

UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-K
February 24, 2016

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, 2015

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 (I.R.S. Employer

incorporation or organization) Identification No.)

1110 West Commercial Blvd., Suite 100, Fort Lauderdale, Florida 33309

(Address of principal executive offices)

Registrant's telephone number, including area code: (954) 958-1200

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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, or a smaller reporting company.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

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, 2015: \$788,970,070.

Indicate the number of shares outstanding of Common Stock of Universal Insurance Holdings, Inc. as of February 19, 2016: 35,110,229

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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.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This report contains, in addition to historical information, "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 forward-looking statements anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. Forward-looking statements may appear throughout this report, including without limitation, the following sections: "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Risk Factors." 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 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
INTRODUCTION

Universal Insurance Holdings, Inc. ("UVE," and together with its wholly-owned subsidiaries, "we," "our," "us," or "the company") is the largest private personal residential homeowners insurance company in Florida by direct written premium in-force, with a 9.0% market share as of September 30, 2015, according to the most recent data reported by the Florida Office of Insurance Regulation (the "FLOIR"). We perform substantially all aspects of insurance underwriting, policy issuance, general administration and claims processing and settlement internally. We currently write personal residential homeowners insurance policies, predominantly in Florida with \$817.7 million in direct written premium for the year ended December 31, 2015. We also write homeowners insurance policies in Delaware, Georgia, Hawaii, Indiana, Maryland, Massachusetts, Minnesota, North Carolina, Pennsylvania and South Carolina, with \$65.7 million in direct written premium in those states for the year ended December 31, 2015. We are also

licensed to issue policies in Alabama, Michigan, New Hampshire, Virginia and West Virginia. Our business outside of Florida represents approximately 16% of our total insured value, or \$24,271 million, as of December 31, 2015.

Over the past several years, we have grown our business both within Florida and elsewhere in the United States through our distribution network of approximately 7,800 licensed independent agents. In writing business, we adhere to a disciplined underwriting approach – writing risks that are priced adequately and meet our underwriting standards – designed to achieve profitable growth as opposed to merely increasing the total number of policies written. We believe we are better positioned and able to expand profitably and service our policyholders within our markets than many of our competitors due to our established internal capabilities; protection afforded us by our reinsurance program; our experienced management team that successfully navigated prior active hurricane seasons, such as 2004 and 2005; our strong surplus and capital base; our success in growing organically in Florida without relying on the assumption of blocks of policies from Citizens Property Insurance Corporation (“Citizens”), the Florida state-sponsored insurer of last resort; and our growing geographic diversification. We also believe that our reinsurance program is structured such that if we were to experience an active hurricane season like the hurricane seasons in 2004 and 2005, we would be able to pay policyholder claims, maintain sufficient surplus to grow profitably and take advantage of the resulting market dislocation that would likely follow. We believe that our longevity in the Florida market and our resulting depth of experience will enable us to continue to successfully grow our business in both hard markets (periods of capital shortages resulting in a lack of insurance availability, relatively low levels of price competition, more selective underwriting of risks and relatively high premium rates) and soft markets (periods of relatively high levels of price competition, less restrictive underwriting standards and generally low premium rates).

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Below is an organization chart that summarizes our corporate structure:

Universal Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC,” and together with UPCIC, the “Insurance Entities”) are our insurance operating subsidiaries. Most of our policies are written by UPCIC. Universal Risk Advisors (“URA”) is our managing general agent and manages our distribution network and negotiates our reinsurance. Universal Inspection Corporation conducts inspections as part of our underwriting process, and Universal Adjusting Corporation (“UAC”) manages our claims processing and adjustment functions. Blue Atlantic Reinsurance Corporation (“BARC”) is our reinsurance intermediary. These service companies are vertically aligned with our Insurance Entities to maintain quality throughout the policy origination and claim settlement process. In addition, our servicing subsidiaries reduce, to us, the costs typically associated with outsourced business functions, enhance our ability to expand geographically due to economies of scale in our operations and allow us to expand our business incrementally and more effectively.

OUR STRATEGY

Increase our Policies in-Force in Florida through Continued Profitable and Organic Growth

We intend to continue profitably growing our business organically in Florida through our established network of approximately 4,500 independent Florida agents, the top 20% of whom originated approximately 70% of our direct written premium for the year ended December 31, 2015, and approximately 1,000 of whom have written business with our company for over a decade. Many of our competitors have experienced growth in recent years primarily as a result of assuming policies from Citizens. Because we perform all of our own marketing and underwriting as part of our organic growth strategy, we believe that we are more deliberate in seeking out profitable business from our independent agent force and selective in the policies we write as compared to Citizens, which generally must provide coverage to policyholders who have been unable to obtain insurance elsewhere. We have not assumed any policies from Citizens or its predecessor, Florida Residential Property and Casualty Joint Underwriting Association, since a single, small transaction in 1998, and have no plans to do so in the future. By contrast, in some cases, our competitors received approval to assume as many as 55,000 to 173,000 policies from Citizens in a single year. As of September 30, 2015, Citizens had approximately 570,000 policies outstanding (down from a peak level of approximately 1.5 million policies in late 2011). We believe that our continuing commitment to organic growth and to servicing our policyholders has created not only a superior premium base but also positive, long-term relationships with our independent agents and policyholders, which will foster our continued growth in and outside of Florida. For the nine months ended September 30, 2015, we issued 133,782 new policies, compared to 171,989 new policies issued by Citizens and 683,380 new policies (in each case, excluding mobile homeowners and farmowners) issued by the remaining top 25 personal and commercial residential homeowners insurers in Florida combined during the same period, according to the most recent data published by the FLOIR.

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Increase our Policies in-Force Outside of Florida to Grow Profitably and Diversify Revenue and Risk

We intend to continue our expansion outside of Florida primarily to take advantage of opportunities to write profitable business as well as to diversify our revenue and risk. We are targeting states with underserved homeowners insurance markets where we believe there is price adequacy for our products and where policyholders would benefit from our market knowledge and integrated service model. In new markets, we seek to replicate the successful growth strategy we implemented in Florida, including the careful appointment of new agents that we believe will generate profitable business for our company. We intend to leverage our existing agent network to generate new relationships and business. We will continue in our commitment to careful, profitable business growth through such independent agents, with the intent to grow quickly when the opportunity arises, including following any market dislocation. Our strategy involves taking the time to learn about each new market and its unique risks in order to carefully develop our own policy forms, rates and informed underwriting standards.

We also believe further geographic diversification will decrease our relative reinsurance costs as our risk profile changes to include more risks not tied to the Florida hurricane season. We believe that such diversification will produce more earnings stability as we expand to states with different market cycles than Florida and where the risks insured could offset Florida losses during an active hurricane season. We write homeowners policies in Delaware, Georgia, Hawaii, Indiana, Maryland, Massachusetts, Minnesota, North Carolina, Pennsylvania and South Carolina, and are also licensed to issue policies in Alabama, Michigan, New Hampshire, Virginia and West Virginia. As of December 31, 2015, policies outside of Florida accounted for 16% of our total insured value, or \$24,271 million, an increase from 12.1% as of December 31, 2014.

Optimize our Reinsurance Program as our Risk Profile Changes

We will continue to obtain what we believe to be appropriate reinsurance limits, coverage and terms so that our policyholders and shareholders are adequately protected in the event of an active hurricane season. Significant additional, new capital entering portions of the reinsurance marketplace has provided us with the opportunity to obtain favorable pricing and contract terms. Our dedicated reinsurance team at BARC includes seasoned industry professionals with an average of 24 years of experience, whom we hired from Willis Re almost 10 years ago. BARC differentiates us from our competitors by enabling us to act as our own reinsurance intermediary, developing a bespoke reinsurance program tailored to our needs in both soft and hard reinsurance markets. This team has developed and enhanced existing strong long term relationships with world leading reinsurance companies it brought to the company 10 years ago providing better efficiency in the manner in which we buy reinsurance annually. We had in excess of 40 reinsurance partners for the 2015-2016 reinsurance year from companies in the United States, Bermuda, London, Continental Europe and Asia. BARC works in conjunction with URA in providing these services. We also receive reinsurance intermediary services from Aon Benfield and thereby benefit from its depth of experience and knowledge of market standards. Aon Benfield works closely with our teams at BARC and URA in designing our reinsurance program and allowing us to obtain favorable pricing. Our internal team and Aon Benfield continually evaluate prevailing costs and the level of coverage that we determine is necessary in order to proactively capitalize on favorable market conditions.

We eliminated our quota share reinsurance arrangements effective June 1, 2015; purchased additional excess of loss catastrophe cover; and converted from a two-tower reinsurance program to a single tower reinsurance program covering our nationwide business based on our improving financial condition, our evaluation of market conditions and our changing coverage needs. We believe that restructuring our reinsurance program in this manner and continuously re-evaluating that structure has allowed us to take advantage of attractive reinsurance pricing and terms and to retain profitable business by eliminating our quota share program, while still maintaining reinsurance coverage that we

believe is sufficient to protect our policyholders and shareholders.

Continue to Provide High Quality Service through our Vertically Integrated Structure

We are committed to proactively managing our losses, loss adjustment expenses (“LAE”) and claims administration procedures through prudent underwriting and the use of internal claims adjustment services. On March 5, 2015, we acquired Aplin Peer & Associates Inc., an independent claims adjusting firm, to supplement our already sizable claims function, increasing our claims adjusting staff from 121 employees to 175 employees as of January 20, 2016. In recent years, we have significantly expedited our claims processing, including creating a mobile adjuster force that can visit a policyholder within days to settle a claim. In 2015, our average time to close claims decreased by over a week as compared to 2013 and 2014. In addition, despite an increase of 12.3% in our policies in-force in 2015, we have reduced our claims operating expenses by 2.3% as compared to 2014. We have also decreased our average LAE in excess of \$300 per claim file since 2014. Our expedited claims processing improves the policyholder experience and, therefore, our relationship with that policyholder’s agent, which we believe increases the persistency of our policies in-force. Our monthly weighted average policy renewal retention rate has increased from 83.2% in 2013, to 86.8% in 2014 and 88.1% in 2015.

In the future, we will continue to capitalize on our vertically integrated structure by retaining certain fees that we pay to our subsidiary service providers for reinsurance brokerage, adjusting and other services. We currently administer 100% of all claims and outsource

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40% of on-site field adjustment assignments, and thereby retain a corresponding portion of fees that would have otherwise been paid to external adjusters. These cost efficiencies will help us better withstand the financial impact of potential catastrophic storms. We also continue to retain select third-party claims adjusters to perform field services for and adjust the remaining portion of our claims in order to maintain our relationships with them, so they can assist us, during periods of high claims volume, in providing high quality and timely service to our policyholders. Accordingly, we believe we are able to reduce expenses during non-catastrophe years while providing a high level of customer service during all years.

OUR COMPETITIVE STRENGTHS

We believe that our success, historical growth and ability to capitalize on our future growth prospects are a result of the following competitive strengths of our business and management team.

Experienced Leadership Team with a Long History in the Florida Personal Residential Insurance Market

In February 2013, we appointed a new leadership team from within our company, comprised of individuals who understood our vision for the future. We have a deep and experienced leadership team with extensive experience in the Florida personal residential insurance market. Our Chairman, President and Chief Executive Officer, Sean P. Downes, has more than 25 years of experience in the insurance industry. Prior to Mr. Downes' arrival, all of our claims processing was outsourced to third parties. When Mr. Downes joined our company in 1999, he oversaw our claims operations and later oversaw the development of our vertically integrated structure. Mr. Downes has worked in the Florida insurance industry during all of its most recent active hurricane seasons. In particular, Mr. Downes led the claims team of a multi-line insurance claims adjusting corporation following Hurricane Andrew and served as Chief Operating Officer of UPCIC during the 2004 and 2005 active hurricane seasons. Jon W. Springer, our Chief Operating Officer, has 23 years of experience in the insurance industry, including 9 years leading a team of reinsurance specialists for Willis Re before joining us to implement and oversee our reinsurance program. Prior to becoming our Chief Operating Officer, Mr. Springer was an Executive Vice President of URA and BARC.

We believe this leadership team has led us in a new strategic direction that has realized many benefits for our shareholders and policyholders, evidenced in part by the 71.5% increase in our stockholders' equity and the 82.9% increase in policyholders' surplus that we have realized since their tenure began. Further, they are supported by a group of highly qualified individuals with industry expertise and extensive operational history, which enables us to capitalize on our experience of having emerged from the 2004 and 2005 active hurricane seasons in sound financial condition, whereas many of our competitors are new to the market and have not experienced the challenges of an active Florida hurricane season.

Focus on Underwriting Discipline

We seek to consistently generate an underwriting profit on the business we write in hard and soft markets through carefully developed underwriting guidelines informed by our experience in evaluating risks and in handling and processing claims, which enable us to set prices relative to the risk we are assuming. By focusing on appropriately identifying and assessing key risks and exposures in the market, we believe we are able to accurately price eligible risks and generate consistent profits. We assumed only one group of policies from Citizens' predecessor in 1998 when we first began our operations. Since then, we have grown our business by leveraging our network of approximately 4,500 independent agents in Florida, and by expanding to other geographic areas that present market opportunities. We periodically review the renewal rates and quality of business generated by our independent agents to ensure underwriting profitability and work with agents where we believe improvement is warranted. As a result of this

organic expansion and our vertically integrated structure, all of our operating units possess extensive knowledge of the personal residential homeowners insurance market.

Robust Internal Capabilities

We are vertically integrated with substantially all aspects of insurance underwriting, policy issuance, general administration and claims processing and settlement performed internally. Our ability to provide these services ourselves allows us to compress the cycle time of claim resolution in order to promptly pay valid claims and to control claims handling cost. In particular, by performing our own claims adjustment processes, we can better expedite meritorious claims as well as devote attention to potentially suspicious or inflated claims. As a result, we are generally able to begin the adjustment and mitigation process much earlier than if we relied more heavily on third parties, thereby reducing LAE and ultimate loss payouts. Our statutory net loss and LAE ratio for the nine months ended September 30, 2015 was 39.78%, lower than most of our peer companies. We are also able to retain a significant portion of the management and service fees that we and, indirectly, our reinsurers would otherwise pay to third parties for rendering such services. We do, however, intend to continue having a small portion of claims handled by select third parties as we believe that maintaining relationships with third-party service providers will benefit us in the event we need their assistance in handling claims due to a catastrophic event.

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Because most of our departments work together, we also believe our model provides a superior level of customer service for our policyholders, enhancing our reputation and increasing the likelihood that our policyholders will renew their policies with us. Our monthly weighted average renewal retention rate for 2015 was 88.1%. We believe that when policyholders have high levels of customer satisfaction with our company, we are able to strengthen our reputation and relationships with our independent insurance agent network.

Superior Claims Operations

Over the last decade, we have developed a proprietary claims administration system that allows us to efficiently process nearly all aspects of claims resolution for our policyholders. Our technology system has shortened claims handling and processing times, reduced associated claims resolution costs and has generated positive feedback from our policyholders and independent insurance agents. In addition, we recently launched our Fast Track Initiative, which expedites the claims settlement process to close certain types of claims in as little as 24 hours. The initiative sends select field adjusters to make on-site evaluations, with authorization to make payments to policyholders for certain types of claims. Our internal claims operation allows us to identify any trends or problems that may become apparent as claims are processed such that we can revise and bolster our underwriting guidelines as necessary in order to continue adequately pricing risks. Further, we continue to retain select third-party Florida claims administrators and adjusters as well as one national administrator to perform field services for and adjust a portion of our claims in order to maintain our relationships with them so that they can assist us, during periods of high claims volume, in providing high quality and timely service to our policyholders. We recognize the importance of claims processing and will continue to invest in this functionality.

Strong Independent Agent Distribution Network

We have developed long-term relationships with a network of approximately 7,800 licensed independent insurance agents – with approximately 4,500 in Florida and approximately 3,300 outside of Florida. Of our 4,500 independent Florida agents, approximately 1,000 have written business with us for over a decade. Our relationships with our Florida independent agents are critical to our success in growing our business in the future and are key differentiators when compared with competitors that have relied upon assumptions of policies from Citizens for their growth and, as a result, may not have developed the same degree of loyalty with as large a group of independent agents in Florida. We believe we have been able to build this network due to our reputation, commitment to the Florida market, experience, and integrity in the underwriting process, as well as our consistency in offering our products through hard and soft markets.

Further, the responsiveness of our operating units due to our vertically integrated structure enhances our relationships with our independent agents. By developing and controlling our proprietary technology system, we can rapidly respond to enhancement requests from our independent agents regarding our policy processing system. We undertook a survey of all of our independent agents in August 2015, and over 95.6% of the 770 agents who completed the survey reported being satisfied or more than satisfied with our system's ease of use in performing functions such as generating quotes, binding policyholders and processing payments. We will continue to leverage our experience in Florida to build relationships with independent agents in other states in order to produce organic business in those states.

MARKET

Florida

According to the U.S. Census Bureau, at June 30, 2015, Florida was the third largest state in terms of population, with approximately 20 million people. The University of Florida Bureau of Economic and Business Research estimates that Florida is expected to reach a population of approximately 26 million people by 2040, an increase of 38% from 2010. Property ownership and development represent key drivers of the Florida economy. Because of its location, Florida is exposed to an increased risk of hurricanes during the entire six months of the Atlantic hurricane season, which spans from June 1 through November 30. While a significant hurricane has not made landfall in Florida since 2005, eight hurricanes in 2004 and 2005, including Hurricanes Charley, Katrina, Rita and Wilma, caused combined estimated nationwide property damage of over \$127 billion, a significant portion of which occurred in Florida. As a result, availability of personal residential insurance and claims servicing are vitally important to Florida residents.

The Florida residential insurance market is highly fragmented and dominated by in-state insurance companies, including Citizens. Significant dislocation in the Florida property insurance market began following Hurricane Andrew in 1992 and accelerated following the 2004 and 2005 hurricane seasons. National and regional insurers significantly reduced their share of the market in Florida between 1999 and 2012. As national and regional insurance companies reduced their exposure in Florida, Citizens, which was at the time and remains today, by law, an insurer of last resort, increased efforts to provide affordable residential insurance to those residents unable to obtain coverage in the private market. As a result, Citizens' policy count grew from roughly 800,000 policies in 2005 to a peak level of approximately 1.5 million policies in late 2011. To reduce Citizens' risk exposure, beginning in 2010, Florida elected officials

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encouraged Citizens to focus on reducing the size of its portfolio by returning policies to the private market. Depopulation efforts have been successful, as Citizens' policy count at September 30, 2015 was approximately 570,000. To be eligible for a Citizens policy, an applicant must either be denied comparable coverage offers from the private insurance market or have received coverage offerings from the private insurance market requiring premium payments that are more than 15% higher than a comparable Citizens policy.

According to data compiled by the FLOIR, Citizens was the largest residential insurer in Florida as of September 30, 2015, with a market share of approximately 9.96% based on total direct premiums written in-force for personal residential insurance (excluding mobile homeowners and farmowners). As of December 31, 2015, less than 1,000 of our 550,800 Florida in-force policies, or 0.2%, were assumed from Citizens' predecessor, as compared to some of our competitors who received approval from Citizens to assume as many as 55,000 to 173,000 policies in each of 2014 and 2015 alone. We believe we have the opportunity to significantly expand the size of our personal residential homeowners insurance business both inside and outside of Florida by pursuing organic growth and have demonstrated our ability to do so over the past 10 years.

All residential insurance companies that write business in Florida, including us, are required to obtain a form of reinsurance through the Florida Hurricane Catastrophe Fund (the "FHCF"), a state-sponsored entity that provides a layer of reinsurance protection at a price that is typically lower than what would otherwise be available in the general 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. The FHCF provides limited capacity, which may be adjusted by statute from time to time.

Other States

While we are concentrated in Florida, part of our strategy is to continue our expansion outside of Florida primarily to take advantage of opportunities to write profitable business as well as to diversify our revenue and risk. We are targeting states with underserved homeowners insurance markets where we believe there is price adequacy for our products and where policyholders would benefit from our market knowledge and integrated service model. We write homeowners policies in Delaware, Georgia, Hawaii, Indiana, Maryland, Massachusetts, Minnesota, North Carolina, Pennsylvania and South Carolina, and are also licensed to issue policies in Alabama, Michigan, New Hampshire, Virginia and West Virginia. We look to expand to markets that have opportunities for reasoned, profitable growth and that allow us to position ourselves to take advantage of market dislocation opportunities similar to what we capitalized on in Florida following the 2004 and 2005 hurricane seasons.

COMPETITION

The market for personal residential homeowners insurance is highly competitive. In our primary market, Florida, there are approximately 127 licensed insurance companies that write in-force homeowners policies. See "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 table below shows policy count, direct written premium in-force, total insured value and market share (excluding mobile homeowners and farmowners) for the top 20 personal residential homeowners insurance companies by direct written premium in Florida as of September 30, 2015, which is the most recent date that the information is publicly available. We compete to varying degrees with all of these companies and others, including large national carriers.

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Florida Homeowners Insurance Market - Personal Residential - Ranked by Direct Written Premium In-Force*									
Company Name	Policies in-Force	Percentage Distribution	Direct Written Premium in-Force	Percentage Distribution	Total Insured Value**	Percentage Distribution			
Citizens Property Insurance Corporation	493,776	8.8 %	\$909,998	10.0 %	\$117,082,643	6.7 %			
Universal Property & Casualty Insurance Company	544,681	9.8 %	817,921	9.0 %	122,081,570	7.0 %			
Heritage Property & Casualty Insurance Company	234,901	4.2 %	426,516	4.7 %	66,378,535	3.8 %			
Federated National Insurance Company	231,828	4.1 %	416,423	4.6 %	93,504,340	5.4 %			
Homeowners Choice Property & Casualty Insurance Company, Inc.	163,808	2.9 %	404,728	4.5 %	48,795,348	2.8 %			
United Property & Casualty Insurance Company	172,142	3.1 %	310,188	3.4 %	66,710,291	3.8 %			
Security First Insurance Company	265,132	4.8 %	288,618	3.2 %	71,633,756	4.1 %			
United Services Automobile Association	123,922	2.2 %	281,569	3.1 %	48,242,485	2.8 %			
People's Trust Insurance Company	146,128	2.6 %	272,212	3.0 %	40,829,892	2.3 %			
Florida Peninsula Insurance Company	119,370	2.1 %	267,975	3.0 %	43,335,902	2.5 %			
St. Johns Insurance Company, Inc.	169,266	3.0 %	263,100	2.9 %	67,313,213	3.9 %			
Tower Hill Prime Insurance Company	144,782	2.6 %	233,453	2.6 %	56,552,743	3.2 %			
American Integrity Insurance Company of Florida	180,179	3.2 %	214,272	2.4 %	59,419,177	3.4 %			
First Protective Insurance Company	75,663	1.4 %	207,248	2.3 %	46,312,045	2.7 %			
Federal Insurance Company	32,444	0.6 %	182,423	2.0 %	53,058,899	3.0 %			
Tower Hill Signature Insurance Company	93,696	1.7 %	159,137	1.8 %	29,030,853	1.7 %			
AIG Property Casualty Company	14,177	0.3 %	151,703	1.7 %	42,923,670	2.5 %			
Olympus Insurance Company	85,406	1.5 %	150,840	1.7 %	43,264,560	2.5 %			
USAA Casualty Insurance Company	57,770	1.0 %	138,741	1.5 %	17,804,626	1.0 %			
ASI Preferred Insurance Corp.	115,159	2.1 %	137,598	1.5 %	35,465,861	2.0 %			
Total - Top 20 Insurers	3,464,230	62.0 %	6,234,663	68.9 %	1,169,740,409	67.1 %			
Total - All Insurers	5,585,980	100.0 %	9,061,894	100.0 %	1,746,368,362	100.0 %			

*The information displayed in the table above is compiled and published by the FLOIR as of September 30, 2015 based on information filings submitted quarterly by all Florida licensed insurance companies and downloaded from FLOIR's database as of February 17, 2016. Such information is presented for each individual company and is not

consolidated or aggregated. State Farm Florida Insurance Company does not report this type of information to the FLOIR. Dollar values are in thousands, rounded to the nearest thousand.

**Total insured values are for policies in-force that include wind coverage.

We compete primarily on the basis of the strength of our distribution network, high-quality service to our independent agents and policyholders, our reputation and commitment to the Florida market, claims handling ability, product features tailored to our markets and price. Our successful track record in writing homeowners insurance in catastrophe-exposed areas has enabled us to develop sophisticated risk selection and pricing techniques that endeavor to identify desirable risks and accurately reflect the risk of loss while allowing us to be competitive in our target markets. This risk selection and pricing approach allows us to profitably offer competitive products in areas that have a high demand for property insurance yet are underserved by the national carriers. Each of the Insurance Entities is currently rated “A” (“Exceptional”) by Demotech, Inc. (“Demotech”), a rating agency specializing in evaluating the financial stability of insurers.

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PRODUCTS AND DISTRIBUTION

Products

Our focus and our primary product is personal residential insurance, which accounts for the vast majority of business that we write. Our homeowners insurance products provide policyholders with the ability to receive homeowners, renters, condominium, dwelling, fire, other structures, personal property, personal liability and personal articles coverages. In 2015, we wrote an average of 16,110 new policies per month, an increase of 30% as compared to the prior year, and homeowners policies produced direct written premium of \$813.9 million. Homeowners policies accounted for 92.1% of our total direct written premium, with the remaining 7.9% comprised of fire and allied lines coverage.

The nature of our business, with respect to both claims and sales, tends to be seasonal over the course of a year, reflecting consumer behaviors in connection with the Florida residential real estate market and the need to be insured before the start of the hurricane season. The amount of written premium tends to increase just prior to the second quarter of our fiscal year and to decrease approaching the fourth quarter. We also face cyclicity resulting from hard and soft market cycles. See “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.”

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, 2015 (dollars in thousands, rounded to the nearest thousand):

County	As of December 31, 2015		In-Force		Total Insured	
	Count	%	Premium	%	Value	%
South Florida						
Broward	71,106	12.9 %	\$144,787	17.6 %	\$18,936,904	14.8 %
Palm Beach	66,492	12.1 %	120,319	14.6 %	17,238,456	13.5 %
Miami-Dade	55,546	10.1 %	114,595	13.9 %	12,304,747	9.6 %
South Florida exposure	193,144	35.1 %	379,701	46.1 %	48,480,107	37.9 %
Other significant* Florida counties						
Pinellas	37,501	6.8 %	44,747	5.4 %	6,377,811	5.0 %
Lee	28,079	5.1 %	29,461	3.6 %	4,574,457	3.6 %
Collier	21,539	3.9 %	29,108	3.5 %	3,740,666	2.9 %
Hillsborough	23,882	4.3 %	32,285	3.9 %	5,783,408	4.5 %
Polk	19,655	3.6 %	26,768	3.3 %	5,906,345	4.6 %
Escambia	19,784	3.6 %	31,643	3.9 %	5,571,589	4.4 %
Brevard	19,100	3.5 %	24,473	3.0 %	3,837,039	3.0 %
Total other significant* counties	169,540	30.8 %	\$218,485	26.6 %	35,791,315	28.0 %
Summary for all of Florida						
South Florida exposure	193,144	35.1 %	\$379,701	46.1 %	48,480,107	37.9 %

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Total other significant* counties	169,540	30.8 %	218,485	26.6 %	35,791,315	28.0 %
Other Florida counties	188,116	34.1 %	223,445	27.3 %	43,434,309	34.1 %
Total Florida	550,800	100.0%	821,631	100.0%	\$127,705,731	100.0%

*Significant counties defined as in-force premium greater than 2.50% as of December 31, 2015.

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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, 2015, 2014 and 2013 (dollars in thousands, rounded to the nearest thousand):

As of December 31, 2015							
State	Count	%	In-Force Premium	%	Total Insured Value	%	
Florida	550,800	88.2 %	\$821,631	92.6 %	\$127,705,731	84.0 %	
North Carolina	34,084	5.4 %	25,411	2.9 %	9,981,069	6.6 %	
Georgia	17,425	2.8 %	16,013	1.8 %	5,716,851	3.8 %	
South Carolina	10,479	1.7 %	11,744	1.3 %	3,135,568	2.1 %	
Massachusetts	4,720	0.8 %	6,455	0.7 %	2,790,054	1.8 %	
Indiana	2,694	0.4 %	2,146	0.3 %	851,536	0.6 %	
Hawaii	1,523	0.2 %	1,547	0.2 %	680,701	0.4 %	
Maryland	1,278	0.2 %	1,026	0.1 %	464,081	0.3 %	
Pennsylvania	1,017	0.2 %	738	0.1 %	360,991	0.2 %	
Delaware	396	0.1 %	407	0.0 %	181,857	0.1 %	
Minnesota	251	0.0 %	277	0.0 %	108,337	0.1 %	
Total	624,667	100.0 %	\$887,395	100.0 %	151,976,776	100.0 %	

As of December 31, 2014							
State	Count	%	In-Force Premium	%	Total Insured Value	%	
Florida	506,913	91.1 %	\$749,181	94.3 %	\$115,248,811	87.9 %	
North Carolina	26,251	4.9 %	19,871	2.5 %	7,671,188	5.9 %	
Georgia	10,570	1.9 %	9,651	1.2 %	3,331,523	2.6 %	
South Carolina	8,037	1.4 %	10,204	1.3 %	2,463,221	1.9 %	
Massachusetts	2,359	0.4 %	3,311	0.4 %	1,462,206	1.1 %	
Indiana	—	—	—	—	—	—	
Hawaii	1,306	0.2 %	1,354	0.2 %	586,845	0.4 %	
Maryland	799	0.1 %	670	0.1 %	308,312	0.2 %	
Pennsylvania	—	—	—	—	—	—	
Delaware	113	0.0 %	112	0.0 %	51,622	0.0 %	
Minnesota	—	—	—	—	—	—	
Total	556,348	100.0 %	\$794,354	100.0 %	131,123,728	100.0 %	

As of December 31, 2013							
State	Count	%	In-Force Premium	%	Total Insured Value	%	
Florida	499,949	93.3 %	\$749,321	95.7 %	\$110,785,839	90.7 %	
North Carolina	21,723	4.0 %	17,201	2.2 %	6,473,414	5.3 %	
Georgia	5,465	1.0 %	4,737	0.6 %	1,607,147	1.3 %	
South Carolina	6,251	1.2 %	8,466	1.1 %	1,894,527	1.6 %	
Massachusetts	986	0.2 %	1,411	0.2 %	632,470	0.5 %	

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Indiana	—	—	—	—	—	—	—
Hawaii	1,184	0.2 %	1,232	0.2 %	538,213	0.5 %	
Maryland	430	0.1 %	348	0.0 %	159,523	0.1 %	
Pennsylvania	—	—	—	—	—	—	
Delaware	—	—	—	—	—	—	
Minnesota	—	—	—	—	—	—	
Total	535,988	100.0%	\$782,716	100.0%	122,091,133	100.0%	

Also see “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” 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.

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Product Pricing

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.

The following table shows UPCIC's most recently approved rate changes in Florida. All percentage increases and decreases are expressed as statewide averages.

	2015 Rate Changes		2014 Rate Changes		2013 Rate Changes
	Effective Dates	Percentage Increase (Decrease)	Effective Dates	Percentage Increase (Decrease)	Effective Dates
Homeowners	April 15, 2015 for new business; May 25, 2015 for renewal business	2.2%	Jan. 1, 2014 for new business; Mar. 9, 2014 for renewal business	(2.4%)	Jan. 18, 2013 for new business; Mar. 9, 2013 for renewal business
	April 20, 2015 for new business; June 5, 2015 for renewal business	4.9%	Jan. 10, 2014 for new business; Mar. 3, 2014 for renewal business	8.1%	Jan. 14, 2013 for new business; Mar. 3, 2013 for renewal business
Fire					

For a discussion of our policy acquisition costs and deferred tax assets, see “Item 7 –Management’s Discussion and Analysis of Financial Condition and Results of Operations –Critical Accounting Policies and Estimates –Deferred Policy Acquisition Costs/Deferred Ceding Commissions,” “Item 7 –Management’s Discussion and Analysis of Financial Condition and Results of Operations –Results of Operations,” and “Item 8 –Note 12 (Income Taxes).”

Distribution

We market and sell our products solely through our network of approximately 7,800 licensed independent agents, which we continue to build both in Florida and in other states. Of these independent agents, the top 20% accounted for approximately 80% of our direct written premium for the year ended December 31, 2015. Currently we have approximately 4,500 independent agents in Florida and approximately 3,300 independent agents outside of Florida. Our relationships with independent agents and their relationships with their customers are critical to our ability to identify, attract and retain profitable business. See “Item 1A—Risk Factors—Risks Relating to Our Business—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 have developed our independent agency distribution channel since our inception, and we believe we have built significant credibility and loyalty within the independent agent community in the states in which we operate, particularly Florida. We actively participate in the recruitment and training of our independent agents and provide each agency with training sessions on topics such as submitting claims and underwriting guidelines, either over the phone or through an internet portal.

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.

A key part of our distribution strategy is to utilize an attractive commission-based compensation plan as an incentive for independent agents to place business with us. We also attempt to provide excellent service to our independent agents and brokers, maintaining a consistent partnership with our independent agents and a consistent presence in our target markets through hard and soft market cycles. Our internal staff and specialists provide support to our independent agents, including use of various technologies to assist with the delivery of service to our policyholders. Our independent agents have access to all policy and payment information through our online, proprietary system. This system allows our independent agents to provide quotes within minutes, and because we control our technology, we are able to quickly respond to agents who need troubleshooting assistance or who offer recommendations for improvement. This system has evolved into a highly valued tool that enables agents to quickly understand the status of a policy and assist their clients with any policy-related questions. We regularly monitor and enhance the system to provide the best point of sale

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tools possible. Agents are provided dedicated internal contacts should they need assistance, and agencies are proactively contacted on a quarterly basis to solicit feedback.

As a result of the superior service and compensation we provide, we have relatively little turnover among many of our key independent agents. Approximately 1,000, or 13%, of our independent agents have relationships with us that span a decade or more.

Services

We are vertically integrated with substantially all aspects of insurance underwriting, policy issuance, general administration and claims processing and settlement performed internally, which allows us to retain a majority of the economics associated with the issuance and administration of our insurance policies in-force. Vertical integration also maintains quality service throughout the policy life cycle. Below is a summary of the services we provide.

Underwriting

All underwriting is performed internally utilizing our state-approved underwriting manuals as the basis of our rate-making and risk assessment. Our manuals have been developed and enhanced over a number of years based on our deep knowledge of the homeowners insurance industry, and based on an ongoing analysis of our own loss experience. Initially, all new business must be submitted to us through our proprietary policy processing system and risk criteria which allows our independent agent partners to generate quotes and bind policies subject to compliance with our binding authority guidelines and risk criteria. Policies that are bound are further reviewed by our underwriting staff for accuracy of data, including reports of on-site inspections. Our underwriting process is constantly evolving as new and different type of risks and claim types become prevalent. However, see “Item 1A—Risk Factors—Risks Relating to Our Business—The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations.”

Policy Administration

We have developed a proprietary suite of applications that provide underwriting, policy and claim administration services, including billing, policy maintenance, inspections, refunds, commissions and data analysis. Our proprietary rating engine aligns with various state requirements to support our geographic expansion. This sophisticated policy processing system is solely managed by our employees and enhancements are implemented while adhering to strict internal control requirements to ensure business continuity.

Claims Administration

We closely manage all aspects of the claims process, from processing the initial filing to claim conclusion. When a policyholder contacts us to report a claim, members of our claims department create a claim file and aggregate the appropriate supporting documentation. Claims are then reviewed by our managers and staff adjusters, who assess the extent of the loss, complete on-site investigations when required, and determine the resources needed to adjust each claim. We perform or supervise the adjusting services rendered for our policyholders at all stages of the claims process, which we believe allows us to reduce cost and provide a high level of customer service. We assign a small percentage of field inspections to third-party adjusters in order to maintain relationships that will allow us to continue to provide high quality and timely service following a catastrophe or any other period of unusually high claim volume.

On March 5, 2015, we acquired Aplin Peer & Associates Inc., an independent claims adjusting firm, to supplement our already sizable claims function. We now have 175 claims personnel on staff. In 2015, our average time to close claims has decreased by over a week as compared to 2013 and 2014. Additionally, despite an increase of 12.3% in our policies in-force in 2015, we have reduced claims operating expenses by 2.3% as compared to 2014.

Reinsurance Intermediary

We manage our reinsurance program through our internal reinsurance intermediary, BARC, in conjunction with URA. Almost 10 years ago, we hired a dedicated team of reinsurance specialists from Willis Re, including our Chief Operating Officer, Jon W. Springer, to design a customized reinsurance strategy for us and to develop our in-house analytical capabilities. Our reinsurance team has an average of 24 years of knowledge and expertise of the reinsurance industry. We have two experienced actuaries and analytics modeling personnel on staff at BARC to assist in evaluating and designing our reinsurance program. Not only do we receive a portion of the fees that otherwise would be paid in commissions to a third-party reinsurance intermediary, we also develop and maintain long-term relationships with our reinsurers. We also utilize Aon Benfield as a third-party reinsurance intermediary as needed, enabling us to capitalize on its market experience and knowledge as well as our internal capabilities. Aon Benfield works closely with our teams at

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BARC and URA in designing our reinsurance program to obtain favorable pricing, as well as continually evaluating prevailing costs and the level of coverage we feel we need in order to capitalize on favorable market conditions.

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 a lack of recent significant catastrophic activity in Florida and elsewhere around the world, and underwriting improvements, such as Florida's wind mitigation efforts to strengthen homes subject to wind events, has reduced the cost of property catastrophe reinsurance, directly benefitting 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 2015-2016 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 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 v15.0 (Build 1625). 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 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 2015-2016 reinsurance program includes the mandatory coverage required by law to be placed with the FHCF (in which we have elected to participate at 90%, or the highest level), and also includes private reinsurance below, alongside and above the FHCF layer. In placing our 2015-2016 reinsurance program, we obtained multiple years of coverage for a 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, our single largest cost. For 2015-2016, we eliminated our quota share reinsurance effective as of June 1, 2015, while obtaining additional excess of loss catastrophe coverage.

We believe that this new structure will continue to protect us in years in which a catastrophe may occur, and in non-catastrophe years will decrease our reinsurance costs and increase the amount of premium we retain. These lower costs and higher premium retention will enable us to further increase our stockholders' equity in order to profitably grow our business.

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 2015, with the reinsurance coverage described herein, would be approximately \$84 million (after tax, net of all reinsurance recoveries). We estimate that, based on our portfolio of insured risks as of December 31, 2015, a repeat of the four 2004 calendar year events would have exhausted approximately 18.4% of our property catastrophe reinsurance coverage

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UPCIC's Retention

UPCIC has a net retention of \$35 million per catastrophe event for losses incurred up to a first event loss of \$2.24 billion. UPCIC purchases a separate underlying cover to further reduce its retention for all losses occurring in Hawaii. With this cover, UPCIC retains only \$10 million under its program in Hawaii. These retention amounts are gross of any potential tax benefit we would receive in paying such losses.

First Layer

Immediately above UPCIC's net retention, we have \$55 million of 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. 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 Layer

Above the first layer, for losses exceeding \$90 million, we have purchased a second layer of coverage for losses up to \$455 million – in other words, for the next \$355 million of losses. This coverage has been obtained from multiple contracts as follows:

- 58% of \$355 million in excess of \$90 million provides coverage on a multi-year basis through May 31, 2018;
- 12% of \$355 million in excess of \$90 million provides coverage for the 2015-2016 period; and
- the remaining 30% of \$355 million in excess of \$90 million is provided by the following:
 - o the second and final year of multi-year coverage for 30% of \$285 million in excess of \$90 million for the 2015-2016 period; and
 - o 30% of \$70 million in excess of \$375 million for the 2015-2016 period.

In this layer, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event, we have purchased reinstatement premium protection insurance to pay the required premium necessary for the reinstatement of these coverages. These coverages extend to all states, except with respect to the second year of the \$285 million in excess of \$90 million coverage, which extends only to Florida.

Third and Fourth Layers

In the third and fourth layers, we have purchased reinsurance for \$128 million of coverage in excess of \$445 million in losses incurred by us (net of the FHCF layer) and \$275 million of coverage in excess of \$573 million in losses incurred by us (net of the FHCF layer), respectively. Both layers' coverage extends to all states.

UPCIC structures its reinsurance coverage into layers and utilizes a cascading feature such that the second, third and fourth reinsurance layers all attach at \$90 million. Any layers above the \$90 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 would expect fees paid to our subsidiary service providers by our Insurance Entities and, indirectly, our reinsurers, would also increase during an active hurricane season, which could also offset claim-related losses we would have to pay on our insurance policies.

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 1, 2015, we estimate our FHCF coverage includes a maximum provisional limit of 90% of \$1,470.6 million, or \$1,323.5 million, in excess of \$491.7 million. Coverage purchased from third-party reinsurers, as described above, adjusts to fill in gaps in FHCF coverage. 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 landfalling hurricane.

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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 \$2,242.1 million for the first event, as illustrated by the graphic below. Should a catastrophic event occur, we would retain \$35 million pre-tax for each catastrophic event, and would also be responsible for any additional losses that exceed our top layer of coverage.

*Layer cascades to \$90M

APPCIC's Reinsurance Program

Third-Party Reinsurance

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 \$41.2 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 \$5.5 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

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premium protection to pay the required premium necessary for the initial reinstatement of this coverage for a second catastrophic event.

Second and Third Layers

In the second and third layers, we have purchased reinsurance for \$2.2 million of coverage in excess of \$7.5 million in losses incurred by us (net of the FHCF layer) and \$12 million of coverage in excess of \$9.7 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 and third 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 would expect fees paid to our subsidiary service providers by our Insurance Entities and, indirectly, our reinsurers would also increase during an active hurricane season, which could also offset losses we would have to pay on our insurance policies.

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 1, 2015, we estimate our FHCF coverage includes a maximum provisional limit of 90% of \$21.7 million, or \$19.53 million, in excess of \$6.9 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 fill in gaps in FHCF coverage. 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 landfalling hurricane.

Multiple Line Excess of Loss

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 \$41.7 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.

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*Layer cascades to \$2M

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. Under this multiple line excess per risk contract, APPCIC has coverage of \$8.5 million in excess of \$0.5 million ultimate net loss for each risk and each property loss, and \$1 million in excess of \$0.3 million 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.

INVESTMENTS

We conduct investment activities through each of the Insurance Entities and UVE. We have retained third-party investment advisers to advise us and manage our securities portfolio, other than cash-based equivalents. Our Board's Investment Committee oversees these advisers and reports overall investment results to our Board of Directors, at least on a quarterly basis.

The investment activities of the Insurance Entities are subject to regulation and supervision by the FLOIR. See "—Government Regulation and Initiatives." 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) and the amount of total investments in preferred stock and common stock. While we seek to appropriately limit the size and scope of investments in our portfolio, UVE is not similarly restricted by Florida law. Therefore, the investments made by UVE may significantly differ from those made by the Insurance Entities. We do not purchase 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 total rate of return with an

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emphasis on investment income. We focus on relatively short-term investments, with approximately 12.97% of the fair value of our portfolio with contractual maturities due in one year or less, and another 50.19% due after one year but before five years.

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

LIABILITY FOR UNPAID LOSSES AND LAE

We generally use the terms “loss” or “losses” to refer to both loss and LAE. We establish reserves for both reported and unreported unpaid losses that have occurred at or before the balance sheet date for amounts we estimate we will be required to pay in the future. Our policy is to establish these loss reserves after considering all information known to us at each reporting period. In many cases, several years may elapse between the occurrence of an insured loss and our payment of a liability claim. Liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim to the Insurance Entities and the final settlement than do property claims. Liability claims often involve third parties filing suit and ensuing litigation. By comparison, property damage claims tend to be reported in a relatively shorter period of time with the vast majority of these claims resulting in an adjustment without litigation. Accordingly, at any given point in time, our loss reserve represents our best estimate of the ultimate settlement and administration cost of our insured claims incurred and unpaid. Since the process of estimating loss 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, our ultimate liability will likely differ from these 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.

When a claim involving a probable loss is reported, we establish a liability for the estimated amount of our ultimate loss and LAE payments. The estimate of the amount of the ultimate loss is based upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure, estimate of liability on the part of the insured, past experience with similar claims and the applicable policy provisions. All newly reported claims begin with an initial average liability. That claim is then evaluated and the liability is adjusted upward or downward according to the facts and damages of that particular claim. In addition, management aggregates liabilities to provide for losses incurred but not reported (“IBNR”). We utilize independent actuaries to help establish liabilities for unpaid losses and LAE. We do not discount the liability for unpaid losses and LAE for financial statement purposes. As discussed above, we maintain an in-house claims staff that monitors and directs all aspects of our claims process, and oversees claims processed by third parties.

The estimates of the liability for unpaid losses and LAE are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, we review historical data and consider various factors, including known and anticipated legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data become available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for unpaid losses and LAE. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior 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.”

Government Regulation and Initiatives

We are subject to extensive regulation in the markets we serve, primarily at the state level, and will be subject to the regulations of any other 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.

Financial Reporting

The Insurance Entities prepare and file with various insurance regulatory authorities quarterly and annual audited financial statements in accordance with requirements established by the National Association of Insurance Commissioners (“NAIC”) and adopted by administrative rules in Florida as the Insurance Entities’ domiciliary state. The Insurance Entities’ financial statements are prepared in accordance with statutory accounting principles, which differ from United States generally accepted accounting principles.

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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 domiciled 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, these examinations generally occur every five years, although the FLOIR may conduct limited or full scope reviews more frequently. The financial examination reports are 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.

NAIC

The NAIC is an organization whose mandate is to benefit state insurance regulatory authorities and consumers by promulgating model insurance laws and regulations for adoption by the states. The NAIC also provides standardized insurance industry accounting and reporting guidance through its Accounting Practices and Procedures Manual (the "Manual"). However, model insurance laws and regulations are only effective when adopted by the states, and statutory accounting and reporting principles continue to be established by individual state laws, regulations and permitted practices. Changes to the Manual or modifications by the various state insurance departments may impact the statutory capital and surplus of the Insurance Entities. We cannot predict what additional compliance costs these pending model laws or regulations may impose if adopted by Florida or other states in the future.

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 U.S. 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. These laws may discourage potential acquisition proposals and may delay, deter or prevent an acquisition of control of UVE (in particular through an unsolicited transaction), even if the shareholders of UVE might consider such transaction to be desirable. 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."

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.

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 "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 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, 2015, the Insurance Entities' RBC ratios exceed applicable statutory requirements. See "Item 1A—Risk Factors—

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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 payments from its subsidiaries as its principal sources of cash to pay dividends 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 “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 2015 were paid from the earnings of UVE and its non-insurance subsidiaries and not from the capital and surplus of the Insurance Entities. 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. During the years ended December 31, 2015 and 2014, the Insurance Entities did not pay dividends to UVE.

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 rate increases or decrease rates permitted to be charged.

Most states, including Florida, also have insurance laws requiring that rate schedules and other information be filed with the insurance regulatory authority. The insurance regulatory authority may disapprove a rate filing if it finds that the rates are 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 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.

Privacy 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. 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.

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 impaired or 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 "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."

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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 Citizens. 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. Also, 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.

EMPLOYEES

As of February 19, 2016, we had 392 full-time employees. None of our employees are represented by a labor union.

AVAILABLE INFORMATION

Our internet address is <http://www.universalinsuranceholdings.com>, and our telephone number is (954) 958-1200. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K are available, free of charge, through our website as soon as reasonably practicable after their filing with the Securities and Exchange Commission ("SEC"). The SEC maintains an internet site that contains our SEC filings at <http://www.sec.gov>.

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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 a catastrophe model 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 significant exposure to catastrophic events. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which could result in extraordinary losses and have a negative impact on our net income and business. Catastrophes may also negatively affect our ability to write new or renewal business. Increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from catastrophic events in the future.

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. 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 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 and economic conditions. Many of these factors are not quantifiable.

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 further claims are reported and settled. Adjustments to reserves are reflected in the results of periods in which such estimates are changed. Because setting reserves is inherently uncertain, the ultimate cost of losses may vary materially from recorded reserves and such variance may adversely affect our operating results and financial condition.

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Our success depends in part on our ability to accurately 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, 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 is subject to a number of risks and uncertainties, some of which are outside our control, including:

- the availability of sufficient reliable data;
- regulatory delays in approving filed rate changes or our failure to gain regulatory approval;
- the uncertainties that inherently characterize 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.

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. 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 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 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 or 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 4,500 independent insurance agents in Florida as well as approximately 3,300 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'

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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. These 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. However, 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 and detailed information about our in-force business. 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 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 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 cost, 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 our reinsurers' financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract; whether insured losses meet the qualifying conditions under our reinsurance contracts for covered events such as windstorms, vandalism, brush fires, earthquakes and riots or are excluded explicitly for events such as a terrorism event; and changes in market conditions. 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 an unadmitted asset, which could negatively impact our 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, which could then lead to increased

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competition, a significant 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 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 Alabama, Delaware, Florida, Georgia, Hawaii, Indiana, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, North Carolina, Pennsylvania, South Carolina, Virginia and West Virginia, we write a substantial majority of our premium in Florida. Therefore, prevailing regulatory, 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 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, which mirrors the distribution and concentration of the population in Florida. 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 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 and in the future may enter new markets, 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 is 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 during the non-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 risk adequately and develop effective underwriting standards. External factors, such as compliance with state regulations, obtaining new licenses, competitive alternatives and shifting customer preferences, may 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.

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Loss of key executives or our inability to otherwise attract and retain talent could affect our operations.

Our future operations will depend in large part on the efforts of our Chairman, President and Chief Executive Officer, Sean P. Downes, and of our Chief Operating Officer, Jon W. Springer, both of whom have served in executive roles at UVE or its affiliates for many years. The loss of the services provided by Mr. Downes or Mr. Springer could have a material adverse effect on our financial condition and results of operations. Further, our ability to successfully operate may also 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. 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 a reasonable guarantee 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 department to effectively manage claims could adversely affect our insurance business, financial results and capital requirements.

We rely primarily on our claims department to facilitate and oversee the claims adjustment process for our policyholders. Many factors could affect the ability of our claims department 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 department to ensure consistent claims handling;
- the ability of our claims department to translate the information provided by adjusters into acceptable claims resolutions; and
- the ability of our claims department to maintain and update its claims handling procedures and systems as they evolve over time based on claims and geographical trends in claims reporting.

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. Civil litigation frequently results when we do not pay insurance claims in the amounts or at the times demanded 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. 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.

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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 with companies including large national carriers that have greater capital resources and longer operating histories, regional carriers and managing general agencies, and 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[®] 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 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 business, including our customer service, marketing, sales activities, customer relationship management and financial statement production, depends significantly on the effective operation of our information systems, as we retain confidential and proprietary information on them. Our business and operations rely on secure and efficient processing, storage and transmission of customer and company data, including personally identifiable information. 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.

We retain confidential information on our computer systems, including customer information and proprietary business information belonging to us and our policyholders. Our business and operations depend upon our ability to safeguard

this personally identifiable information. Our systems may be vulnerable to unauthorized access and hackers, computer viruses and other scenarios in which our data may be compromised.

Cyber attacks involving these systems, or those of our third-party vendors, could be carried out remotely and from multiple sources and could interrupt, damage or otherwise adversely affect the operations of these critical systems. Our information 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 cyber attacks or security breaches. Any such event could compromise our confidential information as well as that of our customers and third parties with whom we interact, impede or interrupt business operations and may result in other negative consequences, including loss of revenue, additional regulatory scrutiny and litigation and reputational damage. In addition, any data security breach of our independent agents or third-party vendors, or any prolonged denial of service on our website, could harm our business and reputation.

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.

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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 some time 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. 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 fixed maturity securities that comprise a large portion of our investment portfolio. A decline in the quality of our investment portfolio as a result of adverse economic conditions or otherwise could cause realized losses on securities.

Our overall financial performance is dependent in part on the returns on our investment portfolio, which may have a material adverse effect on our financial condition or results of operations or cause such results to be volatile.

The performance of our investment portfolio is independent of the revenue and income generated from our insurance operations, and there is 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 may be volatile, our overall results of operations may 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.

The laws and regulations affecting the insurance industry are complex and subject to change. Moreover, they 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 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, even absent any particular regulator's or enforcement authority's interpretation of a legal issue

changing, 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.

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 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 financial statements. These regulations also affect many other aspects of the Insurance Entities'

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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 or withdraw required approvals, require corrective action, impose operating limitations, impose penalties or pursue other remedies available under applicable laws and regulations.

State insurance regulations also frequently impose notice or approval requirements for the acquisition of specified levels of ownership in the insurance company or insurance holding company. For example, Florida law requires that a person may not, individually or in conjunction with any affiliated person of such person, acquire directly or indirectly, conclude a tender offer or exchange offer for, enter into any agreement to exchange securities for, or otherwise finally acquire 10% or more of the outstanding voting securities of a Florida domiciled stock insurer or of a controlling company, unless it is in compliance with certain notice and approval requirements. Such restriction may inhibit our ability to grow our business or achieve our business objectives.

Further, regulatory authorities have relatively broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, we follow practices based on our interpretations of regulations or practices that we believe may be generally followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. 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.

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.

Although the federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas, including employee benefits regulation, age, sex and disability-based discrimination, financial services regulation, securities regulation and federal taxation, can significantly affect the insurance business. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") created the Federal Insurance Office within the U.S. Department of the Treasury headed by a Director appointed by the Treasury Secretary. The Federal Insurance Office is designed principally to exercise a monitoring and information gathering role, rather than a regulatory role. Nonetheless, these activities could ultimately lead to changes in the regulation of insurers and reinsurers in the United States, including insurance group holding companies. The Dodd-Frank Act requires extensive rule-making and other future regulatory action, which in some cases will take a period of years to implement.

In recent 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 that 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 and Initiatives—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 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 may be dependent upon the ability to adjust rates for our cost.

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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 is either (i) 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 written premiums 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 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 and Initiatives.”

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Risks Relating to Debt Obligations

Our revolving line of credit and term loan have restrictive terms, and our failure to comply with any of these terms could have an adverse effect on our business and prospects.

We have entered into a revolving line of credit and term loan, each of which contains a number of affirmative and negative covenants so long as any amounts are outstanding thereunder. The negative covenants in these instruments limit our ability and the ability of our subsidiaries to, among other things:

- incur additional indebtedness;
- merge, consolidate or dispose of our assets or the capital stock or assets of any subsidiary;
- pay dividends, make distributions or redeem capital stock;
- enter into certain transactions with our affiliates;
- make material changes or modifications to our organizational structure; and
- grant liens on our assets or the assets of our subsidiaries.

Our revolving line of credit also includes certain affirmative covenants, including financial covenants requiring us to maintain minimum unencumbered liquid assets of \$5 million, minimum shareholders' equity of \$120 million and a maximum leverage percentage of 30%, in each case, as such terms are defined and calculated under the revolving line of credit. A breach of any of these covenants would result in a default under our revolving line of credit, which could have a material adverse effect on our business and financial condition.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms.

The capital and credit markets have been experiencing extreme volatility and disruption. In some cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity. In the event that we need access to additional capital to pay our operating expenses, make payments on our indebtedness, pay for capital expenditures or fund acquisitions, our ability to obtain such capital may be limited and the cost of any such capital may be significant. Our access to additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to our industry, and credit capacity, as well as lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain financing on favorable terms.

RISKS RELATING TO OWNERSHIP OF OUR COMMON STOCK

The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for them. The market price for our common stock could fluctuate significantly for various reasons, including:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
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changes in, or failure to meet, earnings estimates or recommendations by research analysts who track our common stock or the stock of other companies in our industry;

·being targeted by short sellers;

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- the failure of research analysts to cover our common stock;
- general economic, industry and market conditions;
- strategic actions by us, our customers or our competitors, such as acquisitions or restructurings;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business, or other adverse regulatory actions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- material litigation or government investigations;
 - changes in general conditions in the United States and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events;
- negative perceptions of the residential insurance market or the prospects of residential insurers in Florida or other key markets in which we operate;
- changes in key personnel;
- sales of common stock by us, our principal stockholders or members of our management team;
- the granting or exercise of employee stock options; and
- volume of trading in our common stock.

In addition, in recent years, the stock market has regularly experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with us and these fluctuations could materially reduce our share price.

Any issuance of preferred stock could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Our board of directors has the authority to issue preferred stock and to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discouraging bids for our common stock at a premium over the market price, and adversely affect the market price and the voting and other rights of the holders of our common stock.

Future sales of our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock in the public market or otherwise, by us or by a major shareholder, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

In addition, we may issue additional shares of our common stock from time to time in the future in amounts that may be significant. The sale of substantial amounts of our common stock, or the perception that these sales may occur, could adversely affect our stock price.

As of December 31, 2015, there were 645,004 shares issuable upon the exercise of outstanding and exercisable stock options, 1,623,346 shares issuable upon the exercise of outstanding stock options that are unvested and 615,000 additional shares of restricted stock outstanding. The market price of the common shares may be depressed by the potential exercise of these options or grant of these shares. The holders of these options are likely to exercise them when we would otherwise be able to obtain additional capital on more favorable terms than those provided by the

options.

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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, Suite 100, Fort Lauderdale, Florida 33309, which contains approximately 67,000 square feet of office space. The facilities in our campus are suitable and adequate for our operations.

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

ITEM 3. LEGAL PROCEEDINGS

We are routinely involved in legal proceedings, claims, and governmental inquiries, inspections or investigations (“Legal Matters”) arising in the ordinary course of our business. While we cannot predict with certainty the results of Legal Matters in which we are currently involved or may in the future be involved, we do not expect that the ultimate costs to resolve any of the Legal Matters that are currently pending will have a material adverse effect on our results of operations, financial condition or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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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 ("Common Stock"), is quoted and traded on the New York Stock Exchange LLC ("NYSE") under the symbol UVE.

The following table sets forth the daily close prices of the Common Stock, as reported by the NYSE:

			Dividends
For the year ended December 31, 2015	High	Low	Declared
First Quarter	\$26.68	\$19.32	\$ 0.12
Second Quarter	\$27.29	\$23.74	\$ 0.12
Third Quarter	\$30.35		