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Harrison Executive Centre Suite 308

1930 Harrison Street

Hollywood, Florida 33020

Telephone (954) 922-8868

Fax (954) 922-8884

www.infanteccpa.com

iccpas@aol.com

February 14, 2012

Florida Department of Financial Services
Division of Rehabilitation & Liquidation

Ms. Sha'Ron James

Division Director

200 E. Gaines Street

Tallahassee, Florida 32399-0305

RE: Coral Insurance Company and Related Entities

Dear Ms. James,


Pursuant to your instructions we have reviewed selected records in the possession of the Receiver and based on these records in accordance with Florida Statute 631.398 (3), we provide the attached summary report relative to the history and causes of the captioned Company's insolvency.

We wish to thank you for retaining us to assist in this endeavor. Kindly advise if you have any questions or comments regarding the enclosed report.

Very truly yours,

Infante & Company

BY:


Roger Infante, CPA

Name of Receivership	Coral Insurance Company
Receivership Number	520
Date of Conservation	N/A
Date of Rehabilitation	April 9, 2009
Date of Liquidation	July 26, 2010

SCOPE

Pursuant to Ms. James' instructions, during March – April 2010, we reviewed records in the possession of the Receiver at our office in Hollywood, Florida. A. Roger Infante, Ronald Weinbaum and Svetlana Rozova conducted this review. In accordance with Florida Statute 631.398(3), we provide below a summary report based on these records supplemented by information generated from other sources (i.e. Company's annual and quarterly statements), relative to the history and causes of the Company's insolvency.

BUSINESS

Coral Insurance Company (the Company), a wholly-owned subsidiary of Coral Enterprises, LLC, was incorporated on January 15, 2004 in the state of Florida. The Company received its Certificate of Authority and commenced insurance operations on March 18, 2004.

The Company wrote homeowners' coverage exclusively in the state of Florida, an area that is exposed to damage from hurricanes and severe storms. The Company attempted to mitigate its exposure to losses from storms by purchasing catastrophe reinsurance coverage. However, such a storm, depending on its path and severity, could result in losses to the Company exceeding its reinsurance protection, and could have a material adverse effect on the financial condition and results of operations of the Company. The Company purchased reinsurance protection to the level of a "one hundred year" storm event.

<u>NAIC Company Code</u>	<u>Federal ID Number</u>	<u>Names of Insurers and Parent, Subsidiaries or Affiliates</u>
	57-1185402	Coral Enterprises LLC (parent)
11956	43-2037599	Coral Insurance Company (insurance company)
	37-1481835	Coral Insurance Advisors LLC (affiliate)

MANAGEMENT

The affairs of the Company were under the direction of Norman K. Barham, Robert J. Meyers, Keith Tagman and Christine LaSala. Barham was the Chairman of the Board, Meyers was the President, Tagman was the Chief Financial Officer and LaSala was the Vice President.

BACKGROUND/EVENTS OF IMPACT

The Company was placed into Liquidation on July 26, 2010. The Department found the Company was about to become insolvent under Chapter 631 of the Florida Statutes. The specific cause of Coral's insolvency could not be determined from the records provided, though insufficient capitalization, the impact of Hurricane Wilma in late 2008 and early 2009 related to claims re-opened by public adjusters and inadequate reinsurance coverage may have been the reasons for its insolvency. Included at the end of this report is an order appointing the Florida Department of Financial Services as Receiver for purposes of rehabilitation, injunction and automatic stay as well as an order appointing the Florida Department of Financial Services as Receiver for purposes of liquidation, injunction and automatic stay.

UNDERWRITING RESULTS

For each year since 2004, Coral reported a net underwriting loss. The investment income mitigated the operating results to some extent.

REINSURANCE

As of December 31, 2008, the Company's reinsurance program consisted of a 50% quota share, Florida Hurricane CAT Fund (FHCF), property excess of loss reinsurance for catastrophic events, property per risk coverages, as well as a reinstatement premium protection. The Company's quota share agreement effective June 1, 2008, provided coverage for 50% of losses with aggregate losses not exceeding 250% of net earned premiums in any one contract year. The maximum reinsurer liability per occurrence is limited to 50% of \$2,143,411 and 50% of \$2,000,000 for any one risk. The ceding of net premium stipulated in the contract between the Company and the reinsurers was a sliding scale with a provisional commission of 31% that adjusts to a maximum of 40% at a loss ratio of 37.5% or less and a minimum of 23.5% at a loss ratio of 57.5% or more. The Company's excess per risk (two layers) reinsurance agreement was effective June 1, 2008. The contract coverage per risk was \$1.1 million in excess of \$600,000 of ultimate net losses on each homeowner's risk of \$600,000 or greater with a limit of \$1,650,000 for any one occurrence. The second layer of coverage per risk was \$1.7 million in excess of \$1,700,000 of ultimate net losses with a limit of \$2,550,000 for any one occurrence.

Effective July 15, 2008, the Company executed a high-valued homeowners non-catastrophe excess of loss reinsurance agreement for per risk coverages of \$4,700,000 in excess of \$3,400,000 of ultimate net losses, limited to \$4,700,000, on anyone loss occurrence.

The Company also had three layers of catastrophe excess of loss reinsurance coverage effective June 1, 2008. These excess of loss treaties generally provide coverage on ultimate net losses of approximately \$142.2 million in excess of \$2,143,411 per occurrence not to exceed approximately \$174 million for all occurrences. Coverage was provided by the FHCF for 90% of the losses from catastrophic events in excess of approximately \$24,800,000 up to a maximum of approximately \$110,500,000.

Actual paid losses on Hurricane Wilma through October 31, 2008, were \$66,998,043. Ultimately, the above reinsurance coverage and limits were insufficient and the Company was obligated to pay claims over the limits noted causing the insurance company to become insolvent.

FINANCIAL

The Company was originally capitalized by issuing 1,000,000 shares of common stock to its Parent for \$8,000,000. The Company subsequently entered into surplus note agreements with its parent for \$1,000,000 on December 19, 2006, \$1,000,000 on March 15, 2007 and \$2,000,000 on July 19, 2007 to enable the Company to write additional premium while maintaining adequate leverage ratios.

The Company's surplus as regards policyholders at December 31, 2008 amounted to \$1,793,421, which was below the required minimum surplus by \$2,206,579. During the 2008 operating year, the Company incurred a net operating loss of \$2,427,130, of which losses and loss adjustment expenses incurred amounted to \$9,918,328 compared to earned premium of \$7,339,805. Additionally, the Company recorded a direct reduction to surplus in 2008 related to a prior year ceded reinsurance expense for \$2,075,596. In April 2009, Coral was placed into rehabilitation and the June 30, 2009 quarterly statement reflected surplus as regards to policyholders of negative \$(1,626,066). On July 26, 2010, Coral was liquidated.

CONCLUSION

Based on our review of the business history of Coral Insurance Company, as provided in the documents available for our review, we indicate below the potential causes of the failure of this Company, which may have led to its insolvency:

1. Mismanagement by the officers of Coral
2. Inadequate capital and surplus
3. Underwriting losses from adverse loss development

REFERENCES

We relied on various documents that were provided by the Receiver, which included reinsurance agreements and annual and quarterly statements. We believe that all documents provided are in the Receivers electronically maintained master files.

Prepared by: Infante & Company

Date: February 14, 2012