

REPORT ON EXAMINATION
OF
USIC OF FLORIDA, INC.
PINELLAS PARK, FLORIDA
AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 14, 2009

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007, of the financial condition and corporate affairs of:

**USIC OF FLORIDA, INC.
7785 66th STREET
PINELLAS PARK, FLORIDA 33781**

Hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2007 through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced, with planning at the Office, on December 8, 2008 to December 12, 2008. The fieldwork commenced on December 15, 2008, and was concluded as of April 14, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual, and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

In this examination, emphasis was directed to the quality, value, and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the

Company as of December 31, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

Fidelity Bond Coverage

The Company did not maintain the NAIC suggested minimum amount of fidelity bond coverage as of December 31, 2006.

Resolution: The Company obtained adequate fidelity bond coverage.

Principal Operational Office

The Company did not maintain a principal operational office in Florida as required by Section 628.271, Florida Statutes, which states that every domestic insurer is required to have an office in this state and also keep complete records of its assets, transactions, financial records, corporate records, reinsurance documents, accounting transactions, and all original accounting documents.

Resolution: The Company maintained a principal operational office in Florida as required by Section 628.271, Florida Statutes.

Custodial Agreement

The Company did not maintain a custodial agreement with a fiduciary authorized by Rule 690-143.042(2), Florida Administrative Code.

Resolution: The Company obtained a custodial agreement, subsequent to this examination date, to comply with Rule 690-143.042(2), Florida Administrative Code.

HISTORY

General

The Company was incorporated in Florida on December 12, 2003 and commenced business on April 21, 2005 as USIC of Florida, Inc. It was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code.

The Company was party to Consent Order 72666-CO-03, filed December 11, 2003. At December 31, 2007, the Company was in compliance with this Consent Order specifically related to the requirement to maintain a principal place of business in Florida.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

Homeowners multi peril	Inland Marine
Mobile Home multi peril	

There were no amendments to the Articles of Incorporation and Bylaws during the period covered by this examination.

During the first quarter of 2008, the Company notified the Office of Insurance Regulation of its intent to discontinue writing policies in the state of Florida. The Company expects its last policy to expire in July of 2009.

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000.00
Par value per share	\$ 1.00

Control of the Company was maintained by its parent, USIC Group, Inc., a Puerto Rico corporation, which owned 100 percent of the stock issued by the Company.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2007	2006
Premiums Earned	1,295,925	931,895
Net Underwriting Gain/(Loss)	598,006	238,112
Net Income	581,509	401,560
Total Assets	6,158,045	6,137,923
Total Liabilities	440,662	1,003,878
Surplus As Regards Policyholders	5,717,383	5,134,045

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders in 2007.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007, were:

Directors

Name and Location

Principal Occupation

Maria Gonzalez Inclan
Guaynabo, Puerto Rico

Chairwoman
USIC of Florida, Inc.

Frederick Millan Benitez
Aguas Buenas, Puerto Rico

President
USIC of Florida, Inc.

Duhamel Iglesias Cacho
Trujillo Alto, Puerto Rico

Vice President
USIC of Florida, Inc.

Carlos Ramon Irizarry Lozada
Trujillo Alto, Puerto Rico

Treasurer
USIC of Florida, Inc.

Carlos Gonzalez Inclan
Red Hook, New York

Director
USIC of Florida, Inc.

Hector Saldana Egozcue
San Juan, Puerto Rico

Director
USIC of Florida, Inc.

Rafael Blanes Gonzalez
Guaynabo, Puerto Rico

Director
USIC of Florida, Inc.

Maria Blanes Gonzalez

Director
USIC of Florida, Inc.

The Board of Directors, in accordance with the Company's bylaws, appointed the following senior officers:

Senior Officers

Name	Title
Frederick Millan	President
Duhamel Iglesias	Vice President
Carlos Irizarry	Treasurer

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2007:

Audit Committee

Maria G. Blanes
Raphael Blanes
Carlos Inclan
Frederick Millan
Carlos Irizarry (Chair)
Hector Egozque

Investment Committee

Maria G. Blanes
Hector Egozque
Carlos Inclan
Frederick Millan
Carlos Irizarry (Chair)

Conflict of Interest Procedure

The Company has adopted a policy statement requiring annual disclosure of conflicts of interest.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

There was no documentation in the minutes reviewed stating that the Company's directors reviewed the previous examination report as required by the NAIC Financial Condition Examiners Handbook.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions, purchase or sales through reinsurance during the calendar year 2007.

Surplus Debentures

The Company did not have any surplus debentures at December 31, 2007.

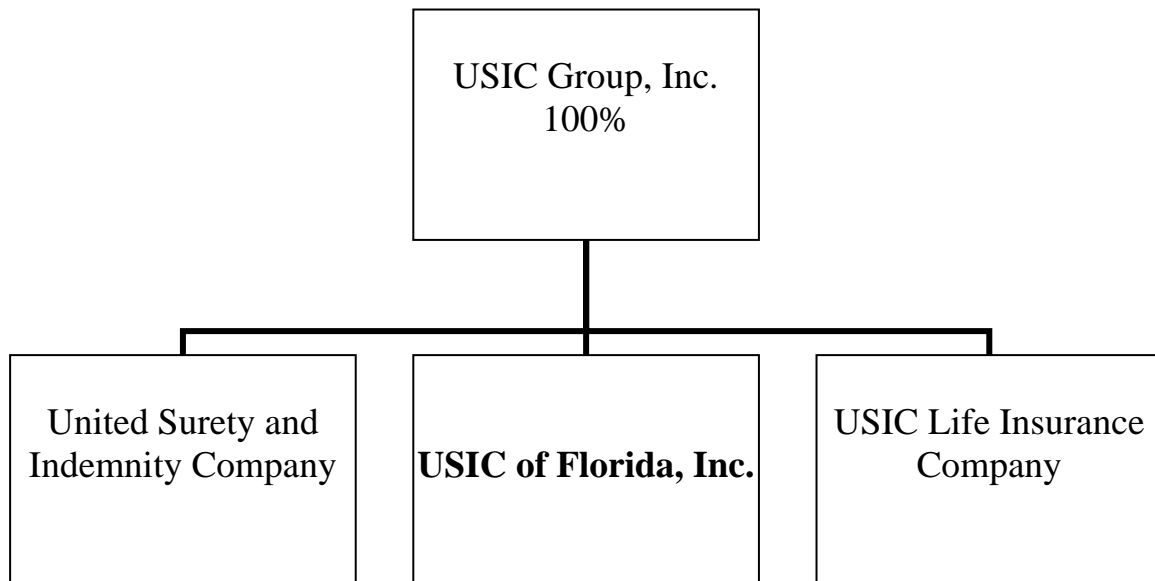
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 27, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2007, reflecting the holding company system, is shown below.

**USIC OF FLORIDA, INC.
ORGANIZATIONAL CHART**

December 31, 2007



The Company had no agreements in effect between the Company and its affiliates.

FIDELITY BOND

The Company maintained the NAIC suggested minimum amount of fidelity bond coverage as of December 31, 2007, which was \$100,000.

The Company also maintained Directors and Officers (D&O) and employment practices liability insurance coverage, through its parent, with a limit of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees at December 31, 2007.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	USTN, 4.25%, 11/15/13	<u>\$ 331,000</u>	<u>\$ 351,886</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 331,000</u>	<u>\$ 351,886</u>
	TOTAL SPECIAL DEPOSITS	<u>\$ 331,000</u>	<u>\$ 351,886</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance solely in the state of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting, and settlement information deadlines.

Assumed

The Company had not assumed risk during the period covered by this examination.

Ceded

The Company ceded risk on a quota share and excess of loss basis to Liberty American Insurance Company, General Re, QBE Re, Flagstone Re, and Catlin Insurance Company. The Company participated in the Florida Hurricane Catastrophe Fund.

The Company reported Ceded Reinsurance Premiums payable of (\$118,383) which was increased on examination by \$153,671, resulting in an adjusted payable of \$35,288. Provision for Reinsurance was not reported by the company and resulted in an examination adjustment of \$6,000.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The examination was principally conducted in Pinellas Park, Florida, at the Company's unaffiliated MGA's office (Liberty American Insurance Group, Inc.) which was used as its statutory home address on the Annual Statement. The exit conference took place via teleconference at the

Company's parent office in Guaynabo, Puerto Rico. The Company's claim system documents and the Company's premium system documents were located at this office. However, most other documents, including cash, investment, expense, and accounting documents were located in Puerto Rico. Personnel of the Company's parent performed work for the Company, except for the work performed by the Company's unaffiliated MGA. All personnel of the Company's parent were located in Puerto Rico.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006, and 2007, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company did not have a custodial agreement in effect for 2007.

Subsequent Event: In October 2008, the Company obtained a custodial agreement to comply with Rule 69O-143.042(2), Florida Administrative Code. It was approved by Board Resolution on May 19, 2009.

Managing General Agent Agreement

The Company had a managing general agency agreement with Liberty American Insurance Company, formerly, Mobile Homeowners Insurance Agencies, Inc. (MGA). The agreement stated the MGA would supervise and conduct the writing of insurance covering homeowners and mobile homeowners' risks in Florida. The MGA's duties and responsibilities included soliciting, evaluating, and binding applications for insurance along with issuing all endorsements and policies and issuing notices of cancellation and nonrenewal of policies. The MGA also performed invoicing and receipts processing and claims administration.

Independent Auditor Agreement

The Company had an agreement with Deloitte & Touche LLP to perform an audit of its GAAP and Statutory financial statements for the years 2005, 2006, and 2007.

Information Technology Report

The Company's information technology component was evaluated as part of this financial examination. Third-party information technology components were reviewed and evaluated accordingly.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

USIC of FLORIDA, INC.
Assets

DECEMBER 31, 2007

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$ 6,059,680	\$ -	\$ 6,059,680
Cash:	32,335	-	32,335
Agents' balances:			
Uncollected premium	(2,270)	-	(2,270)
Reinsurance recoverable	7,418	-	7,418
Interest and dividend: income due & accrued	60,882	-	60,882
Totals	<u>\$ 6,158,045</u>	<u>\$ -</u>	<u>\$ 6,158,045</u>

USIC of FLORIDA, INC.
Liabilities, Surplus, and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 101,757	\$ -	\$ 101,757
Loss adjustment expenses	1,613	-	1,613
Other expenses	76,695	-	76,695
Current federal and foreign income taxes	144,990	-	144,990
Unearned premium	233,990	(217,790)	16,200
Ceded reinsurance premiums payable	(118,383)	153,671	35,288
Provision for reinsurance	-	6,000	6,000
Total liabilities	\$440,662	(\$58,119)	\$382,543
Common capital stock	\$1,000,000	-	\$1,000,000
Gross paid-in and contributed surplus	4,000,000	-	4,000,000
Unassigned funds (surplus)	717,383	58,119	775,502
Surplus as regards policyholders	\$5,717,383	\$58,119	\$5,775,502
Total liabilities, surplus, and other funds	\$ 6,158,045	\$ -	\$ 6,158,045

USIC of FLORIDA, INC.
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned	\$1,295,925
Deductions:	
Losses incurred	\$250,421
Loss expenses incurred	32,564
Other underwriting expenses incurred	414,934
Total underwriting deductions	<u>\$697,919</u>
Net underwriting gain or (loss)	\$598,006

Investment Income

Net investment income earned	\$213,357
Net realized capital gains or (losses)	9,532
Net investment gain or (loss)	<u>\$222,889</u>

Other Income

Net income before dividends to policyholders and before federal & foreign income taxes	<u>\$820,895</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$820,895</u>
Federal & foreign income taxes	<u>239,386</u>
Net Income	\$581,509

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$5,134,046
Net Income	\$581,509
Change in net deferred income tax	(457)
Change in non-admitted assets	2,285
Examination adjustments	58,119
Change in surplus as regards policyholders for the year	<u>\$641,456</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$5,775,502</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$103,370

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

An outside actuary, on contract with the Office, reviewed work papers provided by the Company and was in concurrence with this opinion.

Ceded Premium Payable \$153,671

Two examination adjustments were posted that increased liabilities related to ceded premium payable. The first adjustment amounted to \$100,238 and was the result of a misclassification of amounts payable to the Florida Hurricane Catastrophe Fund. The second adjustment amounted to \$53,433 and was the result of an omitted accrual for amounts payable to reinsurers under the Company's private catastrophe reinsurance program. For both entries, the offset to ceded premium payable was to unassigned funds.

Unearned Premium (\$217,790)

An examination adjustment was posted that decreased liabilities related to unearned premium. This adjustment amounted to \$217,790 and was the result of the methodology used in computing ceded unearned premium. The offset to unearned premium was to premiums earned.

Provision for Reinsurance**\$ 6,000**

An examination adjustment was posted that increased liabilities related to the provision for reinsurance. This adjustment amounted to \$6,000 and was the result of amounts due from unauthorized reinsurers that were in excess of ceded balances payable and other offsetting balances. The offset to provision for reinsurance was to change in provision for reinsurance.

A comparative analysis of changes in surplus is shown below.

USIC of FLORIDA, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2007

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2007, per Annual Statement	\$5,717,383
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	Per Company	Per Exam		Increase (Decrease) in Surplus
ASSETS:				
No adjustments				
LIABILITIES:				
Unearned premium	\$ 233,990	\$ 16,200	\$	217,790
Ceded premium payable	(118,383)	35,288		(153,671)
Provision for reinsurance	-	6,000		(6,000)
Net change in surplus:				58,119
Surplus as regards policyholders December 31, 2007, per examination			\$	5,775,502

SUMMARY OF FINDINGS

Compliance with previous directives

The Company took the necessary actions to comply with the comments made in the 2006 examination report issued by the Office as follows:

Current examination comments and corrective action

There were no exception or findings in the examination as of December 31, 2007.

SUBSEQUENT EVENTS

In February 2008, the Company filed a plan with the Office to discontinue writing business in Florida. The Company expects its last policy to expire in July of 2009.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **USIC of Florida, Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,775,502, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Angela Sanders, Andrew Woodward, CPA, William Ferguson, CPA, contractors with Thomas Howell Ferguson PA, and Terry Godbold, ACAS, MAAA, FCA, contractor with Godbold Malpere & Co., participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation