

**REPORT ON EXAMINATION**  
**OF**  
**ASI ASSURANCE CORPORATION**  
**ST. PETERSBURG, FLORIDA**

**AS OF**  
**DECEMBER 31, 2005**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

February 9, 2007

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, 2005, of the financial condition and corporate affairs of:

**ASI ASSURANCE CORPORATION  
805 EXECUTIVE CENTER DRIVE WEST, Suite 300  
ST. PETERSBURG, FLORIDA 33702**

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

## **SCOPE OF EXAMINATION**

This is the first year examination, which covered the period from August 9, 2004 through December 31, 2005. This examination commenced, with planning at the Office of Insurance Regulation (Office), on December 6, 2006, to December 8, 2006. The fieldwork commenced on December 11, 2006, and was concluded as of February 9, 2007. 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 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 verified the integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 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 August 9, 2004 and commenced business on August 21, 2004 as ASI Assurance Corporation. It was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Fire  
Allied Lines  
Homeowners multiple peril

Inland marine  
Other liability-occurrence

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

## **Capital Stock**

As of December 31, 2005, 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, which was owned 100%, was maintained by its parent, ARX Holding Corp., a Delaware company. ARX Holding Corp. was owned 49% by XL Re Ltd., a Bermuda corporation, 25% by ARX Executive Holdings, LLP, a Florida company, 22% by Marc Fasteau, a New York resident, and the remaining 4% was owned by various other individuals and entities. XL Re Ltd. was owned 100% by Mid Ocean Holding Ltd., a Bermuda corporation, which was owned 100% by XL Capital Ltd., a Cayman corporation. ARX Executive Holdings, LLP was owned 80% by John F. Auer and 20% by Kevin R. Milkey.

## **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 statement.

	<b>2005</b>	<b>2004</b>
Premiums Earned	5,995,000	0
Net Underwriting Gain/(Loss)	(260,315)	(81,947)
Net Income	(747,182)	15,434
Total Assets	37,254,392	5,982,310
Total Liabilities	25,614,649	37,875
Surplus As Regards Policyholders	11,639,743	5,944,435

### **Dividends to Stockholders**

The Company did not declare or paid dividends to its stockholder during the period covered by this examination.

### **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, 2005, were:

#### **Directors**

##### **Name and Location**

##### **Principal Occupation**

John F. Auer  
St. Petersburg, Florida

President of the Company, ARX Holding Corp., and various affiliates

Kevin R. Milkey  
St. Petersburg, Florida

Executive Vice President of the Company and several affiliates

Marc Fasteau  
Great Barrington, MA

Chairman & Secretary of the Company and affiliate, ASI Lloyds, Inc.

Robert L. Nason  
Stamford, Connecticut

Executive Vice President, XL Global Services & Director of ARX Holding Corp.

Greg Hendrick  
Hamilton HM EX, Bermuda

Senior Vice President, XL Re Ltd. and  
Director of ARX Holding Corp.

The Board of Directors appointed the following senior officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
John F. Auer	President & Treasurer
Kevin R. Milkey	Executive Vice President
Marc Fasteau	Chairman & Secretary
Mary F. Fourmet	Vice President, Marketing
Antonio Scognamiglio	Vice President, Claims
Gregory E. Stewart	Vice President, Finance

The Company's board appointed internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2005:

#### **Audit Committee**

Marc Fasteau  
Robert L. Nason  
Greg Hendrick

#### **Investment Committee**

Marc Fasteau  
John F. Auer  
Kevin R. Milkey

### **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes. No exceptions were noted during this examination period.

### **Corporate Records**

The recorded minutes of the shareholder, Board of Directors, and certain internal committee adequately documented its meetings and approval of Company transactions in accordance with

Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

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

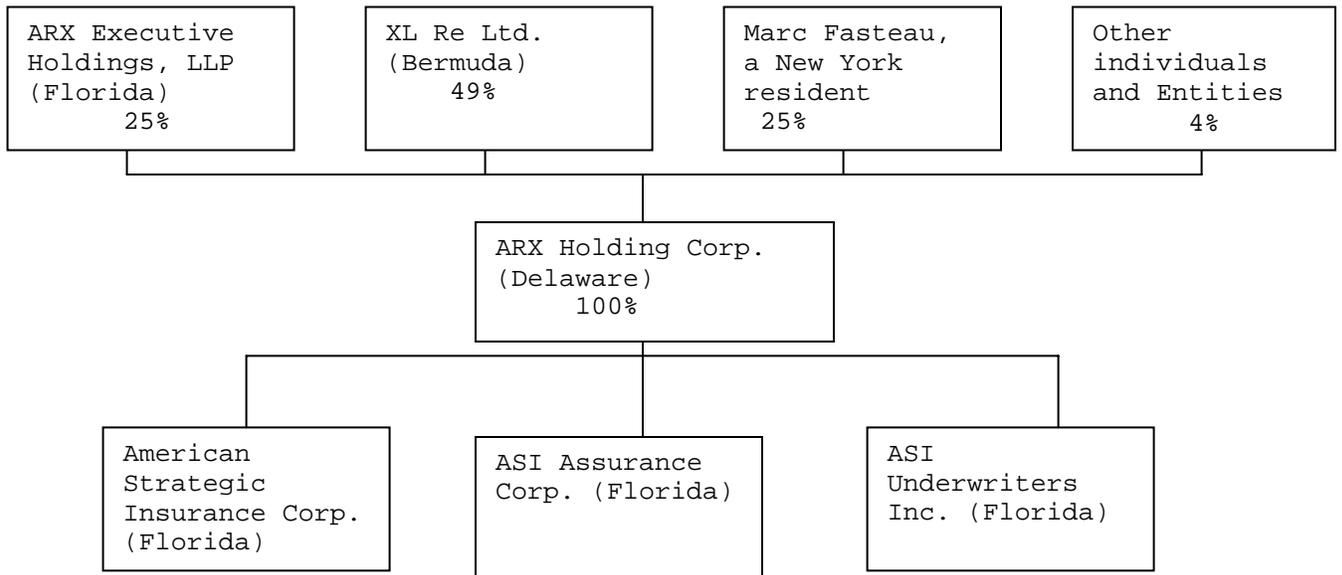
**Surplus Debentures**

There were no surplus debentures issued by the Company.

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**ASA Assurance Corporation  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2005**



## **AFFILIATED COMPANIES**

The latest holding company registration statement was filed with the State of Florida on December 5, 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:

### **Tax Allocation Agreement**

The Company, along with its parent and affiliates, filed a consolidated federal income tax return. On December 31, 2005, the method of allocation between the Company, its parent, and affiliates was based upon a separate return calculation. An inter-company tax balance was established and settled upon completion of the final consolidated federal income tax return.

### **Managing General Agent Agreement**

The Company entered into a Managing General Agent (MGA) agreement with ASI Underwriters Inc., an affiliate, on April 4, 2005. The agreement was amended on January 1, 2006 to reduce the commission paid by the Company related to claims servicing, to 5% of non-catastrophe losses plus 1% of incurred catastrophe losses. In addition to the commission, the Company paid a \$25 fee per policy to the MGA.

## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$500,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company maintained other insurance coverage usual for insurance operations.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees. Therefore, there were no pension or retirement plans or other benefits.

## STATUTORY DEPOSITS

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

<b>STATE</b>	<b>DESCRIPTION</b>	<b>RATE</b>	<b>MATURITY DATE</b>	<b>PAR VALUE</b>	<b>MARKET VALUE</b>
FL	CD	5.25%	07/01/10	\$ 325,000	\$ 343,070
TOTAL SPECIAL DEPOSITS				<u>\$ 325,000</u>	<u>\$ 343,070</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory

The Company was licensed only in the state of Florida and wrote insurance coverage in all authorized lines at December 31, 2005.

### **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 626.954(1)(i)3,a, Florida Statutes.

## **REINSURANCE**

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

The above mentioned contracts complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### **Assumed**

The Company did not assume risk during 2005.

### **Ceded**

The Company ceded risk on a quota share, property catastrophe excess of loss, and multiple line excess of loss basis to both authorized and unauthorized reinsurers through a reinsurance intermediary. Letters of credit were properly established for unauthorized reinsurers.

## **ACCOUNTS AND RECORDS**

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 did not maintain an aging report on a policy basis for premium receivables as required by Rule 69O-138.024, Florida Administrative Code. Rule 69O-138.024, Florida Administrative Code requires that all agents' balances be aged on a separate policy by policy basis.

The Company maintained its principal operational offices in Saint Petersburg, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004 and 2005, 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 and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with Investors Trust Bank (ITB) dated September 29, 2004. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code.

## **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, 2005, 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."

**ASI ASSURANCE CORPORATION**  
**Assets**

**DECEMBER 31, 2005**

	<b>Per Company</b>	<b>Adjustments</b>	<b>Per Examination</b>
Bonds	\$21,384,922		\$21,384,922
Cash and Short-term Investments	8,610,182		8,610,182
Investment income due & accrued	245,138		245,138
Premiums and considerations			
Uncollected premium	1,500,231		1,500,231
Deferred premium	1,303,939		
Reinsurance Recoverable	3,270,414		3,270,414
Net deferred tax asset	939,565		939,565
Receivables from parent, subsidiaries and affiliates	1		1
<hr/>			
Totals	<u>\$37,254,392</u>	<u>\$0</u>	<u>\$37,254,392</u>

**ASI ASSURANCE CORPORATION**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2005**

	Per Company	Examination Adjustments	Per Examination
Losses	\$771,080		\$771,080
Loss adjustment expenses	84,623		84,623
Commissions payable	461,742		461,742
Other expenses	196,990		196,990
Taxes, licenses and fees	828,227		828,227
Current federal and foreign income tax	590,077		590,077
Unearned premium	12,965,098		12,965,098
Advance premiums	325,122		325,122
Ceded reinsurance premiums payable	8,693,255		8,693,255
Payable to parent, subsidiaries and affiliates	698,435		698,435
 Total Liabilities	 <u>\$25,614,649</u>		 <u>\$25,614,649</u>
 Common capital stock	 \$1,000		 \$1,000
Gross paid in and contributed surplus	11,499,000		11,499,000
Unassigned funds (surplus)	<u>139,743</u>		<u>139,743</u>
Surplus as regards policyholders	<u>\$11,639,743</u>		<u>\$11,639,743</u>
Total liabilities, capital and surplus	<u><u>\$37,254,392</u></u>	<u>\$0</u>	<u><u>\$37,254,392</u></u>

**ASI ASSURANCE CORPORATION**  
**Statement of Income**

**DECEMBER 31, 2005**

<b>Underwriting Income</b>	
Premiums earned	\$5,995,000
DEDUCTIONS:	
Losses incurred	2,069,018
Loss expenses incurred	194,224
Other underwriting expenses incurred	3,992,072
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$6,255,314</u>
Net underwriting gain or (loss)	(\$260,314)
<b>Investment Income</b>	
Net investment income earned	\$494,996
Net realized capital gains or (losses)	(18,508)
Net investment gain or (loss)	<u>\$476,488</u>
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	28,721
Aggregate write-ins for miscellaneous income	0
Total other income	<u>\$28,721</u>
Net income before dividends to policyholders and before federal & foreign income taxes	<u>\$244,895</u>
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$244,895
Federal & foreign income taxes	<u>992,077</u>
Net Income	(\$747,182)
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$5,944,434
<b>Gains and (Losses) in Surplus</b>	
Net income	(\$747,182)
Net unrealized capital gains or losses	0
Change in non-admitted assets	2,926
Change in deferred tax	939,565
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	5,500,000
Examination Adjustment	\$0
Surplus as regards policyholders, December 31 current year	<u><u>\$11,639,743</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

\$855,703

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, 2005, make 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 in concurrence with this opinion.

**ASI ASSURANCE CORPORATION  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2005**

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, 2005, Annual Statement	\$	11,639,743
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:		No adjustments	
LIABILITIES:		No adjustments	
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$ 11,639,743

## 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, 2005.

### **Accounts & Records**

The Company did not maintain an aging report on a policy basis for premium receivables. Rule 69O-138.024, Florida Administrative Code, requires that agents' balances shall be aged on a separate policy by policy basis. **We recommend that the Company maintain an aging report on a policy basis for premium receivables as required by Rule 69O-138.024, Florida Administrative Code.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **ASI Assurance Corporation**, as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$11,639,743 which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Analyst/Examiner Supervisor, and Joe Boor FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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Samita Lamsal  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation