

REPORT ON EXAMINATION
OF
ARA CASUALTY INSURANCE
COMPANY
MIAMI, FLORIDA

AS OF
DECEMBER 31, 2004

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

December 2, 2005

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, 2004, of the financial condition and corporate affairs of:

**ARA CASUALTY INSURANCE COMPANY
6602 SW 57TH AVENUE
MIAMI, FLORIDA 33143**

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

SCOPE OF EXAMINATION

This examination covered the period of August 29, 2003 through December 31, 2004. This is the first examination by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on September 26, 2005, to September 30, 2005. The fieldwork commenced on October 3, 2005, and was concluded as of December 2, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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.

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

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 report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

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

HISTORY

General

The Company was incorporated in Florida on April 1, 2003 and commenced business on August 29, 2003, as ARA Casualty Insurance Company.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2004:

Auto Physical Damage
Private Passenger Auto Liability

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2004, the Company's capitalization was as follows:

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

Control of the Company was maintained by its owner, Anthony R. Abraham, who owned 100 percent of the stock issued by the Company. Mr. Abraham was owner of ARA Holding Services, Inc. and ARA Premium Finance Company, affiliates of the Company.

Profitability of Company

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

	2004	2003
Premiums Earned	3,631,218	45,501
Net Underwriting Gain/(Loss)	(577,203)	(73,428)
Net Income	(429,815)	(29,318)
Total Assets	7,269,758	5,377,921
Total Liabilities	2,633,980	384,769
Surplus As Regards Policyholders	4,635,778	4,993,152

Dividends to Stockholders

The Company did not pay or declare dividends to its stockholder in 2003 or 2004.

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, 2004, were:

Directors

Name and Location	Principal Occupation
Anthony R. Abraham Pembroke Pines, Florida	Chairman, Owner
Thomas Henry Malouf Tampa, Florida	Director
Thomas Ghattas Abraham Coral Gables, Florida	Director, Marketing Manager
Phillip D'Abbieri Miami, Florida	Director (a)
Warren Bryer North Miami Beach, Florida	Director, CFO

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

Senior Officers

Name	Title
Phillip D'Abbieri	President (a)
Warren Bryer	Secretary/Treasurer
Jeffrey Schafer	Vice President, COO
Thomas G. Abraham	Vice President

(a) Resigned in May 2005 and was replaced by Jeffrey Schafer as of May 5, 2005.

The Company's board appointed an investment committee in accordance with Section 607.0825, Florida Statutes. Following is the committee and its members as of December 31, 2004:

Investment Committee

Anthony A. Abraham*
Warren Bryer

* Chairman

The Company did not maintain an audit committee as required by Section 624.424(8), Florida Statutes. The Company subsequently appointed an audit committee in October 2005.

Conflict of Interest Procedure

The Company had not adopted a policy statement requiring annual disclosure of conflicts of interest as required by Section 607.0832, Florida Statutes.

Subsequently, in 2005, the Company adopted a conflict of interest policy and Conflict of Interest Statements were completed by the officers and directors.

Corporate Records

The recorded minutes of the shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings, but did not record approval of Company transactions (service agreements and nomination of outside CPA) as required by Section 607.1601, Florida Statutes. The Board minutes included the authorization of investments as required by Section 625.304, Florida Statutes. There were no minutes of the meeting of the Investment Committee as required by Section 625.304, Florida Statutes.

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

There were no mergers, disposals, dissolutions, purchase or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures.

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 May 31, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The following agreements were in effect between the Company and its affiliates:

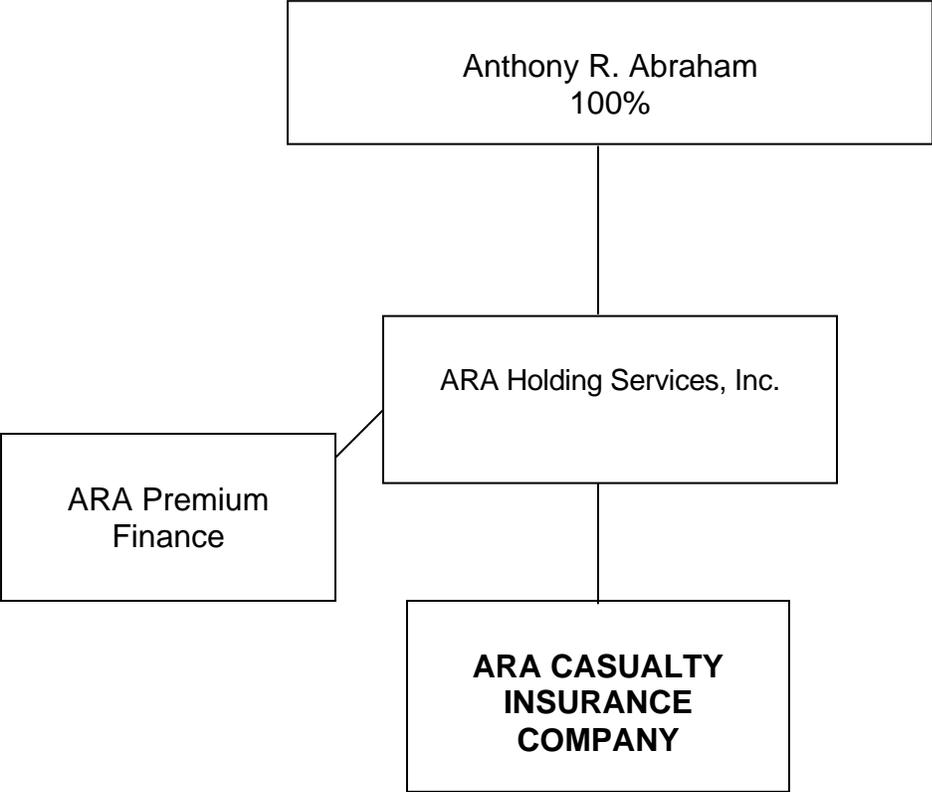
MGA Agreement

The Company had an MGA agreement with ARA Holding Services, Inc. to perform policy servicing.

A simplified organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

**ARA CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage with The F&D Companies up to \$25,000 with no deductible, which did not adequately cover the suggested minimum amount of coverage of \$75,000 for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership or employee insurance plans.

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	Cash Deposit	<u>\$1,001,065</u>	<u>\$1,001,065</u>
	TOTAL FLORIDA DEPOSIT	<u>\$1,001,065</u>	<u>\$1,001,065</u>
	TOTAL SPECIAL DEPOSIT	<u>\$1,001,065</u>	<u>\$1,001,065</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in Florida only.

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.

REINSURANCE

The Company maintained no reinsurance.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003 and 2004, 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 maintained its principal operational offices in Miami, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Smith Barney in Miami, Florida. The agreement did not contain all of the required terms of Rule 69O-143.042, (2)(e)(j)(l)(n), Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Infante & Company, CPA in Miami, Florida to perform the independent statutory audit of the Company for 2003 and 2004.

Claims Servicing Agreement

The Company maintained a claims servicing agreement with Lozano Insurance Adjusters, Inc. Subsequently, this agreement was terminated as of July 31, 2005. The Company brought claims servicing in-house.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2004, 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."

ARA CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$253,001		\$253,001
Stocks:			
Preferred	51,440		51,440
Common	470,790		470,790
Cash:			
On hand	100		100
On deposit	3,497,341		3,497,341
Short-term investments	2,499,567		2,499,567
Interest and dividend income due & accrued	25,452		25,452
Agents' Balances:			
Uncollected premium	350,461		350,461
FIT Recoverable	5,217		5,217
Net deferred tax asset	116,389		116,389
Totals	\$7,269,758		\$7,269,758

ARA CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$1,253,624	\$492,000	\$1,745,624
Loss adjustment expenses	76,433		76,433
Commissions payable	37,881		37,881
Other expenses	6,706		6,706
Taxes, licenses and fees	25,005		25,005
Unearned premium	1,229,007		1,229,007
Advance premiums			
Aggregate write-ins for liabilities	5,324		5,324
Total Liabilities	\$2,633,980	\$492,000	\$3,125,980
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	4,999,000		4,999,000
Unassigned funds (surplus)	(364,222)	(492,000)	(856,222)
Surplus as regards policyholders	\$4,635,778	(492,000)	\$4,143,778
Total liabilities, capital and surplus	\$7,269,758		\$7,269,758

ARA CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$3,631,218
DEDUCTIONS:	
Losses incurred	2,562,993
Loss expenses incurred	232,335
Other underwriting expenses incurred	1,413,093
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$4,208,421</u>
Net underwriting gain or (loss)	(\$577,203)

Investment Income

Net investment income earned	\$116,212
Net realized capital gains or (losses)	18,282
Net investment gain or (loss)	<u>\$134,494</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	12,894
Total other income	<u>\$12,894</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$429,815)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$429,815)
Federal & foreign income taxes	<u>0</u>
Net Income	(\$429,815)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$4,993,152
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Gains and (Losses) in Surplus

Net Income	(\$429,815)
Net unrealized capital gains or losses	(20,393)
Change in non-admitted assets	0
Change in provision for reinsurance	(1,085)
Change in net deferred income tax	93,919
Examination Adjustment	<u>(492,000)</u>
Change in surplus as regards policyholders for the year	(849,374)
Surplus as regards policyholders, December 31 current year	<u><u>4,143,778</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash \$3,497,441

The Company maintained a cash balance with Smith Barney which did not qualify as a solvent national or state bank, savings and loan association or trust company as required by Section 625.306, Florida Statutes.

Liabilities

Losses and Loss Adjustment Expenses \$1,745,624

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, 2004, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was not in agreement with the outside actuary's opinion. The Office actuary stated the December 31, 2004 amount of Loss and LAE reserves were inadequate and recommended an increase of \$492,000 in reserves as required by Section 625.101, Florida Statutes.

The Office actuary recommends a follow-up target or in-house review be completed of Loss and LAE reserves as of December 31, 2005. If the December 31, 2005 review continues to show adverse development, the Office actuary stated consideration should be given to completing a claims audit.

**ARA CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2004

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 per December 31, 2004, Annual Statement	\$4,635,778
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
LIABILITIES:			
Losses	\$1,253,624	\$1,745,624	(\$492,000)
Net Change in Surplus:			(492,000)
Surplus as Regards Policyholders December 31, 2004, Per Examination			\$4,143,778

SUMMARY OF FINDINGS

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2004.

Cash

The Company maintained a cash balance with Smith Barney which does not qualify as a solvent national or state bank, savings and loan association or trust company. **We recommend the Company comply with Section 625.306, Florida Statutes.**

The Company maintained a custodial agreement with Smith Barney for the safekeeping of securities which did not contain all of the required terms of the Florida Administrative Code. **We recommend the Company comply with Rule 69O-143.042(2)(e)(j)(l)(n), Florida Administrative Code.**

Loss and LAE Reserves

The Company maintained an inadequate amount of reserves for Losses and LAE. **We recommend the Company increase and maintain the amount of reserves for Losses and LAE at an adequate level as required by Section 625.101, Florida Statutes.**

Subsequent Event

Subsequent to the review by the Office actuary of the December 31, 2004 Loss and LAE reserves, the Chairman, Anthony R. Abraham transferred money in the form of a surplus note of \$500,000 in July 2005. Another transfer of money was made to the Company by the Chairman by surplus note of \$500,000 in December 2005.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **ARA Casualty Insurance Company** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was which was in compliance with Section 624.408, Florida Statute.

In addition to the undersigned; Michael Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Joe Boor, FCAS, Office Actuary and Timothy Butler, Actuarial Assistant, participated in the examination.

Respectfully submitted,

Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation