UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-K
March 01, 2019

false--12-31FY20182018-12-3110-K0000891166YesfalseLarge Accelerated FilerUNIVERSAL INSURANCE HOLDINGS, INC.falsefalseNoYesUVE000.010.01550000005500000015000001500000P20Y000.05Greater of ten of the insurer?s total liabilities but not less than $10.0 million.1000068040000862710000000000000001.001.000.250.250.251.009.999.990.010.0110000001000000100001000010000
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM
10-K

(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**65-0231984**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1110 West Commercial Blvd., Suite 100, Fort Lauderdale, Florida 33309
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (954) 958-1200
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g)

of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller Reporting Company
	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold as of June 30, 2018: $1,121,994,034.

Indicate the number of shares outstanding of Common Stock of Universal Insurance Holdings, Inc. as of February 21, 2019: 34,902,179.

UNIVERSAL INSURANCE HOLDINGS, INC.
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DOCUMENTS INCORPORATED BY REFERENCE

Information called for in PART III of this Form 10-K is incorporated by reference to the registrant's definitive Proxy Statement to be filed within 120 days of the close of the registrant's fiscal year in connection with the registrant's annual meeting of shareholders.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These forward-looking statements may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" (Part I, Item 1A of this report). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I

ITEM 1. BUSINESS

Overview

Universal Insurance Holdings, Inc. (“UVE,” and together with its wholly-owned subsidiaries, “we,” “our,” “us,” or “the Company”) is a holding company offering property and casualty (“P&C”) insurance and value-added insurance services. We develop, market and underwrite insurance products for consumers predominantly in the personal residential homeowners lines of business and perform substantially all other insurance-related services for our primary insurance entities, including risk management, claims management, and distribution. Our primary insurance entities, Universal Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC” and together with UPCIC, the “Insurance Entities”), offer insurance products through both our appointed independent agent network and our online distribution channels across 17 states (primarily in Florida), with licenses to write insurance in an additional three states. The Insurance Entities seek to produce an underwriting profit over the long term (defined as earned premium less losses, loss adjustment expense, policy acquisition costs and other operating costs); maintain a strong balance sheet to prepare for years in which the Insurance Entities are not able to achieve an underwriting profit; and generate investment income on assets exceeding short-term operating needs.

Business Strategy

UVE’s strategic focus is on creating a best-in-class experience for our customers, which is supported by our experience of more than 20 years providing protection solutions. Our business strategy leverages our differentiated capabilities to support the Insurance Entities across all aspects of the insurance value chain to provide our customers with a streamlined experience. We continue to evaluate ways in which we can improve the customer experience, provide disciplined underwriting, maintain a strong balance sheet backed by our reinsurance programs and geographic diversification, and maximize earnings stability through inversely correlated or complementary high-quality earnings streams. In 2019 we rebranded certain of our subsidiaries to better serve our Insurance Entities, distinctly identify our capabilities, and position us for continued growth in the future. We have made substantial efforts in recent years to improve our claims operation, including reductions in our claim resolution time and an intensified effort to collect subrogation for the benefit of the Insurance Entities and their policyholders.

Products and Services

Insurance Products

UPCIC (which accounts for the vast majority of our Insurance Entities’ business) currently offers the following types of personal residential insurance: homeowners, renters/tenants, condo unit owners, and dwelling/fire. UPCIC also offers allied lines, coverage for other structures, and personal property, liability and personal articles coverages. APPCIC currently writes the same lines of insurance as UPCIC, but for properties valued in excess of $1 million. In addition, APPCIC writes, to a much lesser degree, commercial residential multi-peril insurance.

Risk Management

Our subsidiary, Evolution Risk Advisors (“ERA”, formerly Universal Risk Advisors, Inc.), is the managing general agent (“MGA”) for the Insurance Entities. In this capacity, ERA advises on actuarial issues, oversees distribution, administers claims payments, performs policy administration and underwriting, and assists with reinsurance negotiations. ERA’s underwriting service evaluates insurance risk and exposures on an individual and portfolio basis and assists the Insurance Entities with pricing risks. All underwriting is performed utilizing our state-approved underwriting manuals as the basis of our rate-making and risk assessment. ERA collects fees from the Insurance Entitles for the services it provides, as well as certain policy fees from insureds. Our subsidiary, Wicklow Inspection Corporation (“WIC”, formerly known as Universal Inspection Corporation), supports ERA by conducting inspections as part of our underwriting process.

The Insurance Entities rely heavily on reinsurance to limit potential exposure to catastrophic events, and in most years our single largest cost is the expense for our reinsurance coverage . In conjunction with ERA, our fully-licensed reinsurance intermediary, Blue Atlantic Reinsurance Corporation (“BARC”), partners with third-party reinsurance brokers to place and manage its reinsurance program for the Insurance Entities. BARC receives commission revenue, net of third-party co-broker fees, from reinsurers in connection with these services.

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Claims Management

Our subsidiary, Alder Adjusting Corporation ("AAC", formerly known as Universal Adjusting Corporation), manages our claims processing and adjustment functions from claim inception to conclusion for our Insurance Entities, which we believe allows us to increase efficiency and provide a high level of customer service. AAC's Fast Track initiative ("Fast Track") has expedited the claims settlement process to close certain types of claims in as little as 24 hours through analysis and on-site field adjusting. In addition to our in-house claims operation, we assign a small percentage of field inspections to third-party adjusters to enable us to continue to provide high quality and timely service following a catastrophe, such as a hurricane in coastal states, and during any other period of unusually high claim volume. Through our continuous improvement and operational excellence initiatives, we continue to evaluate ways in which we can improve the customer's claims experience on a rolling basis. AAC's data intelligence allows the Insurance Entities, ERA and our reinsurance partners to identify trends and refine the underwriting process and guidelines to adequately price risk. Our claims management operations provide cost-effective solutions in servicing claims for the Insurance Entities and generates additional fee income from adjusting claims ceded to reinsurers.

We have substantially grown our claims litigation team to more effectively and efficiently protect our rights in litigation, including through subrogation. Subrogation is the act of pursuing a third party that caused an insurance loss to the insured in order to recover from the third party the amount the insurance carrier paid to the insured.

Distribution

We market and sell our products primarily through our network of over 9,300 licensed independent agents (4,300 in Florida). In addition to our independent agent force, we offer policies through our direct-to-consumer online distribution platforms. Our strong relationships with our independent agents and their relationships with their customers are critical to our ability to identify, attract and retain profitable business. We actively participate in the recruitment and training of our independent agents and provide each agency with training sessions on topics such as underwriting guidelines and submitting claims. We also engage a third-party market representative to assist in ongoing training and recruitment initiatives in all of the states in which we write business.

We utilize an attractive commission-based compensation plan as an incentive for independent agents to place business with us. We also strive to provide excellent service to our independent agents and brokers, which has yielded long-standing partnerships with our independent agents, a number of which have relationships that span more than a decade) that benefit the Company in our target markets through hard and soft market cycles. Our internal staff and specialists provide support to our independent agents by providing access to our in-house technology systems to assist with the delivery of service to our policyholders. This arrangement creates a collaborative environment between the Company and our independent agents on continuous improvement initiatives and allows our independent agents to provide quotes within minutes. Our technology systems have evolved into a highly valued tool that enables agents to quickly understand the status of a policy and assist their clients with policy-related questions.

In addition to distributing our products through our independent agent network, we also utilize our differentiated direct-to-consumer online distribution platforms. Universal Direct^{SM} was launched in 2016 to enable homeowners to directly purchase, pay for and bind homeowners policies online without the need to directly interface with any intermediaries. Universal Direct^{SM} was offered in all 17 states in which we do business as of December 31, 2018. Lastly, we recently introduced a multi-purpose online distribution platform in Florida, Clovered^{SM}, which enables consumers to "Prepare, Protect, and Recover" from the unexpected with educational resources that we plan to eventually supplement with the ability to purchase a policy online.

Financing

Our subsidiary, Atlas Premium Finance Company ("Atlas"), generates fee income by offering premium financing to consumers of insurance products in Florida, North Carolina and South Carolina.

Real Estate

The Grand Palm Development Group ("Grand Palm") is UVE's real estate development entity, which we have created to diversify UVE's investment portfolio. Grand Palm developed and operates a 16-unit condominium development in Tequesta, Florida, and is developing a high-end five-unit condominium project on Singer Island, Florida. Grand Palm also evaluates undeveloped parcels of land for investment opportunities on an ongoing basis.

Investments

Excess funds from the Insurance Entities and UVE are invested with third-party investment advisers. The Investment Committee of our Board of Directors (the “Board of Directors” or the “Board”) oversees these advisers and reports overall investment results to our Board, at least on a quarterly basis. The investment activities of the Insurance Entities are subject to regulation and supervision by the Florida Office of Insurance Regulation (“FLOIR”). See below under “—Government Regulation.” The Insurance Entities may only make investments that are consistent with regulatory guidelines, and our investment policies for the Insurance Entities accordingly limit the amount of investments in, among other things, non-investment grade fixed maturity securities (including high-yield bonds), preferred stock and common stock, and prohibit purchasing securities on margin. The primary objectives of our investment portfolio are the preservation of capital and providing adequate liquidity for claims payments and other cash needs. Our investment portfolio’s secondary investment objective is to provide a sufficient total rate of return with an emphasis on investment income. We focus on relatively short-term investments, with approximately 14.9% of the fair value of our portfolio with contractual maturities due in one year or less, and another 48.2% due after one year but before five years. While we seek to appropriately limit the size and scope of investments in our portfolio, UVE is not similarly restricted by statutory investment guidelines governing insurance companies. Therefore, the investments made by UVE may differ from those made by the Insurance Entities.

See “Part II, Item 8—Note 3 (Investments)” and “Part I, Item 1A—Risk Factors—Risks Relating to Investments” for more information about our investments.

Markets and Competition

Markets

We sell insurance products in the following 17 states: Alabama, Delaware, Florida, Georgia, Hawaii, Indiana, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New Hampshire, New York, North Carolina, Pennsylvania, South Carolina and Virginia. We have additional licenses to write on an admitted basis in Illinois, Iowa and West Virginia. During 2018, our total direct premiums written was 85.1% in Florida and 14.9% in other states. The Florida market as a whole tends to consistently be a top-three personal residential homeowners insurance market in the United States based on direct premium written, due in large part to pricing levels that seek to address the hurricane risk exposure in the state (from June 1 through November 30), population, and property ownership, which consequentially leads to an increase in real estate development activity.

We have historically experienced higher direct premiums written just prior to the second quarter of our fiscal year and lower direct premiums written approaching the fourth quarter, as a result of consumer behaviors in the Florida residential real estate market and the hurricane season affecting coastal states. See “Part I—Item 1A—Risk Factors—Risks Relating to Our Business—Our financial condition and operating results and the financial condition and operating results of our Insurance Entities may be adversely affected by the cyclical nature of the property and casualty insurance business.”

Hurricanes or other catastrophic events can significantly impact earnings for insurance carriers in Florida and other coastal states, depending on the strength of their reinsurance programs and partners and the level of net retention to which the carriers subscribe. This volatility and market dislocation was evident in Florida following Hurricane Andrew in 1992 and the 2004 and 2005 hurricane seasons (during which eight hurricanes made landfall in coastal states). Given the potential for significant personal property damage, the availability of homeowners insurance and claims servicing are vitally important to coastal states’ residents. The benefits of UVE’s reinsurance strategy in 2018 and the specific programs are further discussed below and in “Item 7—Management’s Discussion and Analysis of Financial Conditions and Results of Operations.”

Competition

The market for homeowners insurance is highly competitive. We compete with numerous private and publicly traded participants from Florida as well as large national carriers, some of which have subsidiaries with brand awareness that is distinctly separate from their parent brand and may have greater capital resources. See “Part I—Item 1A—Risk

Factors—Risks Relating to Our Business—Our future results are dependent in part on our ability to successfully operate in a highly competitive insurance industry.”

The personal residential homeowners insurance industry is strictly regulated. As a result, it is difficult for insurance companies to differentiate their products, which creates low barriers to entry (other than regulatory capital and other requirements) and results in a highly competitive market based largely on price and the customer experience. The nature, size and experience of our primary competitors varies across the states in which we do business.

Price

Pricing has generally been defined by “hard” and “soft” cyclical markets. Hard markets are those in which policy premiums are increasing (as a result of periods of capital shortages resulting in a lack of insurance availability, relatively low levels of price competition, and more selective underwriting of risks). Soft markets are those in which pricing has stabilized or is decreasing (as a result of periods of relatively high levels of price competition and less restrictive underwriting standards). Many factors influence the pricing environment, including, but not limited to, catastrophic events, loss experience, GDP growth/contraction, inflation, interest rates, primary insurance and reinsurance capacity and availability, share-of-wallet competition, litigious matters including assignment of benefits, technological advancements in distribution, underwriting, claims management and overall operational efficiencies, and the risk appetite of competitors.

Our successful track record in writing homeowners insurance in catastrophe-exposed areas has enabled us to develop sophisticated risk selection and pricing techniques that strive to identify desirable risks and accurately price the risk of loss while allowing us to be competitive in our target markets. This risk selection and pricing approach allows us to offer competitive products in areas that have a high demand for property insurance.

The premiums we charge are based on rates specific to individual risks and locations and are generally subject to regulatory review and approval before they are implemented. We periodically submit our rate revisions to regulators as required by law or as we deem necessary or appropriate for our business. The premiums we charge to policyholders are affected by legislative enactments and administrative rules, including state-mandated programs in Florida requiring residential property insurance companies like us to provide premium discounts when policyholders verify that insured properties have certain construction features or windstorm loss reduction features.

Customer Experience

Drivers of the customer experience include reliability and value, financial strength and ease-of-use. We strive to provide excellent reliability and value through the strength of our distribution networks, high-quality service to our policyholders and independent agents, our claims handling ability and product features tailored to our markets.

Our Insurance Entities, UPCIC and APPCIC, are both currently rated “A” (“Exceptional”) by Demotech, Inc. (“Demotech”), which is a rating agency specializing in evaluating the financial stability of insurers. In addition, our combined capital surplus was approximately $307.4 million at December 31, 2018.

The current trends in the industry in regards to ease-of-use suggest an increased focus on utilizing technology in the distribution channel, enabling technology and machine learning in the underwriting domain, as well as utilizing actionable intelligence in claims management services. We believe there is significant opportunity to improve the customer experience across all consumer touch points. We are committed to delivering solutions to enable the consumer to prepare, protect, recover and learn about insurance. We believe effective integration and knowledge transfer to the consumer will result in improved customer satisfaction and encourage consumer retention. In addition, UVE’s strong operating teams and streamlined in-house value-added services drive competitive rates and value to the end users. Our monthly weighted average renewal retention rate for the year ended December 31, 2018 was 88.4%.

Reinsurance

Reinsurance enables UVE’s Insurance Entities to limit potential exposures to catastrophic events. Reinsurance contracts are typically classified as treaty or facultative contracts. Treaty reinsurance provides coverage for all or a portion of a specified group or class of risks ceded by the primary insurer, while facultative reinsurance provides coverage for specific individual risks. Within each classification, reinsurance can be further classified as quota-share or excess. Quota-share reinsurance is where the primary insurer and the reinsurer share proportionally or pro-rata in the direct premiums and losses of the insurer. Excess reinsurance indemnifies the direct insurer or reinsurer for all or a portion of the loss in excess of an agreed upon amount or retention.

Developing and implementing our reinsurance strategy to adequately protect our balance sheet and Insurance Entities in the event of one or more catastrophes while maintaining efficient reinsurance costs has been a key strategic priority for UVE. For 2018, UVE utilized excess of loss reinsurance. The benefits of the reinsurance strategy in 2018 and the specific programs are further discussed in “Item 7—Management’s Discussion and Analysis of Financial Conditions and Results of Operations.” In recent years, the property and casualty insurance market has experienced a substantial increase in the availability of property catastrophe reinsurance resulting from the increased supply of capital from non-traditional reinsurance providers, including private capital and hedge funds. This increased capital supply has helped to mitigate upward pressure on reinsurance pricing following the recent significant catastrophic activity in Florida and elsewhere around the world.

In order to limit our potential exposure to catastrophic events, we purchase significant reinsurance from third-party reinsurers and the Florida Hurricane Catastrophe Fund (the “FHCF”). The FLOIR requires us, like all insurance companies doing business in Florida, to have a certain amount of capital and reinsurance coverage in order to cover losses upon the occurrence of a single catastrophic event and a series of catastrophic events occurring in the same hurricane season. Our 2018-2019 reinsurance program meets and provides reinsurance in excess of the FLOIR’s requirements, which are based on, among other things, the probable maximum loss that we would incur from an individual catastrophic event estimated to occur once in every 100 years based on our portfolio of insured risks and a series of stress test catastrophe loss scenarios based on past historical events. In respect to the single catastrophic event, the nature, severity and location of the event giving rise to such a probable maximum loss differs for each insurer depending on the insurer’s portfolio of insured risks, including, among other things, the geographic concentration of insured value within the insurer’s portfolio. Accordingly, a particular catastrophic event could be a one-in-100 year loss event for one insurance company while having a greater or lesser probability of occurrence for another insurance company.

We believe our retention under the reinsurance program is appropriate and structured to protect our customers. We test the sufficiency of our reinsurance program by subjecting our personal residential exposures to statistical testing using a third-party hurricane model, RMS RiskLink v17.0 (Build 1825). This model combines simulations of the natural occurrence patterns and characteristics of hurricanes, tornadoes, earthquakes and other catastrophes with information on property values, construction types and occupancy classes. The model outputs provide information concerning the potential for large losses before they occur, so companies can prepare for their financial impact. Furthermore, as part of our operational excellence initiatives, we continually look to enable new technology to refine our data intelligence on catastrophe risk modeling.

Seasonality

The nature of our business tends to be seasonal during the year, reflecting consumer behaviors in connection with the Florida residential real estate market and the hurricane season. The amount of direct premiums written tends to increase just prior to the second quarter and tends to decrease approaching the fourth quarter.

Government Regulation

We are subject to extensive regulation in the markets we serve, primarily at the state level, and will become subject to the regulations of additional states in which we seek to conduct business in the future. These regulations cover all aspects of our business and are generally designed to protect the interests of policyholders, as opposed to the interests of shareholders. Such regulations relate to authorized lines of business, capital and surplus requirements, allowable rates and forms, investment parameters, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, market conduct, maximum amount allowable for premium financing service charges and a variety of other financial and non-financial components of our business. See “Item 1A—Risk Factors—Risks Relating to the Insurance Industry—We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth and profitability.”

Examinations

As part of their regulatory oversight process, state insurance departments conduct periodic financial examinations of the books, records, accounts and operations of insurance companies that are authorized to transact business in their states. In general, insurance regulatory authorities defer to the insurance regulatory authority in the state in which an insurer is domiciled; however, insurance regulatory authorities in any state in which we operate may conduct examinations at their discretion. Under Florida law, the periodic financial examinations generally occur every five years, although the FLOIR or other states may conduct limited or full scope reviews more frequently. The financial examination reports are typically available to the public at the conclusion of the examination process. In addition, state insurance regulatory authorities may make inquiries, conduct investigations and administer market conduct examinations with respect to insurers’ compliance with applicable insurance laws and regulations. These inquiries or examinations may address, among other things, the form and content of disclosures to consumers, advertising, sales practices, claims practices and complaint handling. The reports arising from insurance authorities’ examination processes typically are available to the public at the conclusion of the examinations.

Insurance Holding Company Laws

UVE, as the ultimate parent company of the Insurance Entities, is subject to the insurance holding company laws of the State of Florida. These laws, among other things, (i) require us to file periodic information with the FLOIR, including information concerning our capital structure, ownership, financial condition and general business operations, (ii) regulate certain transactions between us and our affiliates, including the amount of dividends and other distributions, the terms of surplus notes and amounts that our affiliates can charge the Insurance Entities for services such as policy administration and claims administration, and (iii) restrict the ability of any one person to acquire certain levels of our voting securities without prior regulatory approval.

The Florida Insurance Code prohibits any person from acquiring control of the Insurance Entities or their holding companies unless that person has filed a notification with specified information with the FLOIR and has obtained the FLOIR's prior approval. Under the Florida Insurance Code, acquiring 10% or more of the voting securities of an insurance company or its parent company is presumptively considered an acquisition of control of the insurance company, although such presumption may be rebutted. Some state insurance laws require prior notification to state insurance regulators of an acquisition of control of a non-domiciliary insurance company doing business in that state. Insurance holding company regulations also govern the amount any affiliate of the holding company may charge insurance affiliates for services (e.g., claims adjustment, administration, management fees and commissions). Further, insurance holding company regulations may also require prior approval of insurance regulators for amendments to or terminations of certain affiliate agreements.

Florida holding company laws also require certain insurers annually to submit an Own Risk and Solvency Assessment, or ORSA, summary report to the FLOIR each year beginning in 2017, summarizing the insurer's evaluation of the adequacy of its risk management framework. In December 2017, the Company completed and filed its first ORSA summary report with FLOIR. The Company filed its most recent ORSA summary report in December 2018.

Capital Requirements

State insurance authorities monitor insurance companies' solvency and capital requirements using various statutory requirements and industry ratios. Initially, states require minimum capital levels based on the lines of business written by a company and set requirements regarding the ongoing amount and composition of capital. State regulators also require the deposit of state deposits in each state. See "Part II—Item 8—Note 5 (Insurance Operations)" for more information about state deposits. As a company grows, additional capital measures and standards may be implemented by a regulator. Regulatory authorities use a risk-based capital ("RBC") model published by the National Association of Insurance Commissioners ("NAIC") to monitor and regulate the solvency of licensed property and casualty insurance companies. These guidelines measure three major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss developments and inadequate pricing, (ii) declines in asset values arising from credit risk and (iii) other business risks. Most states, including Florida, have enacted the NAIC guidelines as statutory requirements, and insurers having less surplus than required by applicable statutes and ratios are subject to varying degrees of regulatory action depending on the level of capital inadequacy. As of December 31, 2018, the Insurance Entities' RBC ratios exceed applicable statutory requirements. See "Part I—Item 1A—Risk Factors—Risks Relating to the Insurance Industry—The amount of statutory capital and surplus that each of the Insurance Entities has and the amount of statutory capital and surplus it must hold can vary and are sensitive to a number of factors outside our control, including market conditions and the regulatory environment and rules."

Restrictions on Dividends and Distributions

As a holding company with no significant business operations of its own, UVE relies on dividend payments from its subsidiaries as its principal sources of cash to pay dividends, purchase UVE common shares and meet its obligations. Dividends paid by our subsidiaries other than the Insurance Entities are not subject to the statutory restrictions set forth in the Florida Insurance Code. However, insurance holding company regulations govern the amount that any affiliate within the holding company system may charge any of the Insurance Entities for services. See "Part I—Item 1A—Risk Factors—Risks Relating to the Insurance Industry—We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth." Dividends paid to our shareholders in 2018 were paid from the earnings of UVE and its subsidiaries. State insurance laws govern the payment of dividends by insurance companies. The maximum amount of dividends that can be paid by Florida insurance companies without prior approval of the Commissioner of the FLOIR is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid by the Insurance Entities to UVE without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or statutory unassigned surplus as of the preceding year end.

Underwriting and Marketing Restrictions

During the past several years, various regulatory and legislative bodies in Florida and in other states have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing. These regulations (i) restrict certain policy non-renewals or cancellations and require advance notice on certain policy non-renewals and (ii) from a practical standpoint, limit or delay rate changes for a specified period during or after a catastrophe event. Most states, including Florida, also have insurance laws requiring that rate schedules and other information be filed and approved by the insurance regulatory authority in advance of being implemented. The insurance regulatory authority may disapprove a rate filing if it finds that the proposed rates would be inadequate, excessive or unfairly discriminatory. Rates, which are not necessarily uniform for all insurers, vary by class of business, hazard covered and size of risk.

Most states, including Florida, require licensure or insurance regulatory authority approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company's business plan, solvency, reinsurance, character and experience of its officers and directors, rates, forms and other financial and non-financial aspects of a company. The insurance regulatory authorities may prohibit entry into a new market by not granting a license or by withholding approval for an insurer to write new lines of business. The Company is subject to comprehensive regulatory oversight, regulations and the payment of fees, premium taxes and assessments in order to maintain its licenses which includes periodic reporting to regulators and regulatory exams to assure the Company maintains compliance with statutory requirements.

Privacy and Information Security Regulation

Federal and state laws and regulations require financial institutions to protect the security and confidentiality of non-public personal information and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of customer information and their practices relating to protecting the security and confidentiality of that information. In late 2017, the NAIC issued a model law on cybersecurity, which is leading to adoption of the same or similar provisions in the states where we do business. In addition, some states have adopted, and others might adopt, cybersecurity regulations that differ from proposed model acts or from the laws enacted in other states. Federal and state lawmakers and regulatory bodies may be expected to consider additional or more detailed regulation regarding these subjects and the privacy and security of non-public personal information. See "Part I—Item 1A—Risk Factors—Risks Relating to Our Business—Breaches of our information systems or denial of service o our website could have an adverse impact on our business and reputation."

Statutory Insurance Organizations

Many states in which the Insurance Entities operate have statutorily-mandated insurance organizations or other insurance mechanisms in which the Insurance Entities are required to participate or to potentially pay assessments. Each state has insurance guaranty association laws providing for the payment of policyholders' claims when insurance companies doing business in that state become insolvent. These guaranty associations typically are funded by assessments on insurance companies transacting business in the respective states. When the Insurance Entities are subject to assessments they generally must remit the assessed amounts to the guaranty associations. The Insurance Entities subsequently seek to recover the assessed amounts through recoupments from policyholders. In the event the Insurance Entities are not able to fully recoup the amounts of those assessments, such unrecovered amounts can be credited against future assessments, or the remaining receivable may be written off. While we cannot predict the amount or timing of future guaranty association assessments, we believe that any such assessments will not have a material effect on our financial position or results of operations. See "Part I—Item 1A—Risk Factors—Risks Relating to the Insurance Industry—Regulations limiting rate changes and requiring us to participate in loss sharing or assessments may decrease our profitability."

Several states, including Florida, have insurance mechanisms that provide insurance to consumers who are not otherwise able to obtain coverage in the private insurance market. The largest such insurance mechanism is Florida's Citizens Property Insurance Corporation. The degree to which these state-authorized insurance mechanisms compete with private insurers such as the Insurance Entities varies over time depending on market and public policy considerations beyond our control. In addition, these insurance mechanisms often rely on assessments of insurers to cover any operating shortfalls.

FHCF is a state-sponsored entity in Florida that provides a layer of reinsurance protection at a price that is typically lower than what would otherwise be available in the third-party reinsurance market. The purpose of the FHCF is to protect and advance the state's interest in maintaining insurance capacity in Florida by providing reimbursements to insurers for a portion of their catastrophe hurricane losses. Most property and casualty insurers operating in Florida, including the Insurance Entities, are subject to assessment if the FHCF lacks sufficient claims-paying resources to meet its reimbursement obligations to insurers. FHCF assessments are added to policyholders' premiums and are collected and remitted by the Insurance Entities. In addition, all homeowner insurance companies that write business in Florida, including the Insurance Entities, are required to obtain a form of reinsurance through the FHCF. Currently, the FHCF provides $17 billion of aggregate capacity annually to its participating insurers, which may be adjusted by statute from time to time.

Employees

As of February 19, 2019, we had 734 full-time employees. None of our employees are represented by a labor union.

Available Information

UVE was incorporated in Delaware in 1990, with UPCIC becoming licensed in Florida in 1997. Our corporate headquarters are located in Fort Lauderdale, FL. Our investor website is https://Universal Insurance Holdings.com. Our annual reports on Form

10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments thereto, are available, free of charge, through our website as soon as reasonably practicable after their filing with the Securities and Exchange Commission ("SEC"). These filings are also available on the SEC's website at www.sec.gov.

ITEM 1A. RISK FACTORS

We are subject to a variety of risks, the most significant of which are described below. Our business, results of operations and financial condition could be materially and adversely affected by any of these risks or additional risks.

RISKS RELATING TO OUR BUSINESS

As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events.

Because of the exposure of our property and casualty business to catastrophic events, our operating results and financial condition may vary significantly from one period to the next, and historical results of operations may not be indicative of future results of operations. Property damage resulting from catastrophes is the greatest risk of loss we face in the ordinary course of our business. Catastrophes can be caused by various natural and man-made disasters, including hurricanes, wildfires, tornadoes, tropical storms, sinkholes, windstorms, hailstorms, explosions, earthquakes and acts of terrorism. Because of our concentration in Florida, and in particular in Broward, Palm Beach and Miami-Dade counties, we are exposed to hurricanes and windstorms, and other catastrophes affecting Florida. We may incur catastrophe losses in excess of those experienced in prior years; those estimated by catastrophe models we use; the average expected level used in pricing; and our current reinsurance coverage limits. We are also subject to claims arising from weather events such as rain, hail and high winds. The nature and level of catastrophes and the incidence and severity of weather conditions in any period cannot be predicted and could be material to our operations.

The loss estimates developed by the models we use are dependent upon assumptions or scenarios incorporated by a third-party developer and by us. However, if these assumptions or scenarios do not reflect the characteristics of future catastrophic events that affect areas covered by our policies or the resulting economic conditions, then we could have exposure for losses not covered by our reinsurance program, which could adversely affect our financial condition, profitability and results of operations. Further, although we use widely recognized and commercially available models to estimate hurricane loss exposure, other models exist that might produce higher or lower loss estimates. See "—The inherent uncertainty of models and our reliance on such models as a tool to evaluate risk may have an adverse effect on our financial results." Despite our catastrophe management programs, we retain material exposure to catastrophic events. Our liquidity could also be constrained by a catastrophe, or multiple catastrophes, which could have a negative impact on our business. Catastrophes may also negatively affect our ability to write new or renewal business. Catastrophic claim severity could be impacted by the effects of inflation and increases in insured value and factors such as the overall claims, legal and litigation environments in affected areas, in addition to the geographic concentration of insured property.

Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition.

We maintain loss reserves to cover our estimated ultimate liability for unpaid losses and LAE for reported and unreported claims incurred as of the end of each accounting period. The reserve for losses and LAE is reported net of receivables for subrogation. Recorded claim reserves in the property and casualty business are based on our best estimates of what the ultimate settlement and administration of claims will cost, both reported and incurred but not reported ("IBNR"). These estimates, which generally involve actuarial projections, are based on management's assessment of known facts and circumstances, including our experience with similar cases, actual claims paid, historical trends involving claim payment patterns, pending levels of unpaid claims and contractual terms. External factors are also considered, which include but are not limited to changes in the law, court decisions, changes to regulatory requirements, economic conditions and consumer behavior. Many of these factors are not quantifiable and are subject to change over time.

Additionally, there may be a significant reporting lag between the occurrence of an event and the time it is reported to us. The inherent uncertainties of estimating reserves are greater for certain types of liabilities, particularly those in which the various considerations affecting the type of claim are subject to change and in which long periods of time may elapse before a definitive determination of liability is made. We continually refine reserve estimates as experience develops, and subsequent claims are reported and settled. Adjustments to reserves are reflected in the financial statement results of the periods in which such estimates are changed. Because setting reserves is inherently uncertain and claims conditions may change over time, the ultimate cost of losses may vary materially from recorded reserves, and such variance may adversely affect our operating results and financial condition.

Subrogation is a significant component of our total net reserves for losses and LAE. Starting in 2016, there has been a significant increase in our efforts to pursue subrogation against third parties responsible for property damage losses to our insureds. Our ability to recover these amounts is subject to significant uncertainty, including risks inherent in litigation and in the collectability of recorded amounts.

Our success depends in part on our ability to accurately and adequately price the risks we underwrite.

Our results of operations and financial condition depend on our ability to underwrite and set premium rates accurately for a variety of risks. Rate adequacy is necessary to generate sufficient premiums to pay losses, LAE, reinsurance costs and underwriting expenses and to earn a profit. In order to price our products accurately and adequately, we must collect and properly analyze a substantial amount of data; develop, test and apply appropriate rating formulas; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy. Our ability to price our products accurately and adequately is subject to a number of risks and uncertainties, some of which are outside our control, including:

- the availability of sufficient and reliable data;
- regulatory review periods or delays in approving filed rate changes or our failure to gain regulatory approval;
- the uncertainties that inherently underlie estimates and assumptions;
- changes in legal standards, claim resolution practices and restoration costs; and
- legislatively imposed consumer initiatives.

In addition, we could underprice risks, which would negatively affect our profit margins and result in significant underwriting losses. We could also overprice risks, which could reduce the number of policies we write and our competitiveness. In either event, our profitability could be materially and adversely affected. If our policies are overpriced or underpriced by geographic area, policy type or other characteristics, we also might not be able to achieve desirable diversification in our risks.

Unanticipated increases in the severity or frequency of claims may adversely affect our profitability and financial condition.

Changes in the severity or frequency of claims may affect our profitability. Changes in homeowners' claim severity can be driven by inflation in the construction industry, in building materials and in home furnishings and by other economic and environmental factors, including increased demand for services and supplies in areas affected by catastrophes, market conditions and prevailing attitudes towards insurers and the claims process, including increases in the number of litigated claims or claims involving representation. However, changes in the level of the severity of claims are not limited to the effects of inflation and demand surge in these various sectors of the economy. Increases in claim severity can also arise from unexpected events that are inherently difficult to predict. A significant long-term increase in claim frequency could have an adverse effect on our operating results and financial condition. Further, the level of claim frequency we experience may vary from period to period, or from region to region, and may not be sustainable over the longer term. Although we pursue various loss management initiatives in order to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity.

The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations.

We utilize a number of strategies to mitigate our risk exposure, such as:

- engaging in rigorous underwriting;
- carefully evaluating terms and conditions of our policies and binding guidelines; and
- ceding risk to reinsurers.

However, there are inherent limitations in all of these strategies, and no assurance can be given that an event or series of events will not result in loss levels in excess of our probable maximum loss models, or that our non-catastrophe forecasts or modeling is accurate, which could have a material adverse effect on our financial condition or results of operations. It is also possible that losses could manifest themselves in ways that we do not anticipate and that our risk mitigation strategies are not designed to address. Such a manifestation of losses could have a material adverse effect on our financial condition and results of operations.

Because we rely on independent insurance agents, the loss of these independent agent relationships and the business they control or our ability to attract new independent agents could have an adverse impact on our business.

We currently market our policies to a broad range of prospective policyholders through approximately 4,300 independent insurance agents in Florida as well as approximately 5,000 independent insurance agents outside of Florida. As a result, our business depends on the marketing efforts of these independent agents and on our ability to offer products and services that meet their and their customers' requirements. These independent insurance agents maintain the primary customer relationship. Independent agents typically represent other insurance companies in addition to representing us, and such agents are not obligated to sell or promote our products. Other insurance companies may pay higher commissions than we do, provide services to the agents that we do not provide, or may be more attractive to the agents than we are. We cannot provide assurance that we will retain our current relationships, or be able to establish new relationships, with independent agents. The loss of these marketing relationships could adversely affect our ability to attract new agents, retain our agency network, or write new or renewal insurance policies, which could materially adversely affect our business, financial condition and results of operations.

The inherent uncertainty of models and our reliance on such models as a tool to evaluate risk may have an adverse effect on our financial results.

Along with other insurers in the industry, we use models developed by third-party vendors in assessing our exposure to catastrophe losses, and these models assume various conditions and probability scenarios, most of which are not known to us or are not within our control. These models may not accurately predict future losses or accurately measure losses incurred. Catastrophe models, which have been evolving since the early 1990s, use historical information about various catastrophes, detailed information about our in-force business and certain assumptions or judgments that are proprietary to the modeling firms. While we use this information in connection with our pricing and risk management activities, there are limitations with respect to their usefulness in predicting losses in any reporting period. Examples of these limitations are significant variations in estimates between models and modelers and material increases and decreases in model results due to changes and refinements of the underlying data elements and assumptions. Such limitations lead to questionable predictive capability and post-event measurements that have not been well understood or proven to be sufficiently reliable. In addition, the models are not necessarily reflective of company or state-specific policy language, demand surge for labor and materials, consumer behavior, prevailing or changing claims, legal and litigation environments, or loss settlement expenses, all of which are subject to wide variation by catastrophe.

Reinsurance may be unavailable in the future at current levels and prices, which may limit our ability to write new business or to adequately mitigate our exposure to loss.

Our reinsurance program is designed to mitigate our exposure to catastrophes. Market conditions beyond our control determine the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same or similar terms and rates as are currently available. In addition, our ability to afford reinsurance to reduce our catastrophe risk may be dependent upon our ability to adjust premium rates for our costs, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available next year or that we will be able to adjust our premiums. The Insurance Entities are responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by our reinsurance program and the FHCF, and for losses that otherwise are not covered by the reinsurance program. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our exposure risk, reduce our insurance writings, seek rate adjustments at levels that might not be approved or might adversely affect policy retention, or develop or seek other alternatives, which could have an adverse effect on our profitability and results of operations.

Reinsurance subjects us to the credit risk of our reinsurers, which could have a material adverse effect on our operating results and financial condition.

Reinsurance does not legally discharge us from our primary liability for the full amount of the risk we insure, although it does make the reinsurer liable to us in the event of a claim. As such, we are subject to credit risk with respect to our reinsurers. The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including (i) our reinsurers' financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract or (ii) whether insured losses meet the qualifying conditions and are recoverable under our reinsurance contracts for covered events or are excluded. Further, if a reinsurer fails to pay an amount due to us within 90 days of such amount coming due, we are required by certain accounting rules to account for a portion of this unpaid amount as a non-admitted asset, which would negatively impact our statutory surplus. Our inability to collect a material recovery from a reinsurer, or to collect such recovery in a timely fashion, could have a material adverse effect on our operating results, financial condition, liquidity and surplus.

Our financial condition and operating results and the financial condition and operating results of our Insurance Entities may be adversely affected by the cyclical nature of the property and casualty insurance business.

The property and casualty insurance market is cyclical and has experienced periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. As premium levels increase, and competitors perceive an increased opportunity for profitability, there may be new entrants to the market or expansion by existing participants, which could then lead to increased competition, a reduction in premium rates, less favorable policy terms and fewer opportunities to underwrite insurance risks. This could have a material adverse effect on our results of operations and cash flows. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers, including changes resulting from multiple and/or catastrophic hurricanes, may affect the cycles of the property and casualty insurance business significantly. Negative market conditions may impair our ability to write insurance at rates that we consider adequate and appropriate relative to the risk written. If we cannot write insurance at appropriate rates, our business would be materially and adversely affected. We cannot predict whether market conditions will improve, remain constant or deteriorate. An extended period of negative market conditions could have a material adverse effect on our business, financial condition and results of operations.

Because we conduct the substantial majority of our business in Florida, our financial results depend on the regulatory, economic and weather conditions in Florida.

Though we are licensed to transact insurance business in other states, we write a substantial majority of our premium in Florida. Therefore, prevailing regulatory, consumer behavior, legal, economic, political, demographic, competitive, weather and other conditions in Florida disproportionately affect our revenues and profitability. Changes in conditions could make doing business in Florida less attractive for us and would have a more pronounced effect on us than it would on other insurance companies that are more geographically diversified throughout the United States. Further, a single catastrophic event, or a series of such events, specifically affecting Florida, particularly in the more densely populated areas of the state, could have a disproportionately adverse impact on our business, financial condition and results of operations. This is particularly true in certain Florida counties where we write a high concentration of policies. We currently have a large concentration of in-force policies written in the coastal counties of Broward, Palm Beach and Miami-Dade such that a catastrophic event, or series of catastrophic events, in these counties could have a significant impact on our business, financial condition and results of operations. While we actively manage our exposure to catastrophic events through our underwriting process and the purchase of reinsurance, the fact that our business is concentrated in Florida subjects us to increased exposure to certain catastrophic events and destructive weather patterns such as hurricanes, tropical storms and tornadoes.

Changing climate conditions may adversely affect our financial condition, profitability or cash flows.

Although the incidence and severity of weather conditions are largely unpredictable, the frequency and severity of property claims generally increase when severe weather conditions occur. Longer-term weather trends may be changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures, including effects on global weather patterns, greenhouse gases, sea, land and air temperature, sea levels, rain and snow. The science regarding climate change and how it may impact weather patterns or events is still emerging and developing. However, to the extent the frequency or severity of weather events is exacerbated due to climate change, we may experience increases in catastrophe losses in both coastal and non-coastal areas. This may cause an increase in claims-related and/or reinsurance costs or may negatively affect our ability to provide homeowners insurance to our policyholders in the future. Governmental entities may also respond to climate change by enacting laws and regulations that may adversely affect our cost of providing homeowners insurance in the future.

We have entered new markets and may continue to do so, but there can be no assurance that our diversification and growth strategy will be effective.

We seek to take advantage of prudent opportunities to expand our core business into other states where we believe the independent agent distribution channel is strong. As a result of a number of factors, including the difficulties of finding appropriate expansion opportunities and the challenges of operating in an unfamiliar market, we may not be successful in this diversification even after investing significant time and resources to develop and market products and services in additional states. Initial timetables for expansion may not be achieved, and price and profitability targets may not be feasible. Because our business and experience are based substantially on the Florida insurance market, we may not understand all of the risks associated with entering into an unfamiliar market. For example, the occurrence of significant winter storms in certain states we have expanded into may limit the effectiveness of our revenue and risk diversification strategy by decreasing revenue we expected to receive outside of the Florida hurricane season or increasing our overall risk in ways we had not anticipated when entering those markets. This inexperience could affect our ability to price risks adequately and develop effective underwriting standards. External factors, such as compliance with state regulations, obtaining new licenses, competitive alternatives and shifting customer preferences, may also affect the successful implementation of our geographic growth strategy. Such external factors and requirements may increase our costs and potentially affect the speed with which we will be able to pursue new market opportunities. There can be no assurance that we will be successful in expanding into any one state or combination of states. Failure to manage these risks successfully could have a material adverse effect on our business, results of operations and financial condition.

Our success depends, in part, on our ability to attract and retain talented employees, and the loss of any one of our key personnel could adversely impact our operations.

The success of our business depends, in part, on the leadership and performance of our executive management team and key employees. Our ability to attract, retain and motivate talented employees. An absence of the leadership and performance of the executive management team or our inability to retain talented employees could significantly impact our future performance. Competition for these individuals is intense and our ability to successfully operate may be impaired if we are not effective in filling critical leadership positions, in developing the talent and skills of our human resources, in assimilating new executive talent into our organization, or in deploying human resource talent consistent with our business goals.

We could be adversely affected if our controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective.

Our business is highly dependent on the ability to engage on a daily basis in a large number of insurance underwriting, claims processing and investment activities, many of which are highly complex, must be performed expeditiously and may involve opportunities for human judgment and errors. These activities often are subject to internal guidelines and policies, as well as legal and regulatory standards. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. Our failure to comply with these guidelines, policies or standards could lead to financial loss, unanticipated risk exposure, regulatory sanctions or penalties, civil or administrative litigation, or damage to our reputation.

The failure of our claims professionals to effectively manage claims could adversely affect our insurance business and financial results.

We rely primarily on our claims professionals to facilitate and oversee the claims adjustment process for our policyholders. Many factors could affect the ability of our claims professionals to effectively manage claims by our policyholders, including:

- the accuracy of our adjusters as they make their assessments and submit their estimates of damages;
- the training, background and experience of our claims representatives;
- the ability of our claims professionals to ensure consistent claims handling;
- the ability of our claims professionals to translate the information provided by adjusters into acceptable claims resolutions; and
- the ability of our claims professionals to maintain and update its claims handling procedures and systems as they evolve over time based on claims and geographical trends in claims reporting as well as consumer behaviors affecting claims handling.

Any failure to effectively manage the claims adjustment process, including failure to pay claims accurately and failure to oversee third-party claims adjusters, could lead to material litigation, regulatory penalties or sanctions, undermine our reputation in the marketplace and with our network of independent agents, impair our corporate image and negatively affect our financial results.

Litigation or regulatory actions could have a material adverse impact on us.

From time to time, we are subject to civil or administrative actions and litigation. Although we strive to pay meritorious claims in a fair and prompt manner, civil litigation can result when we do not pay insurance claims in the amounts or at the times asserted to have been required by policyholders or their representatives. We also may be subject to litigation or administrative actions arising from the conduct of our business and the regulatory authority of state insurance departments. Further, we are subject to other types of litigation inherent in operating our businesses, employing personnel, contracting with vendors and otherwise carrying out our affairs. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may arise, including judicial expansion of policy coverage and the impact of new theories of liability, plaintiffs targeting property and casualty insurers in purported class-action litigation relating to claims-handling and other practices, and adverse changes in loss cost trends, including inflationary pressures in home repair costs or other legal or regulatory conditions incentivizing increases in disputed or litigated claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. Current and future litigation or regulatory matters may negatively affect us by resulting in the payment of substantial awards or settlements, increasing legal and compliance costs, requiring us to change certain aspects of our business operations, diverting management attention from other business issues, harming our reputation with agents and customers or making it more difficult to retain current customers and to recruit and retain employees or agents.

Our future results are dependent in part on our ability to successfully operate in a highly competitive insurance industry.

The property and casualty insurance industry is highly competitive. We compete against large national carriers that have greater capital resources and longer operating histories, regional carriers and managing general agencies, as well as newly formed and less-capitalized companies that might have more aggressive underwriting or pricing strategies. Many of these entities may also be affiliated with other entities that have greater financial and other resources than we have. Competitors may attempt to increase market share by lowering rates. In that case, we would experience reductions in our underwriting margins, or sales of our insurance policies could decline as customers purchase lower-priced products from our competitors. Because of the competitive nature of the insurance industry, including competition for producers such as independent agents, there can be no assurance that we will continue to develop and maintain productive relationships with independent agents, effectively compete with our industry rivals, or that competitive pressures will not have a material adverse effect on our business, operating results or financial condition.

A downgrade in our Financial Stability Rating® may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition.

Financial Stability Ratings® and similar ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; a change in the perceived adequacy of an insurer's reinsurance program; an increase in the perceived risk of an insurer's investment portfolio; a reduced confidence in management or a host of other considerations that may or may not be within an insurer's knowledge or control. Demotech has assigned a Financial Stability Rating® of A for each Insurance Entity. Because these ratings are subject to continuous review, the retention of these ratings cannot be assured. A downgrade in or withdrawal of these ratings, or a decision by Demotech to require us to make a capital infusion into the Insurance Entities to maintain their ratings, may adversely affect our liquidity, operating results and financial condition. In addition, our failure to maintain a financial strength rating acceptable in the secondary mortgage market would adversely affect our ability to write new and renewal business. Financial Stability Ratings® are primarily directed towards policyholders of the Insurance Entities, and are not evaluations directed toward the protection of our shareholders, and are not recommendations to buy, sell or hold securities.

Breaches of our information systems or denial of service on our website could have an adverse impact on our business and reputation.

Our ability to effectively operate our business depends on our ability, and the ability of certain third-party vendors and business partners, to access our computer systems to perform necessary business functions, such as providing quotes and product pricing, billing and processing premiums, administering claims and reporting our financial results. Our business and operations rely on the secure and efficient processing, storage and transmission of customer and company data, including policyholders' personally identifiable information and proprietary business information, on our computer systems and networks. There have been several highly publicized cases involving financial services companies, consumer-based companies and other companies, as well as governmental and political organizations, reporting breaches in the security of their websites, networks or other systems. Some of the publicized breaches have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, including through the introduction of computer viruses or malware, cyberattacks and other means. There have also been several highly publicized cases where hackers have requested "ransom" payments in exchange for not disclosing customer information. Other publicized breaches have involved human error, such as employees falling victim to phishing schemes.

Our computer systems may be vulnerable to unauthorized access and hackers, computer viruses and other scenarios in which our data may be compromised. Cyberattacks can originate from a variety of sources, including third parties who are affiliated with foreign governments or employees acting negligently or in a manner adverse to our interests. Third parties may seek to gain access to our systems either directly or using equipment or security passwords belonging to employees, customers, third-party service providers or other users of our systems.

Our computer systems have been, and likely will continue to be, subject to computer viruses, other malicious codes or other computer-related penetrations. To date, we are not aware of a material breach of cybersecurity. We commit significant resources to administrative and technical controls to prevent cyber incidents and protect our information technology, but our preventative actions to reduce the risk of cyber threats may be insufficient to prevent physical and electronic break-ins and other cyberattacks or security breaches, including those due to human vulnerabilities. Any such event could damage our computers or systems; compromise our confidential information as well as that of our customers and third parties with whom we interact; significantly impede or interrupt business operations, including denial of service on our website; and could result in violations of applicable privacy and other laws, financial loss to us or to our policyholders, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure and reputational harm, all of which could have a material adverse effect on us. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities, exposures, or information security events. Due to the complexity and interconnectedness of our systems, the process of enhancing our protective measures can itself create a risk of systems disruptions and security issues.

The increase in the use of cloud technologies and in consumer preference for online transactions can heighten these and other operational risks. Certain aspects of the security of such technologies are unpredictable or beyond our control, and this lack of transparency may inhibit our ability to discover a failure by cloud service providers to adequately safeguard their systems and prevent cyberattacks that could disrupt our operations and result in misappropriation, corruption or loss of confidential and other information. In addition, there is a risk that encryption and other protective measures, despite their sophistication, may be defeated, particularly to the extent that new computing technologies vastly increase the speed and computing power available.

In addition, any data security breach of our independent agents or third-party vendors could harm our business and reputation.

We may not be able to effectively implement or adapt to changes in technology.

Developments in technology are affecting the insurance business. We believe that the development and implementation of new technologies will require additional investment of our capital resources in the future, and it is possible that we may not be able to effectively implement or adapt to new technologies. We have not determined the amount of resources and the time that this development and implementation may require, which may result in short-term, unexpected interruptions to our business, or may result in a competitive disadvantage in price and/or efficiency, as we endeavor to develop or implement new technologies.

Lack of effectiveness of exclusions and other loss limitation methods in the insurance policies we write could have a material adverse effect on our financial condition or our results of operations.

Many of the policies we issue include exclusions or other conditions that define and limit coverage, which exclusions and conditions are designed to manage our exposure to certain types of risks and expanding theories of legal liability. In addition, our policies and applicable law limit the period during which a policyholder may bring a claim under the policy. It is possible that a court or regulatory authority could nullify or void an exclusion or limitation or interpret existing coverages more broadly than we anticipate, or that legislation could be enacted modifying or barring the use of these exclusions or limitations. This could result in higher than anticipated losses and LAE by extending coverage beyond our underwriting intent or increasing the number or size of claims, which could have a material adverse effect on our operating results. In some instances, these changes may not become apparent until sometime after we have issued the insurance policies that are affected by the change. As a result, the full extent of liability under our insurance contracts may not be known for many years after a policy is issued.

RISKS RELATING TO INVESTMENTS

We are subject to market risk, which may adversely affect investment income.

Our primary market risk exposures are changes in equity prices and interest rates, which impact our investment income and returns. A decline in market interest rates could have an adverse effect on our investment income as we invest cash in new interest-bearing investments that may yield less than our portfolio’s average rate of return. A decline in market interest rates could also lead us to purchase longer-term or riskier assets in order to obtain adequate investment yields resulting in a duration gap when compared to the duration of liabilities. An increase in market interest rates could also have an adverse effect on the value of our investment portfolio by decreasing the fair values of the available-for-sale debt securities that comprise a large portion of our investment portfolio. Similarly, a decline in the equities markets could adversely affect our existing portfolio. Increases in the equities markets might increase returns on our existing portfolio but could reduce the attractiveness of future investments.

Our overall financial performance is dependent in part on the returns on our investment portfolio.

The performance of our investment portfolio is independent of the revenue and income generated from our insurance operations, and there is typically no direct correlation between the financial results of these two activities. Thus, to the extent that our investment portfolio does not perform well due to the factors discussed above or otherwise, our results of operations may be materially adversely affected even if our insurance operations perform favorably. Further, because the returns on our investment portfolio could be volatile, our overall results of operations could likewise be volatile from period to period even if we do not experience significant financial variances in our insurance operations.

RISKS RELATING TO THE INSURANCE INDUSTRY

We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth and profitability.

The laws and regulations affecting the insurance industry are complex and subject to change. Compliance with these laws and regulations may increase the costs of running our business and may even slow our ability to respond effectively and quickly to operational opportunities. Moreover, these laws and regulations are administered and enforced by a number of different governmental authorities, including state insurance regulators, the U.S. Department of Justice, and state attorneys general, each of which exercises a degree of interpretive latitude. Consequently, we are also subject to the risk that compliance with any particular regulator’s or enforcement authority’s interpretation of a legal issue may not result in compliance with another’s interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator’s or enforcement authority’s interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow and achieve or improve the profitability of our business. Furthermore, in some cases, these laws and regulations are designed to protect or benefit the interests of a specific constituency rather than a range of constituencies. For example, state insurance laws and regulations are generally intended to protect or benefit purchasers or users of insurance products, and not shareholders. In many respects, these laws and regulations limit our ability to grow and improve the profitability of our business or effectively respond to changing market conditions, and may place constraints on our ability to meet our revenue and net profit goals.

The Insurance Entities are highly regulated by state insurance authorities in Florida, the state in which each is domiciled, and UPCIC is also regulated by state insurance authorities in the other states in which it conducts business. Such regulations, among other things, require that certain transactions between the Insurance Entities and their affiliates must be fair and reasonable and require prior notice and non-disapproval of such transactions by the applicable state insurance authority. State regulations also limit the amount of dividends and other payments that can be made by the Insurance Entities without prior regulatory approval and impose restrictions on the amount and type of investments the Insurance Entities may have. Other state regulations require insurance companies to file insurance premium rate schedules and policy forms for review and approval, restrict our ability to cancel or non-renew policies and determine the accounting standards we use in preparation of our consolidated financial statements. These regulations also affect many other aspects of the Insurance Entities’ businesses. Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance efforts and other expenses of doing business. If the Insurance Entities fail to comply with applicable regulatory requirements, the regulatory agencies can revoke or suspend the Insurance Entities’ licenses, withhold required approvals, require corrective action, impose operating limitations, impose penalties and fines or pursue other remedies available under applicable laws and regulations.

Regulatory authorities have relatively broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us. This could adversely affect our ability to operate our business both directly and potentially indirectly through reputational damage.

State legislatures and insurance regulators regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, can be made for the benefit of the consumer, or for other reasons, at the expense of insurers, and thus could have an adverse effect on our financial condition and results of operations.

Over the course of many years, the state insurance regulatory framework has come under public scrutiny and members of Congress have discussed proposals to provide for federal chartering of insurance companies. We can make no assurances regarding the potential impact of state or federal measures that may change the nature or scope of insurance regulation.

UVE is a holding company and, consequently, its cash flow is dependent on dividends and other permissible payments from its subsidiaries.

UVE is a holding company that conducts no insurance operations of its own. All operations are conducted by the Insurance Entities and by other operating subsidiaries, most of which support the business of the Insurance Entities. As a holding company, UVE's sources of cash flow consist primarily of dividends and other permissible payments from its subsidiaries. The ability of our non-insurance company subsidiaries to pay dividends may be adversely affected by reductions in the premiums or number of policies written by the Insurance Entities, by changes in the terms of the parties' contracts, or by changes in the regulation of insurance holding company systems. UVE depends on such payments for general corporate purposes, for its capital management activities and for payment of any dividends to its common shareholders. The ability of the Insurance Entities to make such payments is limited by applicable law, as set forth in "Item 1—Business—Government Regulation—Restrictions on Dividends and Distributions." For more details on our cash flows, see "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Regulations limiting rate changes and requiring us to participate in loss sharing or assessments may decrease our profitability.

From time to time, public policy preferences and perceptions affect the insurance market, including insurers' efforts to effectively maintain rates that allow us to reach targeted levels of rate adequacy and profitability. Despite efforts to address rate needs and other operational issues analytically, facts and history demonstrate that public policymakers, when faced with untoward events and adverse public sentiment, can act in ways that impede a satisfactory correlation between rates and risk. Such acts may affect our ability to obtain approval for rate changes that may be required to attain rate adequacy along with targeted levels of profitability and returns on equity. Our ability to afford reinsurance required to reduce our catastrophe risk also may be dependent upon the ability to adjust rates for our cost.

Additionally, we are required to participate in guaranty funds for insolvent insurance companies and other statutory insurance entities. The guaranty funds and other statutory entities periodically levy assessments against all applicable insurance companies doing business in the state and the amounts and timing of those assessments are unpredictable. Although we seek to recoup these assessments from our policyholders, we might not be able to fully do so and at any point in time or for any period, our operating results and financial condition could be adversely affected by any of these factors.

The amount of statutory capital and surplus that each of the Insurance Entities has and the amount of statutory capital and surplus it must hold can vary and are sensitive to a number of factors outside of our control, including market conditions and the regulatory environment and rules.

The Insurance Entities are subject to RBC standards and other minimum capital and surplus requirements imposed under applicable state laws. The RBC standards, based upon the Risk-Based Capital Model Act adopted by the NAIC, require us to report our results of RBC calculations to the FLOIR and the NAIC. These RBC standards provide for different levels of regulatory attention depending upon the ratio of an insurance company's total adjusted capital, as calculated in accordance with NAIC guidelines, to its authorized control level RBC. Authorized control level RBC is determined using the NAIC's RBC formula, which measures the minimum amount of capital that an insurance company needs to support its overall business operations.

An insurance company with total adjusted capital that (i) is at less than 200% of its authorized control level RBC, or (ii) falls below 300% of its RBC requirement and also fails a trend test, is deemed to be at a "company action level," which would require the insurance company to file a plan that, among other things, contains proposals of corrective actions the company intends to take that are reasonably expected to result in the elimination of the company action level event. Additional action level events occur when the insurer's total adjusted capital falls below 150%, 100%, and 70% of its authorized control level RBC. The lower the percentage, the more severe the regulatory response, including, in the event of a mandatory control level event (total adjusted capital falls below 70% of the insurer's authorized control level RBC), placing the insurance company into receivership.

In addition, the Insurance Entities are required to maintain certain minimum capital and surplus and to limit premiums written to specified multiples of capital and surplus. Our Insurance Entities could exceed these ratios if their volume increases faster than anticipated or if their surplus declines due to catastrophe or non-catastrophe losses or excessive underwriting and operational expenses.

Any failure by the Insurance Entities to meet the applicable RBC or minimum statutory capital requirements imposed by the laws of Florida (or other states where we currently or may eventually conduct business) could subject them to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision or liquidation, which could have a material adverse impact on our reputation and financial condition. Any such failure also could adversely affect our Financial Stability Ratings®.

Any changes in existing RBC requirements, minimum statutory capital requirements, or applicable writings ratios may require us to increase our statutory capital levels, which we may be unable to do, or require us to reduce the amount of premiums we write, which could adversely affect our business and our operating results.

Our Insurance Entities are subject to examination and actions by state insurance departments.

The Insurance Entities are subject to extensive regulation in the states in which they do business. State insurance regulatory agencies conduct periodic examinations of the Insurance Entities on a wide variety of matters, including policy forms, premium rates, licensing, trade and claims practices, investment standards and practices, statutory capital and surplus requirements, reserve and loss ratio requirements and transactions among affiliates. Further, the Insurance Entities are required to file quarterly, annual and other reports with state insurance regulatory agencies relating to financial condition, holding company issues and other matters. If an insurance company fails to obtain required licenses or approvals, or if the Insurance Entities fail to comply with other regulatory requirements, the regulatory agencies can suspend or revoke their licenses, withdraw or withhold required approvals, require corrective action and impose operating limitations, penalties or other remedies available under applicable laws and regulations. See “Item 1—Business—Government Regulation.”

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We conduct our operations primarily from our company-owned campus located at 1110 West Commercial Boulevard, Fort Lauderdale, Florida 33309, which contains approximately 68,500 square feet of office space. The facilities on our campus are suitable and adequate for our operations.

There are no mortgages or lease arrangements for the buildings on our campus and all are adequately covered by insurance.

ITEM 3. LEGAL PROCEEDINGS

Lawsuits are filed against the Company from time to time. Many of these lawsuits involve claims under policies that we underwrite and reserve for as an insurer. We are also involved in various other legal proceedings and litigation unrelated to claims under our policies that arise in the ordinary course of business operations. Management believes that any liabilities that may arise as a result of these legal matters will not have a material adverse effect on our financial condition or results of operations. The Company contests liability and/or the amount of damages as appropriate in each pending matter.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for legal matters when those matters present loss contingencies that are both probable and estimable.

Legal proceedings are subject to many uncertain factors that generally cannot be predicted with assurance, and the Company may be exposed to losses in excess of any amounts accrued. The Company currently estimates that the reasonably possible losses for legal proceedings, whether in excess of a related accrued liability or where there is no accrued liability, and for which the Company is able to estimate a possible loss, are immaterial. This represents management’s estimate of possible loss with respect to these matters and is based on currently available information. These estimates of possible loss do not represent our maximum loss exposure, and actual results may vary significantly from current estimates.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock, par value $0.01 per share, is quoted and traded on the New York Stock Exchange ("NYSE") under the symbol "UVE." As of February 15, 2019, there were 32 registered shareholders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

As of December 31, 2018 and 2017, there was one shareholder of our Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock"). We declared and paid aggregate dividends to this holder of record of the company's Series A Preferred Stock of $10,000 for each of the years ended December 31, 2018 and 2017.

Stock Performance Graph

The following graph and table compare the cumulative total stockholder return of our common stock from December 31, 2013 through December 31, 2018 with the performance of: (i) Standard & Poor's ("S&P") 500 Index, (ii) Russell 2000 Index and (iii) S&P Insurance Select Industry Index. We are a constituent of the Russell 2000 Index and it provides an appropriate small and mid-cap benchmark index. The S&P Insurance Select Industry Index consists of all publicly traded insurance underwriters in the property and casualty sector in the United States.

	Period Ended				
Index	**12/31/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**
Universal Insurance Holdings, Inc.	$146.57	$170.75	$216.03	$214.13	$302.86
S&P 500 Index	113.69	115.26	129.05	157.22	150.33
Russell 2000 Index	104.89	100.26	121.63	139.44	124.09
S&P Insurance Select Industry Index	108.01	114.91	139.97	158.57	149.74

We have generated these comparisons using data supplied by S&P Global Market Intelligence (Centennial, Colorado). The graph and table assume an investment of $100 in our common stock and in each of the three indices on December 31, 2013 with all dividends being reinvested on the ex-dividend date. The closing price of our common stock as of December 31, 2018 (the last trading day of the year) was $37.92 per share. The stock price performance in the graph and table are not intended to forecast the future performance of our stock and may not be indicative of future price performance.

The stock prices used to calculate total shareholder return for UVE are based upon the prices of our common shares quoted and traded on NYSE.

We believe that the increase in stock price and increase in the total return performance relative to other indices is generally attributable to the changes made in the Company's executive leadership in the first quarter of 2013, which has led to an increase in our profitability, as well as to our focus on long-term capital growth and strategic initiatives intended to increase shareholder value such as share repurchases and increasing cash dividends per share over that time frame. Other contributing factors may include moving to the NYSE, obtaining greater analyst coverage and engaging a leading global investment adviser to manage our investment portfolio, greater awareness of the benefits of our vertically integrated structure under harsh conditions, among other factors.

Dividend Policy

Future cash dividend payments are subject to business conditions, our financial position and requirements for working capital and other corporate purposes. Subject to these qualifications, we expect to continue our regular practice of paying a quarterly dividend to our stockholders. Applicable provisions of the Delaware General Corporation Law may affect our ability to declare and pay dividends on our common stock. In particular, pursuant to the Delaware General Corporation Law, a company may pay dividends out of its surplus, as defined, or out of its net profits, for the fiscal year in which the dividend is declared and/or the preceding year. Surplus is defined in the Delaware General Corporation Law to be the excess of net assets of the company over capital. Capital is defined to be the aggregate par value of shares issued. See "Part I-Restrictions on Dividends and Distributions," "Item 1A-Risk Factors-Risks Relating to Insurance Industry" and "Part II, Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations."

Unregistered Sales of Equity Securities and Use of Proceeds

The table below presents our common stock repurchased by UVE during the three months ended December 31, 2018.

	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
10/1/2018 - 10/31/2018	55,924	$41.94	55,924	—
11/1/2018 - 11/30/2018	67,816	$42.64	67,816	—
12/1/2018 - 12/31/2018	222,200	$40.10	222,200	382,846
Total for the three months ended December 31, 2018	345,940	$40.90	345,940	382,846

(1) Average price paid per share does not reflect brokerage commissions paid to acquire shares in open market transactions.

(2) Number of shares was calculated using a closing price at December 31, 2018 of $37.92 per share.

We may repurchase shares from time to time at our discretion, based on ongoing assessments of our capital needs, the market price of our common stock and general market conditions. We will fund the share repurchase program with cash from operations. During 2018, there were two authorized repurchase plans in effect:

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On September 5, 2017, our Board of Directors authorized the repurchase of up to $20 million of our outstanding common stock through December 31, 2018 (the “2018 Share Repurchase Program”) pursuant to which we repurchased 558,647 shares of our common stock at an aggregate cost of approximately $20.0 million. We completed the 2018 Share Repurchase Program in December 2018.

- On December 12, 2018, we announced that our Board of Directors authorized the repurchase of up to $20 million of our outstanding common stock through May 31, 2020 (the “2019-2020 Share Repurchase Program”). We repurchased 138,234 shares of our common stock under the 2019-2020 Share Repurchase Program during the year ended December 31, 2018 at an aggregate cost of approximately $5.5 million.

During the year ended December 31, 2018, we repurchased an aggregate of 688,689 shares of our common stock in the open market.

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial data should be read in conjunction with our consolidated financial statements and notes thereto and “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth elsewhere in the Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.
The following tables present historical selected consolidated financial data of Universal Insurance Holdings, Inc. and Subsidiaries for the five years ended December 31, 2018 (in thousands, except per share data):

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Statement of Income Data:					
Revenue:					
Direct premiums written	$1,190,875	$1,055,886	$954,617	$883,409	$789,577
Change in unearned premium	(69,235)	(56,688)	(33,390)	(46,617)	(12,260)
Direct premium earned	1,121,640	999,198	921,227	836,792	777,317
Ceded premium earned	(353,258)	(310,405)	(288,811)	(332,793)	(450,440)
Premiums earned, net	768,382	688,793	632,416	503,999	326,877
Net investment income (1)	24,816	13,460	9,540	5,155	2,375
Other revenues (2)	49,876	47,093	41,039	36,330	34,397
Total revenue	823,816	751,916	685,289	546,544	369,276
Costs and expenses:					
Losses and loss adjustment expenses	414,455	350,428	301,229	187,739	123,275
Policy acquisition costs	157,327	138,846	125,979	88,218	33,502
Other operating costs	99,161	92,158	95,198	95,564	84,895
Total expenses	670,943	581,432	522,406	371,521	241,672
Income before income taxes	152,873	170,484	162,883	175,023	127,604
Income tax expense	35,822	63,549	63,473	68,539	54,616
Net income	$117,051	$106,935	$99,410	$106,484	$72,988
Per Share Data:					
Basic earnings per common share	$3.36	$3.07	$2.85	$3.06	$2.17
Diluted earnings per common share	$3.27	$2.99	$2.79	$2.97	$2.08
Dividends declared per common share	$0.73	$0.69	$0.69	$0.63	$0.55

	As of December 31,				
	2018	2017	2016	2015	2014
Balance Sheet Data:					
Total invested assets	$908,154	$730,023	$651,601	$489,435	$423,581
Cash and cash equivalents	166,428	213,486	105,730	197,014	115,397
Total assets	1,858,390	1,454,999	1,060,007	993,548	911,774
Unpaid losses and loss adjustment expenses	472,829	248,425	58,494	98,840	134,353
Unearned premiums	601,679	532,444	475,756	442,366	395,748
Long-term debt	11,397	12,868	15,028	24,050	30,610
Total liabilities	1,356,757	1,015,011	688,817	700,456	692,858
Total stockholders' equity	$501,633	$439,988	$371,190	$293,092	$199,916
Shares outstanding end of period	34,783	34,735	35,052	35,110	34,102
Book value per share	$14.42	$12.67	$10.59	$8.35	$5.86
Return on average equity (ROE)	24.1%	25.7%	29.4%	41.8%	38.4%
Selected Data:					
Loss and loss adjustment expense ratio (3)	53.9%	50.9%	47.6%	37.2%	37.7%
General and administrative expense ratio (4)	33.4%	33.5%	34.9%	36.3%	35.8%
Combined Ratio (5)	87.3%	84.4%	82.5%	73.5%	73.5%

(1) Net investment income excludes net realized gains (losses) on sale of securities and net change in unrealized gains (losses) of equity securities.
(2) Other revenue consists of commission revenue, policy fees, and other revenue.
(3) The loss and loss adjustment expense ratio is calculated by dividing losses and loss adjustment expenses by premiums earned, net.
(4) The general and administrative expense ratio is calculated by dividing general and administrative expense, excluding interest expense, by premiums earned, net. Interest expense was $346 thousand, $348 thousand, $421 thousand, $963 thousand and $1.5 million for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

(5) The combined ratio is the sum of the losses and loss adjustment expense ratio and the general and administrative expense ratio.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our consolidated financial statements and accompanying notes in Part II, Item 8 below. The discussion below contains forward-looking statements that are based upon current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations. See "Cautionary Note Regarding Forward-Looking Statements."

Overview

We develop, market, and underwrite insurance products for consumers predominantly in the personal residential homeowners lines of business and perform substantially all other insurance-related services for our primary insurance entities, including risk management, claims management and distribution. Our primary insurance entities, Universal Property & Casualty Insurance Company (UPCIC) and American Platinum Property and Casualty Insurance Company (APPCIC), offer insurance products through both our appointed independent agent network and our online distribution channels across 17 states (primarily in Florida), with licenses to write insurance in an additional three states. The Insurance Entities seek to produce an underwriting profit over the long term (defined as earned premium less losses, loss adjustment expense, policy acquisition costs and other operating costs); maintain a conservative balance sheet to prepare for years in which the Insurance Entities are not able to achieve an underwriting profit; and generate investment income from invested assets.

Revenues

We generate revenue primarily from the collection of insurance premiums. Other sources of revenue include: commissions paid by our reinsurers to our reinsurance intermediary subsidiary BARC on reinsurance it places for the Insurance Entities; policy fees collected from policyholders by our managing general agent subsidiary, ERA (formerly Universal Risk Advisors, Inc.); and financing fees charged to policyholders who choose to defer premium payments. In addition, our subsidiary, AAC (formerly known as Universal Adjusting Corporation), receives fees from the Insurance Entities for claims-handling services. The Insurance Entities are reimbursed for these fees on claims that are subject to recovery under the Insurance Entities' respective reinsurance programs. These fees, after expenses, are recorded in the consolidated financial statements as an adjustment to LAE. We also generate income by investing our assets.

The nature of our business tends to be seasonal during the year, reflecting consumer behaviors in connection with the Florida residential real estate market and the hurricane season. The amount of direct premiums written tends to increase just prior to the second quarter and tends to decrease approaching the fourth quarter.

Trends and Geographical Distribution

As a result of our business strategy, rate changes and marketing and underwriting initiatives, we have seen increases in policy count, in-force premium and total insured value in all states for the past three years. Direct premiums written for states outside of Florida increased 34.6% representing a $45.7 million increase during 2018. Direct premium for Florida increased 9.7% representing a $89.3 million increase during 2018. The following table provides direct premiums written for Florida and other states for the years ended December 31, 2018 and 2017 (dollars in thousands):

	For the Years Ended				Growth Year Over Year	
	December 31, 2018		December 31, 2017			
State	Direct Premiums Written	%	Direct Premiums Written	%	$	%
Florida	$1,013,290	85.1 %	$923,962	87.5 %	$89,328	9.7 %
Other states	177,585	14.9 %	131,924	12.5 %	45,661	34.6 %
Grand total	$1,190,875	100.0 %	$1,055,886	100.0 %	$134,989	12.8 %

The geographical distribution of our policies in-force, in-force premium and total insured value for Florida by county were as follows as of December 31, 2018 (dollars in thousands, rounded to the nearest thousand):

	As of December 31, 2018					
County	Policy Count	%	In-Force Premium	%	Total Insured Value	%
South Florida						
Broward	101,706	16.0 %	$215,126	21.2 %	$27,174,430	17.4 %
Miami-Dade	90,038	14.1 %	194,531	19.2 %	20,595,764	13.2 %
Palm Beach	85,692	13.4 %	163,959	16.1 %	24,316,423	15.6 %
South Florida exposure	277,436	43.5 %	573,616	56.5 %	72,086,617	46.2 %
Other significant* Florida counties						
Pinellas	41,421	6.5 %	47,314	4.7 %	7,683,043	4.9 %
Hillsborough	26,495	4.1 %	35,098	3.5 %	6,565,146	4.2 %
Escambia	18,410	2.9 %	30,302	3.0 %	5,426,918	3.5 %
Pasco	24,647	3.9 %	27,881	2.7 %	8,279,011	5.3 %
Collier	20,832	3.3 %	26,503	2.6 %	3,545,544	2.3 %
Polk	16,798	2.6 %	25,751	2.5 %	5,329,879	3.4 %
Lee	25,712	4.0 %	25,506	2.5 %	4,076,423	2.6 %
Total other significant* counties	174,315	27.3 %	218,355	21.5 %	40,905,964	26.2 %

Summary for all of Florida	Policy Count	%	In-Force Premium	%	Total Insured Value	%
South Florida exposure	277,436	43.5 %	573,616	56.5 %	72,086,617	46.2 %
Total other significant* counties	174,315	27.3 %	218,355	21.5 %	40,905,964	26.2 %
Other Florida counties	186,175	29.2 %	223,695	22.0 %	43,126,374	27.6 %
Total Florida	637,926	100.0%	$1,015,666	100.0%	$156,118,955	100.0%

*Significant counties defined as greater than 2.5% of total in-force premium as of December 31, 2018.

The geographical distribution of our policies in-force, in-force premium and total insured value across all states were as follows, as of December 31, 2018, 2017 and 2016 (dollars in thousands, rounded to the nearest thousand):

	As of December 31, 2018					
			In-Force		Total Insured	
State	Policy Count	%	Premium	%	Value	%
Florida	637,926	77.0 %	$1,015,666	85.1 %	$156,118,955	68.3 %
North Carolina	55,047	6.6 %	43,770	3.7 %	17,124,104	7.5 %
Georgia	37,652	4.6 %	40,395	3.4 %	14,584,974	6.4 %
Massachusetts	11,796	1.4 %	15,522	1.3 %	7,020,121	3.1 %
South Carolina	15,117	1.8 %	14,477	1.2 %	4,818,760	2.1 %
Indiana	16,059	1.9 %	13,305	1.1 %	5,464,439	2.4 %
Pennsylvania	15,454	1.9 %	10,762	0.9 %	6,158,602	2.7 %
Minnesota	9,466	1.1 %	10,632	0.9 %	4,352,908	1.9 %
Virginia	10,354	1.3 %	8,437	0.7 %	5,053,973	2.2 %
Alabama	6,817	0.8 %	7,187	0.6 %	2,304,683	1.0 %
New Jersey	3,683	0.4 %	3,763	0.3 %	1,870,394	0.8 %
Michigan	2,388	0.3 %	2,879	0.2 %	940,051	0.4 %
Maryland	3,070	0.4 %	2,539	0.2 %	1,161,678	0.5 %
Hawaii	2,176	0.3 %	1,937	0.2 %	887,555	0.4 %
Delaware	1,073	0.1 %	1,230	0.1 %	555,055	0.2 %
New York	461	0.1 %	432	0.1 %	228,334	0.1 %
New Hampshire	114	0.0 %	86	0.0 %	62,436	0.0 %
Total	828,653	100.0 %	$1,193,019	100.0 %	$228,707,022	100.0 %

	As of December 31, 2017					
			In-Force		Total Insured	
State	Policy Count	%	Premium	%	Value	%
Florida	618,280	80.9 %	$926,087	87.6 %	$146,624,470	73.9 %
North Carolina	48,866	6.4 %	36,993	3.5 %	14,275,508	7.2 %
Georgia	31,305	4.1 %	32,343	3.1 %	11,380,109	5.7 %
Massachusetts	10,132	1.3 %	13,162	1.2 %	5,857,450	3.0 %
South Carolina	13,769	1.8 %	13,372	1.3 %	4,120,728	2.1 %
Indiana	11,622	1.5 %	9,236	0.9 %	3,768,044	1.9 %
Pennsylvania	10,554	1.4 %	7,292	0.7 %	4,047,997	2.1 %
Minnesota	4,769	0.6 %	5,198	0.5 %	2,103,731	1.1 %
Virginia	4,908	0.6 %	3,867	0.4 %	2,263,923	1.1 %
Alabama	2,861	0.4 %	2,934	0.3 %	895,380	0.5 %
New Jersey	877	0.1 %	858	0.0 %	428,072	0.2 %
Michigan	1,330	0.2 %	1,574	0.1 %	491,906	0.2 %
Maryland	2,354	0.3 %	1,901	0.2 %	869,685	0.4 %
Hawaii	2,009	0.3 %	1,830	0.2 %	842,740	0.4 %
Delaware	828	0.1 %	903	0.0 %	400,076	0.2 %
New York	54	0.0 %	52	0.0 %	27,191	0.0 %
New Hampshire	—	—	—	—	—	—
Total	764,518	100.0 %	$1,057,602	100.0 %	$198,397,010	100.0 %

	As of December 31, 2016					
			In-Force		Total Insured	
State	Policy Count	%	Premium	%	Value	%
Florida	577,783	84.6 %	$862,332	90.2 %	$134,493,470	79.1 %
North Carolina	41,393	6.1 %	30,858	3.2 %	11,972,066	7.0 %
Georgia	24,257	3.6 %	23,849	2.5 %	8,450,315	5.0 %
Massachusetts	7,451	1.1 %	9,964	1.0 %	4,352,990	2.6 %
South Carolina	12,230	1.8 %	12,393	1.3 %	3,592,203	2.1 %
Indiana	6,835	1.0 %	5,381	0.6 %	2,162,967	1.3 %
Pennsylvania	5,303	0.8 %	3,677	0.4 %	1,925,226	1.1 %
Minnesota	2,089	0.3 %	2,251	0.2 %	896,969	0.5 %
Virginia	269	0.0 %	224	0.0 %	130,556	0.1 %
Alabama	624	0.1 %	624	0.1 %	182,456	0.1 %
New Jersey	—	—	—	—	—	—
Michigan	538	0.1 %	651	0.1 %	190,360	0.1 %
Maryland	1,756	0.2 %	1,413	0.1 %	640,919	0.4 %
Hawaii	1,767	0.2 %	1,689	0.2 %	756,428	0.4 %
Delaware	621	0.1 %	663	0.1 %	289,941	0.2 %
New York	—	—	—	—	—	—
New Hampshire	—	—	—	—	—	—
Total	682,916	100.0 %	$955,969	100.0 %	$170,036,866	100.0 %

Also see *"Results of Operations"* below and "Item 1A—Risk Factors—Risks Relating to Our Business—Because we conduct the substantial majority of our business in Florida, our financial results depend on the regulatory, economic and weather conditions in Florida" for discussion on geographical diversification.

REINSURANCE

Developing and implementing our reinsurance strategy to adequately protect us in the event of one or more catastrophes while maintaining efficient reinsurance costs has been a key focus for our leadership team. In recent years, the property and casualty insurance market has experienced a substantial increase in the availability of property catastrophe reinsurance resulting from the increased supply of capital from non-traditional reinsurance providers, including private capital and hedge funds. This increased capital supply, coupled with the lack of significant catastrophic activity in Florida and elsewhere around the world up to 2016, and core underwriting improvements, such as Florida's wind mitigation efforts to strengthen homes subject to wind events, reduced the cost of property catastrophe reinsurance for several years, directly benefiting significant reinsurance buyers, such as us.

In order to limit our potential exposure to catastrophic events, we purchase significant reinsurance from third-party reinsurers. We rely on third-party reinsurers and the FHCF, and do not have any captive or affiliated reinsurance arrangements in place. The FLOIR requires us and all insurance companies doing business in Florida to have a certain amount of capital and reinsurance coverage in order to cover losses upon the occurrence of a single catastrophic event and a series of catastrophic events occurring in the same hurricane season. Our 2018-2019 reinsurance program meets and provides reinsurance in excess of the FLOIR's requirements, which are based on, among other things, the probable maximum loss that we would incur from an individual catastrophic event estimated to occur once in every 100 years based on our portfolio of insured risks and a series of stress test catastrophe loss scenarios based on past historical events. As respects to the single catastrophic event, the nature, severity and location of the event giving rise to such a probable maximum loss differs for each insurer depending on the insurer's portfolio of insured risks, including, among other things, the geographic concentration of insured value within the insurer's portfolio. Accordingly, a particular catastrophic event could be a one-in-100 year loss event for one insurance company while having a greater or lesser probability of occurrence for another insurance company.

We believe our retention under the reinsurance program is appropriate and structured to protect our policyholders. We test the sufficiency of our reinsurance program by subjecting our personal residential exposures to statistical testing using a third-party hurricane model, RMS RiskLink v17.0 (Build 1825). This model combines simulations of the natural occurrence patterns and characteristics of hurricanes, tornadoes, earthquakes and other catastrophes with information on property values, construction types and occupancy classes. The model outputs provide information concerning the potential for large losses before they occur, so companies can prepare for their financial impact.

UPCIC's 2018-2019 Reinsurance Program

Third-Party Reinsurance

Our annual reinsurance program, which is segmented into layers of coverage, as is industry practice, protects us against excess property catastrophe losses. Our 2018-2019 reinsurance program includes the mandatory coverage required by law to be placed with the FHCF, in which we have elected to participate at 90%, the highest level, and also includes private reinsurance described below, alongside and above the FHCF layer. In placing our 2018-2019 reinsurance program, we obtained multiple years of coverage for an additional portion of the program. We believe this multi-year arrangement will allow us to capitalize on favorable pricing and contract terms and conditions and allow us to mitigate uncertainty with respect to the price of future reinsurance coverage, one of our largest costs.

The total cost of UPCIC's private catastrophe reinsurance program for all states as described below, effective June 1, 2018 through May 31, 2019, is $175.30 million. In addition, UPCIC has purchased reinstatement premium protection as described below, the cost of which is $14.97 million. The largest private participants in UPCIC's reinsurance program include leading reinsurance companies and providers such as Nephila Capital, Everest Re, RenaissanceRe, Chubb Tempest Re and Lloyd's of London syndicates.

We have used the model results noted above to stress test the completeness of the program by simulating a recurrence of the 2004 calendar year, in which four large catastrophic hurricanes made landfall in Florida. This season is considered to be the worst catastrophic year in Florida's recorded history. Assuming the reoccurrence of the 2004 calendar year events, including the same geographic path of each such hurricane, the modeled estimated net loss to us in 2018 with the reinsurance coverage described herein would be approximately $110 million (after tax, net of all reinsurance recoveries). We estimate that, based on our portfolio of insured risks as of December 31, 2018 and 2017, a repeat of the four 2004 calendar year events would have exhausted approximately 20.0% and 27.0%, respectively, of our property catastrophe reinsurance coverage.

<u>UPCIC's Retention</u>

UPCIC has a net retention of $35 million per catastrophe event for losses incurred, in all states, up to a first event loss of $3.146 billion. UPCIC also purchases a separate underlying catastrophe program to further reduce its retention for all losses occurring in any state other than Florida (the "Other States Reinsurance Program"). UPCIC retains only $5 million under its Other States Reinsurance Program in the first event, $3 million in the second event and only $1 million under its Other States Reinsurance Program for the third through fifth events. These retention amounts are gross of any potential tax benefit we would receive in paying such losses.

<u>First Layer</u>

Immediately above UPCIC's net retention, we have reinsurance coverage from third-party reinsurers for up to four separate catastrophic events for all states. Specifically, we have purchased reinsurance coverage for the first and third catastrophic events, and each such coverage allows for one reinstatement upon the payment of reinstatement premiums, which would cover the second and fourth catastrophic events. This coverage has been obtained from four contracts as follows:

- 59% of $76 million in excess of $35 million provides coverage for the 2018-2019 period;
- 20% of $55 million in excess of $35 million provides coverage on a multi-year basis through May 31, 2021;
- 21% of $55 million in excess of $35 million provides coverage for the 2018-2019 period; and
- 100% of $76 million in excess of $35 million and in excess of $152 million otherwise recoverable (from the first and second events) provides the third and fourth event coverage for the 2018-2019 period.

For the first three contracts above, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of these coverages. All of these contracts extend coverage to all states.

<u>Second Layer</u>

Above the first layer, for losses exceeding $90 million and $111 million, we have purchased a second layer of coverage for losses up to $445 million—in other words, for the next $355 or $334 million of losses. This coverage has been obtained from three contracts as follows:

- 58% of $355 million in excess of $90 million provides coverage on a multi-year basis through May 31, 2020;
- 19.5% of $334 million in excess of $111 million provides coverage on a multi-year basis through May 31, 2021; and
- 22.5% of $334 million in excess of $111 million provides coverage for the 2018-2019 period.

In these layers, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of these coverages. All of these contracts extend coverage to all states.

Third Layer

Above the first and second layers, we have purchased a third layer of coverage for losses up to $529 million—in other words, for the next $84 million of losses. This coverage was obtained from two contracts as follows:

- 65% of $84 million in excess of $445 million provides coverage on a multi-year basis through May 31, 2021; and
- 35% of $84 million in excess of $445 million provides coverage for the 2018-2019 period.

In these layers, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of these coverages. Both of these contracts extend coverage to all states.

Fourth Layer

Above the first, second and third layers, we have purchased a fourth layer of coverage for losses up to $635 million—in other words, for the next $106 million of losses. This coverage was obtained from two contracts as follows:

- 65% of $106 million in excess of $529 million provides coverage for the 2018-2019 period; and
- 35% of $106 million in excess of $529 million provides coverage for the 2018-2019 period.

In these layers, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of these coverages. Both of these contracts extend coverage to all states.

Fifth Layer

Above the first, second, third and fourth layers, we have purchased a fifth layer of coverage for losses up to $680 million—in other words, for the next $45 million of losses. This coverage was obtained from two contracts as follows:

- 65% of $45 million in excess of $635 million provides coverage on a multi-year basis through May 31, 2021; and
- 35% of $45 million in excess of $635 million provides coverage for the 2018-2019 period.

In these layers, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of these coverages. Both of these contracts extend coverage to all states.

Sixth and Seventh Layers

In the sixth and seventh layers, we have purchased reinsurance for $218 million of coverage in excess of $680 million in losses incurred by us (net of the FHCF layer) and $140 million of coverage in excess of $898 million (net of the FHCF layer), respectively, for a total of $1.0 billion of coverage (net of the FHCF layer) by third-party reinsurers. In these layers, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of these coverages. Both of these contracts extend coverage to all states.

UPCIC structures its reinsurance coverage into layers and utilizes a cascading feature such that the second, third, fourth, fifth, sixth and seventh reinsurance layers all attach at $111 million. Any layers above the $111 million attachment point are excess of loss over the immediately preceding layer. If the aggregate limit of the preceding layer is exhausted, the next layer cascades down in its place for future events. This means that, unless losses exhaust the top layer of our coverage, we are exposed to only $35 million in losses, pre-tax, per catastrophe for each of the first four events. In addition to tax benefits that could reduce our ultimate loss, we anticipate that certain fees paid to our subsidiary service providers by our Insurance Entities and, indirectly, our reinsurers would also increase during an active hurricane season.

Other States Reinsurance Program

The total cost of UPCIC's private catastrophe reinsurance program for other states as described below, effective June 1, 2018 through May 31, 2019, is $9.74 million. In addition, UPCIC has purchased reinstatement premium protection as described below, the cost of which is $2.25 million.

Effective June 1, 2018 through June 1, 2019, under an excess catastrophe contract specifically covering risks located outside the state of Florida and intended to further reduce UPCIC's $35 million net retention, as noted above, UPCIC has obtained catastrophe coverage of $30 million in excess of $5 million covering certain loss occurrences, including hurricanes, in states outside of Florida. This catastrophe coverage has a second full limit available with additional premium calculated pro rata as to amount and 100% as to time, as applicable. For this catastrophe coverage, which is placed in three layers, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of this coverage. All catastrophe layers are placed with a cascading feature so that all capacity could be made available in excess of $5 million under certain loss scenarios. Further, UPCIC purchased subsequent catastrophe event excess of loss reinsurance specifically covering risks outside of Florida to cover certain levels of loss through five catastrophe events including hurricanes. Specifically, UPCIC obtained catastrophe coverage that covers 100% of $4,000,000 excess of $1,000,000 in excess of $6,000,000 otherwise recoverable. This coverage has two and a half free reinstatements and a total of $14,000,000 of coverage available to UPCIC.

In certain circumstances involving a first catastrophic event impacting both Florida and other states, UPCIC's retention could result in pre-tax net liability as low as $5,000,000—the $35 million net retention under the all states reinsurance program could be offset by as much as $30 million in coverage under the Other States Reinsurance Program—or 1.7% of UPCIC's statutory policyholders' surplus as of December 31, 2018.

FHCF

UPCIC's third-party reinsurance program supplements the FHCF coverage we are required to purchase every year. The limit and retention of the FHCF coverage we receive each year is subject to upward or downward adjustment based on, among other things, submitted exposures to the FHCF by all participants. As of December 31, 2018, we estimate our FHCF coverage includes a maximum provisional limit of 90% of $2.33 billion, or $2.1 billion, in excess of $727 million. The estimated premium that UPCIC plans to cede to the FHCF for the 2018 hurricane season is $136.8 million.

Coverage purchased from third-party reinsurers, as described above, adjusts to provide coverage for certain losses not otherwise covered by the FHCF. The FHCF coverage cannot be reinstated once exhausted, but it does provide coverage for multiple events. The FHCF coverage extends only to losses to our Florida portfolio due to a land falling hurricane.

The third-party reinsurance we purchase for UPCIC is therefore net of FHCF recovery. When our FHCF and third-party reinsurance coverages are taken together, UPCIC has reinsurance coverage of up to $3.146 billion for the first event, as illustrated by the graphic below. Should a catastrophic event occur, we would retain up to $35 million pre-tax for each catastrophic event, and would also be responsible for any additional losses that exceed our top layer of coverage.

Reinsurers

The following table below provides the A.M. Best and S&P financial strength ratings for each of the largest third-party reinsurers in UPCIC's 2018-2019 reinsurance program:

Reinsurer	**A.M. Best**	**S&P**
Allianz Risk Transfer	A+	AA
Everest Reinsurance Company	A+	A+
Renaissance Re	A+	A+
Chubb Tempest Reinsurance Ltd.	A++	AA
Various Lloyd's of London Syndicates	A	A+
Florida Hurricane Catastrophe Fund	N/A	N/A

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All States 1st Event

Non-Florida 1st Event

APPCIC's 2018-2019 Reinsurance Program

Third-Party Reinsurance

The total cost of APPCIC's private catastrophe and multiple line excess reinsurance program, effective June 1, 2018 through May 31, 2019, is $2.27 million. In addition, APPCIC has purchased reinstatement premium protection as described below, the cost of which is $103,950. The largest private participants in APPCIC's reinsurance program include leading reinsurance companies such as Everest Re, Chubb Tempest Re, Hiscox, Hannover Ruck and Lloyd's of London syndicates.

APPCIC's Retention

APPCIC has a net retention of $2 million for all losses per catastrophe event for losses incurred up to a first event loss of $36.65 million. This retention amount is gross of any potential tax benefit we would receive in paying such losses.

First Layer
Immediately above APPCIC’s net retention we have $4.2 million of reinsurance coverage from third-party reinsurers. Specifically, we have purchased reinsurance coverage for the first event, and such coverage allows for one reinstatement upon the payment of reinstatement premiums, which would cover the second and potentially more catastrophic events. We have purchased reinstatement premium protection to pay the required premium necessary for the initial reinstatement of this coverage for a second catastrophic event.
Second, Third and Fourth Layers
In the second, third and fourth layers, we have purchased reinsurance for $2.0 million of coverage in excess of $6.2 million in losses incurred by us (net of the FHCF layer), $5 million of coverage in excess of $8.2 million in losses incurred by us (net of the FHCF layer) and $5 million of coverage in excess of $13.2 million in losses incurred by us (net of the FHCF layer), respectively.
APPCIC structures its reinsurance coverage into layers and utilizes a cascading feature such that the second, third and fourth reinsurance layers all attach at $2 million. Any layers above the $2 million attachment point are excess of loss over the immediately preceding layer. If the aggregate limit of the preceding layer is exhausted, the next layer cascades down in its place for future events. This means that, unless losses exhaust the top layer of our coverage, we are only exposed to $2 million in losses, pre-tax, per catastrophe for each of the first two events. In addition to tax benefits that could reduce our ultimate loss, we anticipate that certain fees paid to our subsidiary service providers by our Insurance Entities and, indirectly, our reinsurers would also increase during an active hurricane season.
FHCF
APPCIC’s third-party reinsurance program is used to supplement the FHCF reinsurance we are required to purchase every year. The limit and retention of the FHCF coverage we receive each year is subject to upward or downward adjustment based on, among other things, submitted exposures to the FHCF by all participants. As of December 31, 2018, we estimate our FHCF coverage includes a maximum provisional limit of 90% of $20.5 million, or $18.5 million, in excess of $6.4 million. The estimated premium that APPCIC plans to cede to the FHCF for the 2018 hurricane season is $1.25 million. Factoring in our estimated coverage under the FHCF, we purchase coverage alongside our FHCF coverage from third-party reinsurers as described above, which adjusts to provide coverage for certain losses not otherwise covered by the FHCF. The FHCF coverage cannot be reinstated once exhausted, but it does provide coverage for multiple events. The FHCF coverage extends only to losses to our portfolio impacted by a land falling hurricane.
The third-party reinsurance we purchase for APPCIC is therefore net of FHCF recovery. When our FHCF and third-party reinsurance coverages are taken together, APPCIC has reinsurance coverage of up to $36.65 million, as illustrated by the graphic below. Should a catastrophic event occur, we would retain $2 million pre-tax for each catastrophic event, and would also be responsible for any additional losses that exceed our top layer of coverage.

Reinsurers
The following table below provides the A.M. Best and S&P financial strength ratings for each of the largest third-party reinsurers in APPCIC’s 2018-2019 reinsurance program:

Reinsurer	**A.M. Best**	**S&P**
Everest Reinsurance Company	A+	A+
Chubb Tempest Reinsurance Ltd.	A++	AA
Hiscox Insurance Co (Bermuda) Ltd.	A	A
Hannover Ruck SE	A+	AA-
Various Lloyd’s of London Syndicates	A	A+

APPCIC 1st Event

*Layer cascades $2 million

Multiple Line Excess of Loss

APPCIC also purchases extensive multiple line excess per risk reinsurance with various reinsurers due to the high valued risks it insures in both the personal residential and commercial multiple peril lines of business. Under this multiple line excess per risk contract, APPCIC has coverage of $8.5 million in excess of $500 thousand ultimate net loss for each risk and each property loss, and $1 million in excess of $300 thousand for each casualty loss. A $19.5 million aggregate limit applies to the term of the contract for property related losses and a $2.0 million aggregate limit applies to the term of the contract for casualty-related losses. This contract also contains a profit sharing feature available to APPCIC if the contract meets specific performance measures.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Recognition of Premium Revenues

Direct and ceded premiums are recognized as revenue on a pro rata basis over the policy term or over the term of the reinsurance agreement. The portion of direct premiums that will be earned in the future are deferred and reported as unearned premiums. The portion of ceded premiums that will be earned in the future is deferred and reported as prepaid reinsurance premiums.

Liability for Unpaid Losses and LAE

A liability, net of estimated subrogation, is established to provide for the estimated costs of paying losses and LAE under insurance policies the Insurance Entities have issued. Underwriting results are significantly influenced by an estimate of a liability for unpaid losses and LAE. The liability is an estimate of amounts necessary to settle all outstanding claims, including claims that have been incurred, but not yet reported as of the financial statement date. The process of estimating loss reserves requires significant judgment due to a number of variables, such as the type, severity and jurisdiction of loss, economic conditions including inflation, social attitudes, judicial decisions and legislative development and changes in claims handling procedures. These variables will inherently result in an ultimate liability that will differ from initial estimates. See "Item 1A—Risk Factors—Risks Relating to Our Business—Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition." We revise our reserve for unpaid losses as additional information becomes available, and reflect adjustments, if any, in our earnings in the periods in which we determine the adjustments are necessary. We estimate and accrue our right to subrogate reported or estimated claims against other parties. Subrogated claims are recorded at amounts estimated to be received from the subrogated parties, net of expenses and netted against unpaid losses and LAE.

See "Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)" for a discussion of the Company's basis and methodologies used to establish its liability for unpaid losses and loss adjustment expenses along with the following quantitative disclosures:

- Five-year accident year table on incurred claim and allocated claim adjustment expenses, net of reinsurance including columns of:
  - IBNR—Total of Incurred-but-not-reported liabilities plus expected development (redundancy) on reported claims by accident year, and
  - Claim counts—cumulative number of reported claims by accident year.
- Five-year accident year table on cumulative paid claims and allocated claim adjustment expenses, net of reinsurance,
- Reconciliation of net incurred and paid claims development tables to the liability for unpaid losses and LAE in the consolidated balance sheet,
- Duration—a table of the average historical claims duration for the past five years, and
- Reconciliation of the change in liability for unpaid losses and LAE presented in the consolidated financial statements.

We utilize independent actuaries to help establish liabilities for unpaid losses, anticipated loss recoveries and LAE. We do not discount the liability for unpaid losses and LAE for financial statement purposes. In establishing the liability for unpaid losses and LAE, actuarial judgment is relied upon in order to make appropriate assumptions to estimate a best estimate of ultimate losses. There are inherent uncertainties associated with this estimation process, especially when a company is undergoing changes in its claims settlement practices, when a company has limited experience in a certain area or when behaviors of policyholders are influenced by external factors and/or market dynamics. As an example, a dramatic change occurred during calendar year 2015 when we realigned our adjusting teams as well as launched our Fast Track initiative, reducing settlement costs and strengthening case reserve adequacy for claims reported during the year. These changes have had a meaningful influence on development pattern selections applied to 2013 through 2017 accident year claims in the reserving estimates for each of the methods described in "Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)". More recently, since 2016 there has been a significant increase in efforts to pursue subrogation against third parties responsible for property damage losses to our insureds. As a result, anticipated subrogation recoveries are reviewed and estimated on a stand-alone basis in the Company's reserve analysis. Market dynamics in Florida include the continuing expansion of assignment of benefits

(“AOB”) and the resulting increase in litigation against the Company. As a result of the continuing and growing use of AOBs in this manner, we have increased our estimates of ultimate losses for the most recent and prior accident years.

Factors Affecting Reserve Estimates

Reserve estimates are developed based on the processes and historical development trends discussed in “Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)” to the consolidated financial statements. These estimates are considered in conjunction with known facts and interpretations of circumstances and factors including our experience with similar cases, actual claims paid, differing payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. When these types of changes are experienced, actuarial judgment is applied in the determination and selection of development factors in order to better reflect new trends or expectations. For example, if a change in law is expected to have a significant impact on the development of claim severity, actuarial judgment is applied to determine appropriate development factors that will most accurately reflect the expected impact on that specific estimate. This example appropriately describes the reserving methodology selection for use in estimating sinkhole liabilities after the passing of legislation, as noted in "Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)" to the consolidated financial statements. Another example would be when a change in economic conditions is expected to affect the cost of repairs to property; actuarial judgment is applied to determine appropriate development factors to use in the reserve estimate that will most accurately reflect the expected impacts on severity development.

Changes in homeowners current year claim severity are generally influenced by inflation in the cost of building materials, the cost of construction and property repair services, the cost of replacing home furnishings and other contents, the types of claims that qualify for coverage, the presence of third party representation, such as legal or repair contractors, which serve to inflate claim expenses, and other economic and environmental factors. We employ various loss management programs to mitigate the effects of these factors.

Key assumptions that may materially affect the estimate of the reserve for loss and LAE relate to the effects of emerging claim and coverage issues. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claim and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent, lengthening the time to final settlement, or by increasing the number or size of claims. Key assumptions that are premised on future emergence that are inconsistent with historical loss reserve development patterns include but are not limited to:

- Adverse changes in loss cost trends, including inflationary pressures in home repair costs;
- Judicial expansion of policy coverage and the impact of new theories of liability; and
- Plaintiffs targeting property and casualty insurers in purported class action litigation related to claims-handling and other practices.

As loss experience for the current year develops for each type of loss, the reserves for loss and LAE are monitored relative to initial assumptions until they are judged to have sufficient statistical credibility. From that point in time and forward, reserves are re-estimated using statistical actuarial processes to reflect the impact loss trends have on development factors incorporated into the actuarial estimation processes.

Causes of Reserve Estimate Uncertainty

Since reserves are estimates of the unpaid portions of claims and claims expenses that have occurred, the establishment of appropriate reserves, including reserves for catastrophes, requires regular reevaluation and refinement of estimates to determine ultimate loss and LAE estimates.

At each reporting date, the highest degree of uncertainty in reserve estimates arises from claims remaining to be settled for the current accident year and the most recent preceding accident year, and claims that have occurred but have not been reported. The estimate for the current accident year contains the greatest degree of uncertainty because it contains the greatest proportion of losses that have not been reported or settled but must be estimated as of the current reporting date. During the first year after the end of an accident year, a large portion of the total losses for that accident year are settled. When accident year losses paid through the end of the first year following the initial accident year are incorporated into updated actuarial estimates, the trends inherent in the settlement of claims emerge more clearly. Consequently, this is the point in time at which the largest re-estimates of losses for an accident year can occur. After the second year, the losses paid for the accident year typically relate to claims that are more difficult to settle, such as those involving litigation.

Reserves for Catastrophe Losses

Loss and LAE reserves also include reserves for catastrophe losses. Catastrophe losses are an inherent risk of the property-casualty insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in results of operations and financial position. A catastrophe is an event that produces significant insured losses before reinsurance and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are commonly caused by various natural events including high winds, tornadoes, wildfires, winter storms, tropical storms and hurricanes.

The estimation of claims and claims expense reserves for catastrophes also comprises estimates of losses from reported and unreported claims, primarily for damage to property. In general, estimates for catastrophe reserves are based on claim adjuster inspections and the application of historical loss development factors as described previously and in "Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)" to the consolidated financial statements. However, depending on the nature of the catastrophe, as noted above, the estimation process can be further complicated. For example, for hurricanes, complications could include the inability of insureds to be able to promptly report losses, limitations placed on claims adjusting staff affecting their ability to inspect losses, determining whether losses are covered by our homeowners policy (generally for damage caused by wind or wind driven rain) or specifically excluded coverage caused by flood, estimating additional living expenses or assessing the impact of demand surge and exposure to mold damage. The effects of numerous other considerations, include the timing of a catastrophe in relation to other events, such as at or near the end of a financial reporting period, which can affect the availability of information needed to estimate reserves for that reporting period. In these situations, practices are adapted to accommodate these circumstances in order to determine a best estimate of losses from a catastrophe.

Key Actuarial Assumptions That Affect the Loss and LAE Estimate

The aggregation of estimates for reported losses and IBNR forms the reserve liability recorded in the Consolidated Balance Sheets.

At any given point in time, the recorded loss and LAE reserves represent our best estimate of the ultimate settlement and administration cost of insured claims incurred and unpaid. Since the process of estimating loss and LAE reserves requires significant judgment due to a number of variables, such as fluctuations in inflation, judicial decisions, legislative changes and changes in claims handling procedures, ultimate liability may exceed or be less than these estimates. Reserves for losses and LAE are revised as additional information becomes available, and adjustments, if any, are reflected in earnings in the periods in which they are determined.

In selecting development factors and averages described in “Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)” to the consolidated financial statements, due consideration is given to how the historical experience patterns change from one year to the next over the course of several consecutive years of recent history. Predictions surrounding these patterns drive the estimates that are produced by each method, and are based on statistical techniques that follow standard actuarial practices.

In compliance with annual statutory reporting requirements, our appointed independent actuary provides a Statement of Actuarial Opinion (“SAO”) indicating that carried loss and LAE reserves recorded at each annual balance sheet date make a reasonable provision for all of the Insurance Entities’ unpaid loss and LAE obligations under the terms of contracts and agreements with our policyholders. Recorded reserves are compared to the indicated range provided in the actuary’s report accompanying the SAO. At December 31, 2018, the recorded amount for net loss and LAE falls within the range determined by the appointed independent actuaries and approximates their best estimate.

Potential Reserve Estimate Variability

The methods employed by actuaries include a range of estimated unpaid losses, each reflecting a level of uncertainty. Projections of loss and LAE liabilities are subject to potentially large variability in the estimation process since the ultimate disposition of claims incurred prior to the financial statement date, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, public attitudes and social/economic conditions such as inflation. Any estimate of future costs is subject to the inherent limitation on one’s ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of losses and LAE will vary, perhaps materially, from any estimate.

In selecting the range of reasonable estimates, the range of indications produced by the various methods is inspected, the relative strengths and weaknesses of each method are considered, and from those inputs a range of estimates can be selected. For reasons cited above, this range of estimated ultimate losses is typically smaller for older, more mature accident periods and greater for more recent, less mature accident periods. The greatest level of uncertainty is associated with the most recent accident years, and particularly years during which catastrophe events occurred.

The inherent uncertainty associated with our loss and LAE liability is magnified due to our concentration of property business in catastrophe-exposed and litigious states, primarily Florida. In 2018, for example, loss and expense payments for Hurricane Irma claims exceeded initial liability estimates that were established at year-end 2017, which was shortly after the event occurred. This unexpected development was partially due to the influence of plaintiff attorneys in the claim filing process; both at initial contact prior to coverage validation or damage assessment, and after claims were settled and closed which resulted in a large number of claims being reopened during the year. In previous years, UPCIC experienced unanticipated unfavorable loss development on catastrophe losses from claims related to 2004 and 2005 being reopened and new claims being opened due to public adjusters encouraging policyholders to file new claims, and from homeowners' association assessments related to condominium policies. Due to the relatively low frequency and inherent uncertainty of catastrophe events, the parameters utilized in loss estimation methodologies are updated whenever new information emerges.

Adequacy of Reserve Estimates

We believe our net loss and LAE reserves are appropriately established based on available methodology, facts, technology, laws and regulations. We calculate and record a single best reserve estimate, in conformance with generally accepted actuarial standards, for reported and unreported losses and LAE losses and as a result we believe no other estimate is better than our recorded amount.

Due to the uncertainties involved, the ultimate cost of losses and LAE may vary materially from recorded amounts, which are based on our best estimates. The liability for unpaid losses and LAE at December 31, 2018 is $472.8 million.

Deferred Policy Acquisition Costs

We incur acquisition costs in connection with the production of new and renewal insurance policies which are deferred and recognized over the life of the underlying insurance policy. Acquisition costs not yet recognized are deferred and reported as “Deferred Policy Acquisition Costs.” Acquisition costs are commissions and state premium taxes incurred in acquiring insurance policies that related to the successful production of new and renewal business. As of December 31, 2018, deferred policy acquisition costs were $84.7 million compared to deferred policy acquisition costs of $73.1 million as of December 31, 2017.

Provision for Premium Deficiency

We evaluate and recognize losses on insurance contracts when estimated future claims, deferred policy acquisition costs, and maintenance costs under a group of existing policy contracts will exceed anticipated future premiums and investment income. The determination of the provision for premium deficiency requires estimation of the costs of losses, catastrophic reinsurance and policy maintenance to be incurred and investment income to be earned over the remaining policy period. Management has determined that a provision for premium deficiency was not warranted as of December 31, 2018.

Reinsurance

In the normal course of business, we seek to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. While ceding premiums to reinsurers reduces our risk of exposure in the event of catastrophic losses, it also reduces our potential for greater profits in the event that such catastrophic events do not occur. We believe that the extent of our reinsurance level of protection is typical of, or exceeds, that of other insurers actively writing in the Florida homeowners insurance market. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreement and consistent with the establishment of our gross liability. The Insurance Entities’ reinsurance policies do not relieve them from their obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses; consequently, allowances are established for amounts deemed uncollectible from reinsurers. No such allowance was deemed necessary as of December 31, 2018.

Results of Operations

YEAR ENDED DECEMBER 31, 2018 COMPARED TO YEAR ENDED DECEMBER 31, 2017

2018 Highlights (comparisons are to 2017 unless otherwise specified)

- Direct premiums written overall grew by $135.0 million, or 12.80%, to $1,190.9 million.
- The Company achieved over $1 billion in-force premium for the state of Florida during 2018.
- In Florida, direct premiums written grew by $89.3 million, or 9.7%, and in our Other States, direct premiums written grew by $45.7 million, or 34.6%.
- Premiums earned, net grew by $79.6 million, or 11.60%, to $768.4 million.
- Total revenues increased by $71.9 million, or 9.60%, to $823.8 million.
- Although Hurricanes Michael and Florence caused substantial losses, our vertically integrated structure and comprehensive reinsurance program substantially limited the overall financial impact from these damaging storms.
- Net loss ratio was 53.9% as compared to 50.9%, driven by prior year reserve strengthening recorded in the fourth quarter of 2018.
- Expense ratio improved to 33.4% from 33.5%.

- Net income increased by $10.1 million, or 9.5%, to $117.1 million.
- Diluted EPS increased by $0.28 to $3.27 per common share.
- Increased our normal dividend 14% in the third quarter from $0.14 to $0.16 per share.
- Declared and paid dividends per common share of $0.73, including a $0.13 special dividend in December 2018.

- Repurchased approximately 689,000 shares in 2018 at an aggregate cost of $25.3 million.
- Offered Universal Direct[SM] in all 17 states in which the Company writes policies as of December 31, 2018.
- UPCIC commenced writing homeowners policies in New Hampshire.
- UPCIC implemented an overall 3.4% rate increase in Florida.

Net income was $117.1 million for the year ended December 31, 2018, an increase of $10.1 million, or 9.5%, compared to $106.9 million for the year ended December 31, 2017. The year ended December 31, 2018 is comparatively better due to continued growth of premiums, investment income and other sources revenue. Results in 2018 also include the impact of two hurricanes, Florence and Michael, and an increase in losses and LAE for the strengthening of loss reserves of prior accident years. Reserve strengthening was driven by higher than expected claim costs from prior years relating to litigation, reopened claims and increases in loss settlement trends above carried values. Net unrealized losses on equity securities was $17.2 million in 2018, reducing net income. Also impacting 2018 was a lower effective tax rate. Diluted earnings per common share increased by $0.28 to $3.27 for the year ended December 31, 2018 compared to $2.99 per share for the year ended December 31, 2017, reflecting the increase in net income and a slight decrease in our weighted average diluted shares outstanding. A more detailed discussion of our results of operations follows the table below (in thousands, except per share data).

	Years Ended December 31,		Change	
	2018	2017	$	%
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	$1,190,875	$1,055,886	$134,989	12.8 %
Change in unearned premium	(69,235)	(56,688)	(12,547)	22.1 %
Direct premium earned	1,121,640	999,198	122,442	12.3 %
Ceded premium earned	(353,258)	(310,405)	(42,853)	13.8 %
Premiums earned, net	768,382	688,793	79,589	11.6 %
Net investment income	24,816	13,460	11,356	84.4 %
Net realized gains (losses) on sales of securities	(2,089)	2,570	(4,659)	NM
Net change in unrealized gains (losses) of equity securities	(17,169)	—	(17,169)	NM
Commission revenue	22,438	21,253	1,185	5.6 %
Policy fees	20,275	18,838	1,437	7.6 %
Other revenue	7,163	7,002	161	2.3 %
Total premiums earned and other revenues	823,816	751,916	71,900	9.6 %
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	414,455	350,428	64,027	18.3 %
General and administrative expenses	256,488	231,004	25,484	11.0 %
Total operating costs and expenses	670,943	581,432	89,511	15.4 %
INCOME BEFORE INCOME TAXES	152,873	170,484	(17,611)	(10.3)%
Income tax expense	35,822	63,549	(27,727)	(43.6)%
NET INCOME	$117,051	$106,935	$10,116	9.5 %
Other comprehensive income (loss), net of taxes	(4,748)	127	(4,875)	NM
COMPREHENSIVE INCOME	$112,303	$107,062	$5,241	4.9 %
DILUTED EARNINGS PER SHARE DATA:				
Diluted earnings per common share	$3.27	$2.99	$0.28	9.4 %
Weighted average diluted common shares outstanding	35,786	35,809	(23)	NM

Direct premiums written increased by $135.0 million, or 12.8%, for the year ended December 31, 2018, driven by growth within our Florida business of $89.3 million, or 9.7%, as compared to the same period of the prior year, and growth in our Other States business of $45.7 million, or 34.6%, as compared to the same period of the prior year. Florida growth was driven by growth in policy count as well as the impact of an average statewide rate increase of 3.4%, which was approved in early December 2017 and effective for new business beginning on December 7, 2017 and for renewal business beginning on January 26, 2018. Other States growth was driven by continued increase in our agent force, authorization to write in new states (New Hampshire) and

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organic growth from our existing agent force. We are now actively writing policies in 16 states other than our home state of Florida. Also contributing to growth in Florida and other states is growth in our online platform Universal Direct^{SM}.
Direct premium earned increased by $122.4 million, or 12.3%, for the year ended December 31, 2018, reflecting the earning of premiums written over the past 12 months and changes in rates and policy count during that time.
Ceded premium earned increased by $42.9 million, or 13.8%, for the year ended December 31, 2018. The increase was the result of: (1) a general increase in costs for the Company's 2018-2019 reinsurance program fueled by growth, compared to the expiring program; and (2) $20.7 million of fully earned reinstatement premiums relating to increases in the Company's estimated losses associated with third quarter 2017 storm, Hurricane Irma. Ceded premium earned as a percent of direct premium earned was 31.5% for the year ended December 31, 2018 compared to 31.1% for the year ended December 31, 2017.
Premiums earned, net of ceded premium earned, grew by 11.6%, or $79.6 million, to $768.4 million for the year ended December 31, 2018, reflecting the increase in direct premium and ceded premium earned, both of which are discussed above.

Net investment income was $24.8 million for the year ended December 31, 2018, compared to $13.5 million for the year ended December 31, 2017, an increase of $11.4 million, or 84.4%. The increase is the result of several factors including the growth in cash and invested assets compared to the prior year and an increase in book yields, 2.82% in 2018 compared to 1.81% in 2017, which resulted from a shift in asset mix and rising interest rates. Total invested assets were $908.2 million with an average fixed income credit rating of A+ during the year ended December 31, 2018 compared to $730.0 million with an average fixed credit rating of AA- for the same period in 2017. Cash and cash equivalents were $166.4 million at December 31, 2018 compared to $213.5 million at December 31, 2017, a decrease of 22.0%. Cash and cash equivalents are invested short term until needed to settle payments to reinsurers, loss and LAE payments and operating cash needs.

We periodically sell securities from our investment portfolio from time to time when opportunities arise or when circumstances could result in greater losses or lower yields if held. We sold debt securities available-for-sale and equity securities during the year ended December 31, 2018, generating net realized losses of $2.1 million compared to net realized gains of $2.6 million for the year ended December 31, 2017. The investment securities sold during the year ended December 31, 2018 were comprised primarily of municipal securities, which were liquidated in light of their diminished after-tax returns following the enactment of the Tax Act.

The year ended December 31, 2018 included an unrealized loss of $17.2 million, resulting from a decline in the market value of our equity securities portfolio during that period. We highlight that this line item was added during the year ended December 31, 2018, as a result of the adoption of new accounting guidance for equity securities. See "Item 8—Note 2 (Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements)" for more information. The comparable change in unrealized gains (losses) within our equity portfolio for the prior period in 2017 was $2.5 million of pretax loss, which was not included in net income in the prior period in 2017 but was included in other comprehensive income (loss), which is presented net of taxes.

Commission revenue is comprised principally of brokerage commissions we earn from reinsurers on reinsurance placed for the Insurance Entities. For the year ended December 31, 2018, commission revenue was $22.4 million, compared to $21.3 million for the year ended December 31, 2017. The increase in commission revenue of $1.2 million, or 5.6%, for the year ended December 31, 2018 was primarily the result of increased ceded premiums in 2018 compared to 2017 as a result of commissions earned from higher ceded premiums under the Company's June 1, 2018 renewal of its 2018-2019 Reinsurance Program. Commission revenue from reinstatement premiums was $2.7 million in 2018 versus $2.6 million in 2017.

Policy fees for the year ended December 31, 2018, were $20.3 million compared to $18.8 million for the same period in 2017. The increase of $1.4 million, or 7.6%, was the result of an increase in the number of new and renewal policies written during the year ended December 31, 2018 compared to the same period in 2017.

Other revenue, representing revenue from policy installment fees, premium financing and other miscellaneous income, was $7.2 million for the year ended December 31, 2018 compared to $7.0 million for the same period in 2017.

Losses and LAE, net of reinsurance were $414.5 million for the year ended December 31, 2018 compared to $350.4 million for the same period in 2017 as follows:

	For The Year Ended December 31, 2018					
	Direct	Loss Ratio	Ceded	Loss Ratio	Net	Loss Ratio
Premiums earned	$1,121,640		$353,258		$768,382	
Losses and loss adjustment expenses:						
Weather events*	$395,000	35.2 %	$380,250	107.6%	$14,750	1.9 %
Prior year adverse/(favorable) reserve development	622,028	55.5 %	522,506	147.9%	99,522	13.0%
All other losses and loss adjustment expenses	308,295	27.5 %	8,112	2.3 %	300,183	39.1%
Total losses and loss adjustment expenses	$1,325,323	118.2%	$910,868	257.8%	$414,455	53.9%

	For The Year Ended December 31, 2017					
	Direct	Loss Ratio	Ceded	Loss Ratio	Net	Loss Ratio
Premiums earned	$999,198		$310,405		$688,793	
Losses and loss adjustment expenses:						
Weather events*	$446,700	44.7%	$417,543	134.5%	$29,157	4.2 %
Prior year adverse/(favorable) reserve development	37,173	3.7 %	9,674	3.1 %	27,499	4.0 %
All other losses and loss adjustment expenses	295,249	29.5%	1,477	0.5 %	293,772	42.7%
Total losses and loss adjustment expenses	$779,122	77.9%	$428,694	138.1%	$350,428	50.9%

*Includes only weather events beyond expected. Items included in weather events for the year may differ from items included in quarterly reporting.

See "Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)" for change in liability for unpaid losses and LAE.

During the year ended December 31, 2018, we increased gross reserves to account for the impact of Hurricane Irma, a 2017 hurricane, by $513 million to a total of $959.7 million. Substantially all the 2018 development was covered under our reinsurance contracts. The development on claims associated with Hurricane Irma in 2018 resulted from increased litigation, new and reopened claims and higher costs to settle the remaining claims from that event.

Net results during the year ended December 31, 2018 include: charges to losses and LAE of $14.8 million net ($395 million gross) due to the impact of two hurricanes, Hurricanes Florence and Michael; $99.5 million net allocated to strengthen prior accident year's loss reserves. Prior years reserve strengthening resulted from Hurricane Irma companion claims, which propagated into non-cat systemic claims representation in Florida, resulting in an increase in prior year development. This strengthening resulted in an increase in the frequency (number of claims) and severity (cost of the claim) of non-catastrophe claims spanning several prior accident years, including reopened claims, newly reported claims, increased litigation and increased loss settlements of claims above carried values. Operational focus in the fourth quarter of 2018 was centered on accelerating the settlement of claims to reduce the number of claims outstanding. The increase in prior accident year claim severity and claim frequency reflects the trends and dynamics in the Florida market particularly AOB, systemic claims representation and solicitation of prior years' claims in the post Irma environment. An AOB is a document signed by a policyholder that allows a third party to be paid for claim services performed for an insured homeowner who would be normally be reimbursed by the insurance company directly after making a claim. We have generally seen an increase in the use of AOBs by Florida policyholders. Claims paid under an AOB often involve unnecessary litigation and as a result cost significantly more than claims settled when an AOB is not involved, with most of the increase going to the attorneys or representatives of policyholders. In August 2018, the Company announced the appointment of a Chief Legal Officer to lead the legal efforts in response to the growing AOB claims and their related increase in litigated claims and costs. We continue to monitor assignment of benefits legislation in Florida and continue to take steps to address the Florida market dynamics. See "Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)" for five-year development data.

All other net losses and LAE were $300.2 million, or 39.1% of net earned premium, and $293.8 million, or 42.7% of net earned premium for the years ended December 31, 2018 and 2017, respectively. Our claims services entity generated a net benefit of

$72.2 million and $33.5 million to net losses and LAE for settling claims for the years ended December 31, 2018 and 2017, respectively. These amounts reduced net losses and LAE as a percentage of net earned premium by 9.4 and 4.8 percentage points for the years ended December 31, 2018 and 2017, respectively. Reinstatement premium of $20.7 million recorded during the year ended December 31, 2018 increased the net losses and LAE ratio by 1.4 percentage points.

For the year ended December 31, 2018, general and administrative expenses were $256.5 million, compared to $231.0 million for the same period in 2017 as detailed below (dollars in thousands):

	For the Years Ended December 31,				Change	
	2018		2017		$	%
	$	Ratio	$	Ratio		
Premiums earned, net	$768,382		$688,793		$79,589	11.6%
General and administrative expenses:						
Policy acquisition costs	157,327	20.5%	138,846	20.2%	18,481	13.3%
Other operating costs	99,161	12.9%	92,158	13.3%	7,003	7.6 %
Total general and administrative expenses	$256,488	33.4%	$231,004	33.5%	$25,484	11.0%

Although costs were up overall, general and administrative costs as a percentage of earned premiums decreased from 33.5% of earned premiums in 2017 to 33.4% of earned premiums in 2018. The increase in general and administrative expenses of $25.5 million was primarily the result of increases in policy acquisition costs of $18.5 million due to commissions associated with increased premium volume and continued premium growth in states that have higher commission rates compared to Florida, and to a lesser extent due to an increase in other operating costs of $7.0 million. Policy acquisition costs for the year ended December 31, 2018 included the receipt of a $6.5 million benefit related to a settlement of prior year premium tax audits with the Florida Department of Revenue. Other operating costs increased by $7.0 million in 2018, which was primarily driven by increases in salary, share-based compensation and a lower level of expenses recovered in 2018 from reinsurers compared to amounts recovered in 2017 related to Hurricane Irma. Other operating costs in 2018 reflected lower amounts spent on advertising and temporary employee expenses. Other operating costs as a percentage of earned premium reduced from 13.3% of earned premium in 2017 to 12.9% of earned premium in 2018.

The expense ratio in 2018 was impacted by the costs noted above and the ratio was further increased by 0.9% due to an increase in fully earned reinstatement premiums paid in 2018 reducing premiums earned, net (the denominator in the ratio). Overall, the expense ratio (general and administrative expenses as a percentage of net earned premiums) benefited from economies of scale as general and administrative expenses did not increase at the same rate as revenues.

Income tax expense decreased by $27.7 million, or 43.6%, for the year ended December 31, 2018, when compared with the year ended December 31, 2017. Our effective tax rate decreased to 23.4% for the year ended December 31, 2018, as compared to 37.3% for the year ended December 31, 2017. The decrease in both income tax expense and our effective tax rate was primarily the result of the enactment of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). See “Item 8—Note 12 (Income Taxes)” for an explanation of the change in our effective tax rates.

Other comprehensive income (loss), net of taxes for the year ended December 31, 2018 was $4.7 million of net unrealized losses related to debt securities available-for-sale compared to other comprehensive income of $0.1 million related to net unrealized gains on debt securities available-for-sale and equity securities for 2017. On January 1, 2018 we adopted ASU 2016-01. See “Item 8—Note 14 (Other Comprehensive Income (Loss))” for additional information about the amounts comprising other comprehensive income and loss for these periods and “Item 8—Note 2 (Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements)” for a discussion on the adoption.

YEAR ENDED DECEMBER 31, 2017 COMPARED TO YEAR ENDED DECEMBER 31, 2016

Net income increased by $7.5 million, or 7.6%, to $106.9 million for the year ended December 31, 2017 compared to $99.4 million for the year ended December 31, 2016. Net income for the year ended December 31, 2017 included growth within each revenue category, continued underwriting profitability despite the impact from Hurricane Irma during the year, and a reduction in our effective tax rate. Diluted earnings per common share increased by $0.20 to $2.99 for the year ended December 31, 2017 compared to $2.79 per share for the year ended December 31, 2016, primarily as a result of an increase in net income and offset by modest increase in weighted average diluted shares outstanding. A more detailed discussion of this and other factors follows the table below.

	(in thousands)			
	Years Ended December 31,		Change	
	2017	2016	$	%
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	$1,055,886	$954,617	$101,269	10.6%
Change in unearned premium	(56,688)	(33,390)	(23,298)	69.8%
Direct premium earned	999,198	921,227	77,971	8.5%
Ceded premium earned	(310,405)	(288,811)	(21,594)	7.5%
Premiums earned, net	688,793	632,416	56,377	8.9%
Net investment income	13,460	9,540	3,920	41.1%
Net realized gains (losses) on investments	2,570	2,294	276	12.0%
Commission revenue	21,253	17,733	3,520	19.8%
Policy fees	18,838	16,880	1,958	11.6%
Other revenue	7,002	6,426	576	9.0%
Total premiums earned and other revenues	751,916	685,289	66,627	9.7%
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	350,428	301,229	49,199	16.3%
General and administrative expenses	231,004	221,177	9,827	4.4%
Total operating costs and expenses	581,432	522,406	59,026	11.3%
INCOME BEFORE INCOME TAXES	170,484	162,883	7,601	4.7%
Income tax expense	63,549	63,473	76	0.1%
NET INCOME	$106,935	$99,410	$7,525	7.6%
Other comprehensive income (loss), net of taxes	127	(2,402)	2,529	NM
COMPREHENSIVE INCOME	$107,062	$97,008	$10,054	10.4%
DILUTED EARNINGS PER SHARE DATA:				
Diluted earnings per common share	$2.99	$2.79	$0.20	7.2%
Weighted average diluted common shares outstanding	35,809	35,650	159	0.4%

For the year ended December 31, 2017, our growth in direct premiums written increased by 10.6% overall to $1,055.9 million, including an increase of 7.4% to $924.0 million within Florida and an increase of 40.4% to $131.9 million in our Other States book. Growth within Florida includes both continued organic growth and the positive effect of increased policyholder retention and the associated premium volume surrounding Hurricane Irma, while growth in our Other States book includes continued expansion within states where we already had a presence prior to 2017, as well as the addition of two new states during the year (New Jersey and New York).

Direct premium earned increased by 8.5% to $999.2 million for the year ended December 31, 2017, from $921.2 million in the prior year. The increase in direct premium earned reflects the growth within both our Florida and Other States books, as discussed above, which has occurred over the past 12 months.

Ceded premium earned was $310.4 million for the year ended December 31, 2017, compared to $288.8 million for the year ended December 31, 2016. The increase in ceded earned premiums of $21.6 million is attributable to increased costs associated with our 2017/2018 reinsurance program (which runs from June 1 to May 31 of the following year), reflecting increased ceded exposure from policy growth as well as coverage and limit improvements as compared to the 2016/2017 reinsurance program. Our overall reinsurance spend as a percentage of direct premium earned held steady at 31% for the year ended December 31, 2017 as compared to the prior year.

Premiums earned, net increased by 8.9% to $688.8 million for the year ended December 31, 2017, compared to $632.4 million for the year ended December 31, 2016. The growth was the result of the increase in direct premium earned and was partially offset by the increase in ceded premium earned, both of which are discussed above.

Net investment income was $13.5 million for the year ended December 31, 2017, compared to $9.5 million for the year ended December 31, 2016, representing an increase of 41.1%. The $4.0 million increase in net investment income is principally the result of the increasing size of our investment portfolio, coupled with favorable market trends and actions taken to increase portfolio

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yield while maintaining high credit quality. Total average investments were $666.3 million with an average credit rating of AA- during the year ended December 31, 2017 compared to $592.6 million with an average credit rating of AA- for the same period in 2016.

We periodically sell investment securities from our portfolio of securities available-for-sale when opportunities arise or when circumstances could result in greater losses if such securities continue to be held. We sold investment securities available-for-sale during the year ended December 31, 2017 resulting in a net realized gain of $2.6 million compared to a net realized gain of $2.3 million during the year ended December 31, 2016.

Commission revenue is comprised principally of brokerage commissions we earn from reinsurers on reinsurance placed for the Insurance Entities. For the year ended December 31, 2017, commission revenue grew by $3.6 million, or 19.8%, to $21.3 million, compared to $17.7 million for the year ended December 31, 2016. The increase was the result of overall changes in the structure of the reinsurance programs in effect, the amount of premiums paid for reinsurance on our growing exposures and the types of reinsurance contracts used in each program, as well as a benefit of approximately $2.0 million related to reinstatement premium commissions received by BARC following Hurricane Irma.

Policy fees are fees collected from policyholders by our wholly-owned managing general agent for business that is written through that subsidiary. Policy fees for the year ended December 31, 2017 grew by $1.9 million, or 11.6% to $18.8 million compared to $16.9 million for the year ended December 31, 2016. The increase was the result of growth in the number of policies written during the year ended December 31, 2017 compared to the same period in 2016.

Other revenue represents revenue from policy installment fees, premium financing and other miscellaneous income. Other revenue for the year ended December 31, 2017 grew by $576,000, or 9.0%, to $7.0 million compared to $6.4 million for the year ended December 31, 2016. The increase reflects growth in the number of policies written during the year ended December 31, 2017 compared to the same period in 2016, as well as consumer behavior underlying the composition of our insurance portfolio.

Losses and LAE, net of reinsurance were $350.4 million for the year ended December 31, 2017 compared to $301.2 million for the same period in 2016 as follows:

	For the Year Ended December 31, 2017					
	Direct	Loss Ratio	Ceded	Loss Ratio	Net	Loss Ratio
Premiums earned	$999,198		$310,405		$688,793	
Losses and loss adjustment expenses:						
Hurricane Irma losses and loss adjustment expenses	$446,700	44.7%	$417,543	134.5 %	$29,157	4.2 %
All other losses and loss adjustment expenses	332,422	33.3%	11,151	3.6 %	321,271	46.7%
Total losses and loss adjustment expenses	$779,122	78.0%	$428,694	138.1 %	$350,428	50.9%

	For the Year Ended December 31, 2016					
	Direct	Loss Ratio	Ceded	Loss Ratio	Net	Loss Ratio
Premiums earned	$921,227		$288,811		$632,416	
Losses and loss adjustment expenses:						
Weather events*	$51,400	5.6 %	$5,300	1.8 %	$46,100	7.3 %
All other losses and loss adjustment expenses	251,636	27.3%	(3,493)	(1.2)%	255,129	40.3%
Total losses and loss adjustment expenses	$303,036	32.9%	$1,807	0.6 %	$301,229	47.6%

* Includes only weather events beyond expected.

See “Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)” for change in liability for unpaid losses and LAE.

During the year ended December 31, 2017, the Company recorded gross losses and LAE of $446.7 million resulting from Hurricane Irma. The Company's reinsurance program limited losses from Hurricane Irma to $29.2 million, which added 4.2 percentage points to the net losses and LAE ratio for the year ended December 31, 2017. In addition, the Company experienced approximately $2.4 million of gross losses and loss adjustment expenses related to hailstorms in Minnesota that occurred in June/July of 2017, for which the Company ultimately recorded only $1.0 million of net losses and LAE. This recovery was a result of aggregate loss clauses within our reinsurance program triggered by Hurricane Irma. Weather events in 2016 were comprised of a series of severe storms in the first quarter, as well as the impact of Hurricane Hermine in the third quarter and Hurricane Matthew in the fourth quarter.
In the fourth quarter of 2017, the Company recorded reserve of $44.7 million for the reserve strengthening comprised of (1) $26.4 million for unfavorable prior year reserve development related to accident years 2013, 2015 and 2016 and (2) $18.3 million for unfavorable development for the 2017 accident year. Each year reserve re-estimates, as described in "Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)", are conducted and the difference between indicated reserves based on new reserve estimates and the previously recorded estimate is recorded and included in "Losses and loss adjustment expenses" in the Consolidated Statements of Income. An AOB is a document signed by a policyholder that allows a third party to be paid for services performed for an insured homeowner who would normally be reimbursed by the insurance company directly after making a claim. The Company has generally seen an increase in the use of AOB's by Florida policyholders. Claims paid under an AOB often involve unnecessary litigation and as a result cost the Company significantly more than claims settled when an AOB is not involved. Reserve re-estimates in 2017 resulted in unfavorable prior year reserve development of $27.7 million, compared to favorable prior year reserve development of $4.7 million in 2016. Unfavorable prior year loss reserve development in 2017 related to accident years 2013, 2015, and 2016, primarily as a result of increased litigation frequency surrounding the AOB issue within our Florida policies.

All other losses and loss adjustment expenses on a net basis were $321.3 million for the year ended December 31, 2017, compared to $255.1 million during the same period in 2016. The increase reflects increased losses due to growth in exposures and an increase in the losses and LAE ratio excluding Hurricane Irma of 6.4 percentage points when compared to calendar year 2016 as presented in the table above. The 6.4 percentage point increase reflects prior accident year reserve development accounting 4.0 percentage points, continued geographic expansion into states outside of Florida where non-catastrophe loss ratios are generally higher than in Florida, and the marketplace dynamics inside of Florida including increased challenges faced by insurers when policyholders assign benefits underlying their policies to third parties and the growth in litigation arising from these assignments.

For the year ended December 31, 2017, general and administrative expenses were $231.0 million, compared to $221.2 million for the same period in 2016, as detailed below (dollars in thousands):

	For the Years Ended December 31,				Change	
	2017		2016		$	%
	$	Ratio	$	Ratio		
Premiums earned, net	$688,793		$632,416		$56,377	8.9 %
General and administrative expenses:						
Policy acquisition costs	138,846	20.2%	125,979	19.9%	12,867	10.2 %
Other operating costs	92,158	13.3%	95,198	15.1%	(3,040)	(3.2)%
Total general and administrative expenses	$231,004	33.5%	$221,177	35.0%	$9,827	4.4 %

For the year ended December 31, 2017, general and administrative expenses increased by $9.8 million, or 4.4% to $231.0 million, driven by an increase in policy acquisition costs of $12.9 million, or 10.2%, and which was partially offset by a decrease in other operating costs of $3.0 million, or 3.2%. The increase in policy acquisition costs primarily reflects the growth in premium volume described above but also includes an increase in the amount of bonus commissions paid to independent agents for achieving certain levels of premium production and retention. Other operating costs decreased $3.0 million primarily driven by decrease in insurance cost, legal and consulting. The operating expense ratio improved as result of economies of scale.

Income tax expense for the year ended December 31, 2017 increased by $0.1 million, or 0.1%, to $63.5 million as compared to $63.5 million for the year ended December 31, 2016. See “Item 8—Note 12 (Income Taxes)” for a reconciliation from the statutory income tax rates to our effective tax rates for these periods.

Comprehensive income includes net income and other comprehensive income or loss. Other comprehensive income, net of taxes for the year ended December 31, 2017 was $0.1 million compared to a loss of $2.4 million for the same period in 2016. Other comprehensive income (loss) represents after tax changes to equity which are not recognized in net income, including changes in the fair value of securities available-for-sale held in our investment portfolio and any reclassifications out of cumulative other comprehensive income for securities sold. See “Item 8—Note 14 (Other Comprehensive Income (Loss)).”

ANALYSIS OF FINANCIAL CONDITION AS OF DECEMBER 31, 2018 COMPARED TO DECEMBER 31, 2017

We believe that cash flows generated from operations will be sufficient to meet our working capital requirements for at least the next twelve months. Our policy is to invest amounts considered to be in excess of current working capital requirements.

The following table summarizes, by type, the carrying values of investments as of the dates presented (in thousands):

	As of December 31,	
Type of Investment	2018	2017
Available-for-sale debt securities	$ 820,438	$ 639,334
Available-for-sale short-term investments	—	10,000
Equity securities	63,277	62,215
Investment real estate, net	24,439	18,474
Total	$908,154	$730,023

See “Item 8—Consolidated Statements of Cash Flows” for explanations of changes in investments.

Prepaid reinsurance premiums represent the portion of unearned ceded written premium that will be earned pro-rata over the remaining coverage period of our reinsurance program, which runs from June 1 to May 31 of the following year. The increase of $9.9 million to $142.8 million as of December 31, 2018 was due primarily to an increase in ceded written premium for the reinsurance costs relating to our 2018-2019 catastrophe reinsurance program beginning June 1, 2018, less amortization of those costs recorded during 2018.

Reinsurance recoverable represents the estimated amount of paid and unpaid losses, loss adjustment expenses and expenses that are expected to be recoverable from reinsurers. The increase of $236.2 million to $418.6 million as of December 31, 2018 was due to increases in ceded loss reserves as the result of Hurricanes Michael and Florence in the current year and prior year reserve development on Hurricane Irma recorded in 2018. The largest unsettled balances during the year relate to claims ceded to reinsurers from Hurricane Irma and to a lesser extent Hurricanes Michael and Florence.

Premiums receivable, net represents amounts receivable from policyholders. The increase in premiums receivable, net of $3.4 million to $59.9 million as of December 31, 2018 relates to both the growth in and seasonality of the Company’s business.

Deferred policy acquisition costs increased $11.6 million to $84.7 million as of December 31, 2018, which is consistent with the underlying premium growth and seasonality of the Company’s business. See “Item 8—Note 5 (Insurance Operations)” for a roll-forward in the balance of our deferred policy acquisition costs.

Income taxes recoverable represents tax payments in excess of estimated tax obligations to taxing authorities which totaled $11.2 million recoverable as of December 31, 2018 compared to $9.5 million recoverable as of December 31, 2017. Income taxes recoverable as of December 31, 2018 will be applied to future periods for federal and state income taxes.

Deferred income taxes represent the estimated tax asset or tax liability caused by temporary differences between the tax return basis of certain assets and liabilities and amounts recorded in the financial statements. Deferred income taxes reverse in future years as the temporary differences between book and tax reverse. During the year ended December 31, 2018, the deferred income tax asset-net increased by $5.3 million to $14.6 million primarily due to an increase in the deferred tax benefit from increases in unrealized losses in investments.

See “Item 8—Note 17 (Liability for Unpaid Losses and Loss Adjustment Expenses)” for a roll-forward in the balance of our unpaid losses and loss adjustment expenses. Unpaid losses and loss adjustment expenses increased by $224.4

million to $473 million as of December 31, 2018. The increase in unpaid losses and loss adjustment expenses was principally due to 2018 weather events specifically Hurricanes Florence and Matthew, adverse development on prior years estimated claims and claims from the current year. Prior year development includes amounts recorded in 2018 to increase amounts recorded for Hurricane Irma claims by $522 million to $969 million. Unpaid losses and loss adjustment expenses are net of estimated subrogation recoveries of $99 million at December 31, 2018 compared to $85 million at December 31, 2017. In August 2018, the Company announced the appointment of a Chief Legal Officer to lead the legal efforts in response to growing AOB claims and their related increase in litigated claims and costs. The Company has also expanded its initiatives to expedite claims payments, including the ability of our mobile claims teams to rapidly settle certain claims, which we refer to as "Fast Track," and pursuing the anticipated benefits from subrogation collections.

Unearned premium represents the portion of direct premiums written that will be earned pro-rata in the future. The increase of $69.2 million to $601.7 million as of December 31, 2018 reflects both organic growth and seasonality of our business as described under "—*Overview*".

Advance premium represents premium payments made by policyholders in advance of the effective date of the policies totaling $26.2 million as of December 31, 2018 and December 31, 2017 and reflects customer payment behavior of our business as described under "—*Overview*".

Book overdrafts represent outstanding checks or drafts in excess of cash on deposit with banking institutions and are examined to determine if a legal right of offset exists for accounts within the same banking institution at each balance sheet date. The Company maintains a short-term cash investment sweep to maximize investment returns on cash balances. Due to sweep activities, certain outstanding items are recorded as book overdrafts, which totaled $102.8 million as of December 31, 2018 compared to $36.7 million as of December 31, 2017. The increase of $66.1 million is the result of lower cash balances available for offset as of December 31, 2018 compared to December 31, 2017.

Reinsurance payable, net principally represents the unpaid ceded written premiums owed to reinsurers in connection with the renewal of the Company's 2018-2019 catastrophe reinsurance program on June 1, 2018, and to a lesser extent unpaid reinstatement premiums and cash advances received from reinsurers. The balance decreased by $17.1 million to $93.3 million as of December 31, 2018 as a result of reductions in cash advances received from reinsurers. Ceded premiums for the 2018-2019 catastrophe reinsurance program are paid in installments over the June 1 to May 31 policy term.

Other liabilities and accrued expenses increased by $0.3 million to $45.4 million as of December 31, 2018, primarily driven by an increase in other liabilities due to timing of payments.

Capital resources, net increased by $60.2 million and includes increases in stockholders' equity of $61.6 million, offset by reduction in long-term debt of $1.5 million. The increases in stockholders' equity were principally the result of $117.1 million of 2018 net income and $0.2 million of stock-based compensation transactions, offset by $25.3 million in treasury stock purchases, $25.5 million in dividends to shareholders and $4.7 million in accumulated other comprehensive loss as a result of increases in unrealized losses on our available-for-sale debt securities, net of tax. The reduction in long-term debt was the result of principal payments on debt during 2018. See "—*Liquidity and Capital Resources*" and "Item 8—Note 8 (Stockholders' Equity)" for explanation of changes in treasury stock.

Additional paid-in-capital increased $0.2 million resulting from share-based compensation expense of $12.8 million and stock option exercises of $36.6 million for the year ended December 31, 2018. This was offset by the common stock value acquired through cashless stock option exercise and tax withholdings on the intrinsic value of stock option exercise, restricted stock and performance units vested for share-based payment transactions of $49.2 million for the year ended December 31, 2018.

Liquidity and Capital Resources

Liquidity

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet its short- and long-term obligations. Funds generated from operations have been sufficient to meet our liquidity requirements and we expect that, in the future, funds from operations will continue to meet such requirements.

The balance of cash and cash equivalents as of December 31, 2018 was $166.4 million, compared to $213.5 million at December 31, 2017. See "Item 8—Consolidated Statements of Cash Flows" for a reconciliation of the balance of cash and cash equivalents between December 31, 2018 and 2017. The decrease in cash and cash equivalents was driven by cash flows used for investing and financing activities in excess of those generated from operating activities. The Company maintains a short-term investment cash sweep to maximize investment returns on cash balances. Due to the sweep activities, certain outstanding items were recorded as "Book Overdraft" in the consolidated financial statements. Cash and cash equivalents balances are available to settle book overdrafts, pay reinsurance premiums, pay expenses and pay claims. Reinsurance premiums are paid in installments during the reinsurance policy period, which runs from June 1st to May 31st of the following year. The FHCF is paid in three installments on August 1st, October 1st, and December 1st, and third-party reinsurance is paid in four installments on July 1st, October 1st, January

1st and April 1st, resulting in significant payments at those times. See “Item 8—Note 15 (Commitments and Contingencies)” and *“Contractual Obligations”* for more information.

During 2018, hurricanes were a significant liquidity event to the Company. The Company’s reinsurance program performed as expected providing sufficient liquidity in the form of cash advances for paid losses ceded to the reinsurers. During 2018, the Company collected substantially all of the amounts ceded to reinsurers and did not have to use funds in the Company’s investment portfolio.

The balance of restricted cash and cash equivalents as of December 31, 2018 and 2017 includes cash equivalents on deposit with regulatory agencies in the various states in which our Insurance Entities do business.

Liquidity for UVE and its non-insurance subsidiaries is required to cover the payment of general operating expenses, dividends to shareholders (if and when authorized and declared by our Board of Directors), payment for the possible repurchase of our common stock (if and when authorized by our Board of Directors), payment of income taxes, and interest and principal payments on outstanding debt obligations, if any. The declaration and payment of future dividends by UVE to its shareholders, and any future repurchases of UVE common stock, will be at the discretion of our Board of Directors and will depend upon many factors, including our operating results, financial condition, debt covenants and any regulatory constraints. Principal sources of liquidity for UVE and its non-insurance subsidiaries include revenues generated from fees paid by the Insurance Entities to affiliated companies for policy administration, inspections and claims adjusting services. Additional sources of liquidity include brokerage commissions earned on reinsurance contracts and policy fees. UVE also maintains investments, which are a source of ongoing interest and dividend income and would generate funds upon sale. As discussed in “Item 8—Note 5 (Insurance Operations),” there are limitations on the dividends the Insurance Entities may pay to their immediate parent company, UVECF.

The maximum amount of dividends that can be paid by Florida insurance companies without prior approval of the Commissioner of the FLOIR is subject to restrictions as referenced in “Item 8—Note 5 (Insurance Operations).” The maximum dividend that may be paid by the Insurance Entities to UVECF without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or statutory unassigned surplus as of the preceding year end. During the year ended December 31, 2018, the Insurance Entities did not pay dividends to UVECF. During the year ended December 31, 2017, UPCIC paid a $30.0 million dividend to UVECF.

Liquidity for the Insurance Entities is primarily required to cover payments for reinsurance premiums, claims payments including potential payments of catastrophe losses (offset by recovery of any reimbursement amounts under our reinsurance agreements), fees paid to affiliates for managing general agency services, inspections and claims adjusting services, agent commissions, premiums and income taxes, regulatory assessments, general operating expenses, and interest and principal payments on debt obligations. The principal source of liquidity for the Insurance Entities consists of the revenue generated from the collection of net premiums, interest and dividend income from the investment portfolio, the collection of reinsurance recoverable and financing fees.

Our insurance operations provide liquidity as premiums are generally received months or even years before losses are paid under the policies written. In the event of catastrophic events, many of the Company’s reinsurance agreements provide for “cash advance” whereby reinsurers advance or prepay amounts to the Company, thereby providing liquidity, which the Company utilizes in the claim settlement process. In addition, the Insurance Entities maintain substantial investments in highly liquid, marketable securities, which would generate funds upon sale.

The Insurance Entities are responsible for losses related to catastrophic events in excess of coverage provided by the Insurance Entities’ reinsurance programs or retentions before the Company’s reinsurance protection commences. Also, the Insurance Entities are responsible for all other losses that otherwise may not be covered by the reinsurance programs and any amounts arising in the event of a reinsurer default. Losses or a reinsurer default may have a material adverse effect on either of the Insurance Entities or our business, financial condition, results of operations and liquidity.

As noted above, the Tax Act has decreased the statutory corporate tax rate from 35.0% to 21.0% for tax years beginning after December 31, 2017. Going forward, the Company expects to see an overall benefit from the Act, primarily from lower statutory tax rates offset by certain other provisions, principally the provision limiting the deductibility of certain executive compensation.

Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks and facilitate continued business growth. The following table provides our stockholders' equity, total long-term debt, total capital resources, debt-to-equity total capital ratio and debt-to-equity ratio for the periods presented (dollars in thousands):

	As of December 31,	
	2018	2017
Stockholders' equity	$501,633	$439,988
Total long-term debt	11,397	12,868
Total capital	$513,030	$452,856
Debt-to-total capital ratio	2.2 %	2.8 %
Debt-to-equity ratio	2.3 %	2.9 %

The Insurance Entities are required annually to comply with the NAIC RBC requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC's RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2018, based on calculations using the appropriate NAIC RBC formula, the Insurance Entities' reported, and respective total adjusted capital was in excess of the requirements. Failure by the Insurance Entities to maintain the required level of statutory capital and surplus could result in the suspension of their authority to write new or renewal business, other regulatory actions, or ultimately, in the revocation of their certificate of authority by the FLOIR.

In 2006, UPCIC entered into a $25.0 million surplus note with the State Board of Administration of Florida (the "SBA") under Florida's Insurance Capital Build-Up Incentive Program (the "ICBUI"). The surplus note has a twenty-year term and accrues interest, adjusted quarterly based on the 10-year Constant Maturity Treasury Index. UPCIC is in compliance with each of the loan's covenants as implemented by rules promulgated by the SBA. An event of default will occur under the surplus note, as amended, if UPCIC: (i) defaults in the payment of the surplus note; (ii) fails to submit quarterly filings to the FLOIR; (iii) fails to maintain at least $50 million of surplus during the term of the surplus note, except for certain situations; (iv) misuses proceeds of the surplus note; (v) makes any misrepresentations in the application for the program; (vi) pays any dividend when principal or interest payments are past due under the surplus note; or (vii) fails to maintain a level of surplus and reinsurance sufficient to cover in excess of UPCIC's 1-in-100 year probable maximum loss as determined by a hurricane loss model accepted by the Florida Commission on Hurricane Loss Projection Methodology as certified by the FLOIR annually. To avoid a penalty rate, UPCIC must maintain either a ratio of net written premium to surplus of 2:1 or a ratio of gross written premium of 6:1 according to a calculation method set forth in the surplus note. As of December 31, 2018, UPCIC's net written premium to surplus ratio and gross written premium to surplus ratio were in excess of the required minimums and, therefore, UPCIC is not subject to increases in interest rates. At December 31, 2018, UPCIC was in compliance with the terms of the surplus note. Total adjusted capital surplus, which includes the surplus note, was in excess of regulatory requirements for both UPCIC and APPCIC.

The Company may repurchase shares from time to time at its discretion, based on ongoing assessments of the capital needs of the Company, the market price of its common stock and general market conditions. The Company will fund the share repurchase program with cash from operations. During the year ended December 31, 2018, there were two authorized repurchase plans in effect:

- On September 5, 2017, UVE announced that its Board of Directors authorized the repurchase of up to $20 million of the Company's outstanding common stock through December 31, 2018. UVE repurchased 558,647 shares of its common stock on the open market at an aggregate price of $20 million with an average price per share of $35.80. The Company completed this share repurchase program in December 2018.
- In December 2018, UVE announced that its Board of Directors authorized a share repurchase program under which UVE may repurchase shares in the open market up to $20 million of its outstanding shares of common stock through

May 31, 2020. UVE repurchased 138,234 shares, at an aggregate price of approximately $5.5 million, pursuant to such repurchase program through December 31, 2018.

During the year ended December 31, 2018, we repurchased an aggregate of 688,689 shares of UVE's common stock in the open market. Also see "Part II, Item 5—Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Unregistered Sales of Equity Securities and Use of Proceeds" for share repurchase activity during the three months ended December 31, 2018.

Cash Dividends

The following table summarizes the dividends declared and paid by the Company during the year ended December 31, 2018:

2018	Dividend Declared Date	Shareholders Record Date	Dividend Payable Date	Cash Dividend Per Share Amount
First Quarter	January 22, 2018	February 28, 2018	March 12, 2018	$ 0.14
Second Quarter	April 12, 2018	April 27, 2018	May 4, 2018	$ 0.14
Third Quarter	May 29, 2018	July 2, 2018	July 16, 2018	$ 0.16
Fourth Quarter	November 16, 2018	November 27, 2018	December 4, 2018	$ 0.29

Reinsurance Recoverable

The following table provides total unpaid loss and LAE, net of related reinsurance recoverable for the dates presented (in thousands):

	Years Ended December 31,	
	2018	2017
Unpaid loss and LAE, net	$55,765	$58,669
IBNR loss and LAE, net	23,699	7,351
Total unpaid loss and LAE, net	$79,464	$66,020
Reinsurance recoverable on unpaid loss and LAE	$47,103	$57,261
Reinsurance recoverable on IBNR loss and LAE	346,262	125,144
Total reinsurance recoverable on unpaid loss and LAE	$393,365	$182,405

Statutory Loss Ratios

Underwriting results of insurance companies are frequently measured by their combined ratios, which is the sum of the loss and expense ratios described in the following paragraph. However, investment income, federal income taxes and other non-underwriting income or expense are not reflected in the combined ratio. The profitability of property and casualty insurance companies depends on income from underwriting, investment and service operations. Underwriting results are considered profitable when the combined ratio is under 100% and unprofitable when the combined ratio is over 100%.

The following table provides the statutory loss ratios, expense ratios and combined ratios for the periods indicated for the Insurance Entities:

	Years Ended December 31,	
	2018	2017
Loss and LAE Ratio (1)		
UPCIC	63 %	56 %
APPCIC	63 %	82 %
Expense Ratio (1)		
UPCIC	35 %	35 %

APPCIC	70 %	47 %
Combined Ratio (1)		
UPCIC	98 %	91 %
APPCIC	133%	129%

(1) The ratios are net of ceded premiums and losses and LAE, including premiums ceded to the Company's catastrophe reinsurers which comprise a significant cost, and losses and LAE ceded to reinsurers. The expense ratio includes

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management fees and commissions, which are based on market rates, paid to an affiliate of the Insurance Entities in the amount of $95.1 million and $84.7 million for UPCIC for the years ended December 31, 2018 and 2017, respectively, and $0.6 million for each of the years ended December 31, 2018 and 2017 for APPCIC. The management fees and commissions paid to the affiliate are eliminated in consolidation.

Ratings

The Insurance Entities' financial strength is rated by a rating agency to measure the Insurance Entities' ability to meet their financial obligations to its policyholders. The agency maintains a letter scale Financial Stability Rating® system ranging from A" (A double prime) to L (licensed by state regulatory authorities).

In November 2018, Demotech, Inc. affirmed the Financial Stability Rating® of "A" for the Insurance Entities. According to Demotech, Inc., the assigned rating represents a company's continued positive surplus related to policyholders, liquidity of invested assets, an acceptable level of financial leverage, reasonable loss and loss adjustment expense reserves, and realistic pricing. The ratings of the Insurance Entities are subject to at least annual review by Demotech, Inc., and may be revised upward or downward or revoked at the sole discretion of Demotech, Inc. Financial Stability Ratings® are primarily directed towards policyholders, and are not evaluations directed toward the protection of investors in a company, including holders of a company's common stock, and are not recommendations to buy, sell or hold securities. See "Item 1A—Risk Factors—A downgrade in our Financial Stability Rating® may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition."

Contractual Obligations

The following table represents our contractual obligations for which cash flows are fixed or determinable as of December 31, 2018 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Reinsurance payable and multi-year commitments (1)	$209,582	$93,306	$116,276	$—	$—
Unpaid losses and LAE, direct (2)	472,829	292,681	131,919	36,408	11,821
Long-term debt	12,792	1,803	5,137	3,200	2,652
Total contractual obligations	$695,203	$387,790	$253,332	$39,608	$14,473

(1) The 1-3 years amount represents the payment of reinsurance premiums payable under multi-year commitments. See "Item 8—Note 15 (Commitments and Contingencies)."

(2) There are generally no notional or stated amounts related to unpaid losses and LAE. Both the amounts and timing of future loss and LAE payments are estimates and subject to the inherent variability of legal and market conditions affecting the obligations and make the timing of cash outflows uncertain. The ultimate amount and timing of unpaid losses and LAE could differ materially from the amounts in the table above. Further, the unpaid losses and LAE do not represent all the obligations that will arise under the contracts, but rather only the estimated liability incurred through December 31, 2018.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with U.S. generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Our primary assets are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of the general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the cost of paying losses and LAE.

Insurance premiums are established before we know the amount of loss and LAE and the extent to which inflation may affect such expenses. Consequently, we attempt to anticipate the future impact of inflation when establishing rate levels. While we attempt to charge adequate rates, we may be limited in raising premium levels for competitive and regulatory reasons. Inflation also affects the market value of our investment portfolio and the investment rate of return. Any future economic changes which result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred loss and LAE and thereby materially adversely affect future liability requirements.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") revised U.S. GAAP with the issuance of Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, that introduces a new process for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new ASU will apply to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt securities and other financial assets measured at fair value through other comprehensive income and (4) beneficial interests in securitized financial assets. The ASU changes the current practice of recording a permanent write down, (other than temporary impairment), for probable credit losses, which is more restrictive than the new ASU requirement that would estimate credit losses, then recorded through a temporary allowance account that can be re-measured as estimated credit losses change. The ASU further limited estimated credit losses relating to available-for-sale securities to the amount which fair value is below amortized cost. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In March 2017, FASB revised U.S. GAAP with the issuance of ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs*, to amend the amortization period for certain purchased callable debt securities held at a premium. Current U.S. GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. The new ASU shortens the amortization period of certain purchased callable debt securities to the earliest call date. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Under the current U.S. GAAP, you could consider the call dates and estimate if you had a large number of similar securities and you were basing your judgment on actual experience. Our service provider (who processes the accounting for our investment transactions) has many similar securities on their system and can make that type of determination. As a result, we currently account for the amortization under the proposed ASU and there will be no impact to our results of operations, financial condition or liquidity.

In August 2018, the FASB revised U.S. GAAP with the issuance of ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU removes, modifies and adds certain disclosure requirements associated with fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. We are currently evaluating our time line for the adoption of this ASU, which only affects the presentation of certain disclosures and is not expected to impact our results of operations, financial position or liquidity.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential for economic losses due to adverse changes in fair market value of available-for-sale debt securities, available-for-sale short-term investments and equity securities ("Financial Instruments") and investment real estate. We carry all of our Financial Instruments at fair market value and investment real estate at net book value in our statement of financial condition. Our investment portfolio as of December 31, 2018 is comprised of available-for-sale debt securities and equities securities, carried at fair market value, which expose us to changing market conditions, specifically interest rates and equity price changes.

The primary objectives of the investment portfolio are the preservation of capital and providing adequate liquidity for potential claims payments and other cash needs. The portfolio's secondary investment objective is to provide a total rate of return with an emphasis on investment income. None of our investments in risk-sensitive Financial Instruments were entered into for trading purposes.

See "Item 8—Note 3 (Investments)" and "Item 1—Business—Investments" for more information about our Financial Instruments.

Interest Rate Risk

Interest rate risk is the sensitivity of the fair market value of a fixed-rate Financial Instrument to changes in interest rates. Generally, when interest rates rise, the fair value of our fixed-rate Financial Instruments declines over the remaining term of the agreement.

The following tables provide information about our fixed income Financial Instruments as of December 31, 2018 compared to December 31, 2017, which are sensitive to changes in interest rates. The tables present the expected cash flows of Financial Instruments based on years to effective maturity using amortized cost compared and fair market value and the related book yield compared to coupon yield (dollars in thousands):

	December 31, 2018							
	2019	2020	2021	2022	2023	Thereafter	Other	Total
Amortized cost	$123,110	$109,690	$114,580	$55,542	$121,363	$301,454	$5,388	$831,127
Fair market value	$122,333	$108,564	$112,917	$54,309	$119,945	$297,214	$5,156	$820,438
Coupon rate	2.04 %	2.35 %	2.63 %	2.99 %	3.32 %	3.90 %	6.15 %	3.11 %
Book yield	1.88 %	2.24 %	2.43 %	2.83 %	3.18 %	3.68 %	5.96 %	2.94 %

* Years to effective maturity - 3.5 years