Guaranty Association, Florida Life and Health Insurance Guaranty Association, and the Florida Health Maintenance Organization Consumer Assistance Plan.

- **Initial Receivership Period:** The 90-day period after an insurance company enters receivership.

- **Insolvency:** All the assets of the insurer, if made immediately available, would not be sufficient to discharge all its liabilities or that the insurer is unable to pay its debts as they become due in the usual course of business. Insolvency also includes an impairment of surplus and an impairment of capital as defined in Chapter 631, Part I, Florida Statutes.

- **Onsite Activities:** Receivership activities occurring at the insurance company's principal place of business and/or remotely from the Division of Rehabilitation and Liquidation during the initial phases of the receivership process.

- **Receiver:** A receiver, liquidator, rehabilitator, reorganizer, or conservator, as the context may require.

- **Receivership:** The placement of an insurer under the control of a receiver pursuant to a delinquency proceeding under Chapter 631, Part I, Florida Statutes.

- **Special Deputy Receiver (SDR):** A company retained by DFS to administer the receivership of an insurance company as authorized by the Court.

Florida Department of Financial Services, Division of Rehabilitation and Liquidation
United Property & Casualty Ins Co in Liquidation
Statement of Affairs
12/31/2023

	Estimated Realizable Value
ASSETS	
Cash-Company Operating	$57,999,648.41
SPIA-Restricted	207,224.05
Pooled Cash in SPIA Due from the Admin Fund	132,955,982.44
Short Term Investments	66,175.10
Short Term Investments-Restricted	3,028,004.60
Accrued Interest Receivable	369,043.58
Reinsurance Recoverable	32,120,768.60
Accounts Receivable	34,973,325.71
Allowance - Accounts Receivables	(34,973,325.71)
Long Term Investments	23,621.94
Other Assets	14,772,086.58
Total Assets	$241,542,555.30
LIABILITIES	
Secured Claims	207,224.05
Class 1 Administrative Claims	
Class 1 - Guaranty Associations	58,016,865.67
Class 2 Loss Claims	
Class 2 - Guaranty Associations	425,344,179.62
Class 2 - Other	47,689.72
Class 3 Unearned Premium Claims under Non-assessable Policies	
Class 3 - Guaranty Associations	60,259,038.34
Class 3 - Other	8,110,145.77
Class 6 General Creditor Claims	
Class 6 - Other	202,595.52
Total Liabilities	$552,187,738.69
EQUITY	
Contributed Equity - State of Florida	132,139.75
Estate Equity	(310,777,323.14)
Excess (Deficiency) of Assets over Liabilities	($310,645,183.39)
Total Liabilities and Equity	$241,542,555.30

Florida Department of Financial Services, Division of Rehabilitation and Liquidation
United Property & Casualty Insurance in Liquidation
Notes to Financial Statements

Dated December 31, 2023

1. **Estate Information**. United Property & Casualty Insurance Company (UPCIC) was a property and casualty organization domiciled in Florida placed in liquidation on February 27, 2023.
2. **Basis of Presentation.** The accompanying financial statements have been prepared on a modified cash basis of accounting using a fiscal year of July 1, 2023 through June 30, 2024. The assets are stated at their estimated realizable values, while the liabilities are stated at their gross filed amounts and are periodically adjusted as evaluated, adjudicated and/or paid. Interest is accrued and reinsurance receivables are only posted when billed to reinsurers. In addition, the statements do <u>not</u> provide accruals for all future administrative expenses to liquidate the estate or costs to pursue or litigate claims against others.
3. **Unaudited**. The accompanying financial statements have not been audited by an independent certified public accountant and no opinion is expressed on their compliance with generally accepted accounting principles.
4. **Pooled Investments**. The majority of the invested assets of the estates are combined into two main pooled accounts: The Receiver's operating account held at Wells Fargo and the Special Purpose Investment Account held at the State of Florida Treasury. Each estate's share of the pooled investments is presented on the accompanying financial statements as "Pooled Cash Due from the Admin Fund".
5. **Special Purpose Investment Account (SPIA) – Restricted.** Represents funds wired to the Receiver by Gallagher Re pending reconciliation.
6. **Short-Term Investments.** The investments are stated at fair value, which approximates market value. Market values are those provided by the depository trust institution or brokerage institution in possession of the securities at the balance sheet date.
7. **Reinsurance**. Reinsurance receivables have resulted from losses that have been paid and billed to the reinsurer(s). The financial statements reflect the estimated gross amount of the billed losses less an allowance for any receivable(s) where there is an uncertainty regarding collectability. The receivable amount may include paid losses that are ceded to one or more reinsurance contracts being collected on behalf of the Receiver by an intermediary or the Receiver's staff.
8. **Accounts Receivable.** These account receivables consist of Premium Tax Receivable, Federal Income Tax Receivable and Other Securities (due to investment activity in transit) receivable.
9. **Allowance – Accounts Receivable.** An estimate of uncollectible amounts for certain assets.
10. **Other Assets.** These assets consist of states' statutory deposits held at various financial institutions. The Schedule of Other Assets reflects the value of these deposits at June 30, 2023 or latest available, those that have been collected by the Receiver and those where the state has taken its deposit. These also consists of several investments held by UPCIC at the time of liquidation currently under review for liquidity.
11. **Secured Claims.** This secured claim represents funds wired to the Receiver by a Reinsurer being held in a segregated account pending reconciliation.
12. **Claims**. Unless otherwise noted, the Statement of Affairs contains claim liabilities by priority class pursuant to 631.271, Florida Statutes. Unless otherwise stated, the claim liabilities reported are gross filed, un-adjudicated, and have not been reduced by any early access payments from the Florida Receiver. Claim liability numbers are based upon the most current available information and documentation provided to the Receiver from both internal and external sources.

    - Class 1, Class 2 & Class 3 claim liabilities are based upon Guaranty Association payments, estimates and Filed Claims.
    - All other classes are based on Filed Claims.
    - Filed Proof of Claims forms are currently being processed and all liabilities are subject to change.

Florida Department of Financial Services, Division of Rehabilitation and Liquidation
United Property & Casualty Insurance in Liquidation
Notes to Financial Statements
Dated December 31, 2023

13. **Interest Distributions.** For companies placed into receivership on or after July 1, 2012, Section 631.271, Florida Statutes authorizes the payment of interest on claims in Classes 1-9 prior to making any payment on shareholder claims. At this time, the Receiver does not anticipate having sufficient assets in this estate to pay all claims for Classes 1-9. Accordingly, this statement does not reflect an interest reserve for Classes 1-9 allowed claims.

14. **Federal Priority.** The federal government has taken the position that pursuant to 31 U.S.C.A. 3713 a federal government claim must be paid first, when a debtor to the United States is insolvent. The federal government has also taken the position that it is not subject to state insurance liquidation claim's proceedings deadlines. To establish finality, shield itself from potential liability, and ultimately discharge the estate, the Receiver will request a federal release from the U.S. Department of Justice.

15. **Contributed Equity – State of Florida**. The Receiver will, from time to time, expend public funds to carry out certain duties during the course of liquidating an insurance company. The Division accounts for these expenditures as a contribution of equity by the State.

16. **Excess (Deficiency) of Assets over Liabilities**. The excess or (deficiency) represents the estimated realizable value of assets after deducting the current estimate of liabilities. This excess or (deficiency) does <u>not</u> take into consideration any estimates for future administrative costs to liquidate the estate or costs to pursue or litigate claims against others.