

REPORT ON EXAMINATION
OF
AVATAR PROPERTY & CASUALTY
INSURANCE COMPANY
TAMPA, FLORIDA

AS OF
DECEMBER 31, 2011

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS	2
PRIOR EXAM FINDINGS	2
SUBSEQUENT EVENTS	3
HISTORY	3
GENERAL	3
DIVIDENDS TO STOCKHOLDERS	4
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS DEBENTURES	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	5
CORPORATE RECORDS	5
CONFLICT OF INTEREST	5
MANAGEMENT AND CONTROL	6
MANAGEMENT	6
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
MANAGING GENERAL AGENT AGREEMENT	8
INVESTMENT ADVISORY AGREEMENT	9
FIDELITY BOND	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
TERRITORY AND PLAN OF OPERATIONS	10
TREATMENT OF POLICYHOLDERS.....	10
COMPANY GROWTH	10
PROFITABILITY OF COMPANY	11
LOSS EXPERIENCE	11
REINSURANCE	11
ASSUMED	11
CEDED	12
ACCOUNTS AND RECORDS	12
CUSTODIAL AGREEMENT	13
SPECIAL INVESTIGATION UNIT AGREEMENT	13
INDEPENDENT AUDITOR AGREEMENT	13

INFORMATION TECHNOLOGY REPORT	14
STATUTORY DEPOSITS.....	14
FINANCIAL STATEMENTS PER EXAMINATION.....	15
ASSETS	16
LIABILITIES, SURPLUS AND OTHER FUNDS	17
STATEMENT OF INCOME	18
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	19
COMMENTS ON FINANCIAL STATEMENTS.....	20
LIABILITIES.....	20
CAPITAL AND SURPLUS	20
SUMMARY OF RECOMMENDATIONS.....	21
CONCLUSION.....	22

June 12, 2012

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, Rule 69O-138.005, Florida Administrative Code, 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, 2011, of the financial condition and corporate affairs of:

**AVATAR PROPERTY & CASUALTY INSURANCE COMPANY
1408 NORTH WESTSHORE BOULEVARD
TAMPA, FLORIDA 33607**

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, 2011, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2010. This examination commenced with planning at the Office on March 21, 2012. The fieldwork commenced on April 3, 2012, and concluded as of June 12, 2012.

This 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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Written premium

The Company did not include all fees and assessments charged in consideration for an insurance contract as written premium in accordance with Section 627.403, Florida Statutes. The Company did not include the required \$25 Managing General Agent (MGA) policy fee as written premium. In addition, the Company's MGA agreement with Avatar Management, LLC did not include a reference and a requirement for receipt of the \$25 MGA fee.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2010.

SUBSEQUENT EVENTS

The Company declared and paid a \$500,000 dividend on February 8, 2012 to its parent company, Avatar Partners, LP. This dividend was discussed and approved at the Board of Directors meeting held on November 11, 2011. The Office was notified in accordance with Rule 69O-143.046(4), Florida Administrative Code.

The Company was approved by the Office to write the mobile home multi peril line of business in 2012 pursuant to provisions of Consent Order 124030-12-CO. As part of the Company's updated business plan, the Company must hire the necessary expertise to ensure risks associated with this line are properly evaluated and underwritten.

The Company's ultimate parent, Avatar Partners, LP submitted a plan to create a captive reinsurance company named, Avatar Re LLC (Avatar Re). Avatar Re is a Delaware domiciled insurer. Pursuant to Avatar Re's plan of operation, its sole purpose is to reinsure the Company against the risks of reinstatement premium liability under its Multiple Layer Property Catastrophe Excess of Loss Reinsurance Agreements. The Office approved the request to enter into a reinsurance contract with Avatar Re in August 2012.

HISTORY

General

The Company was incorporated in Florida on January 30, 2008, and commenced business on April 14, 2008, as Avatar Property and Casualty Insurance Company.

The Company was party to Consent Order 93101-07-CO, filed with the Office on January 10, 2008, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with this Consent Order.

In 2008, the Company was approved to assume 11,623 policies from Citizens Property Insurance Corporation (Citizens), pursuant to provisions of Consent Order 95239-08-CO, as amended by Consent Order 97398-08-CO.

The Company was authorized to transact homeowner's multi peril insurance coverage, in Florida on December 31, 2011.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

The Company declared and paid a \$500,000 stock dividend on February 8, 2012 to its parent company, Avatar Partners, LP. This distribution was in compliance with Section 628.71, Florida Statutes and Rule 69O-143.046(4), Florida Administrative Code. Refer to the Subsequent Events section for additional discussion.

Capital Stock and Capital Contributions

As of December 31, 2011, 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

Avatar Partners, LLC, a holding company domiciled in Delaware, owned 100% of the stock issued by the Company. The parent contributed \$10,000,000 in cash as of December 31, 2011.

Surplus Debentures

The Company did not have any surplus debentures during the period of this examination.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder, Board of Directors (Board) and Audit Committee 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 compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code and including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2011, were:

Directors

Name and Location	Principal Occupation
Hitesh Prabhudas Adhia Tampa, Florida	Chairman of the Board of Directors Avatar Property & Casualty Insurance Co.
Manubhai Chhotubhai Karia Dover, Delaware	Retired
Mark Cecil Shealy Jacksonville, Florida	Chief Financial Officer Florida Doctors Insurance Company
Stuart Thomas Wheeler Gainesville, Florida	Retired
Carol Kim McAllister Tampa, Florida	Chief Financial Officer Avatar Property & Casualty Insurance Co.
Sandip Indravadan Patel, Esq Clearwater, Florida	Attorney Universal Health Plans
Kiranbhai Chhotbhai Patel, MD Tampa, Florida	Owner of multiple businesses including Freedom Health Plans

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

Senior Officers

Name	Title
Hitesh Prabhudas Adhia	President and Chief Executive Officer
Carol Kim McAllister	Chief Financial Officer

The Company's Board appointed an audit committee in accordance with Section 624.424(8)(c), Florida Statutes. Following are the Audit Committee members as of December 31, 2011:

Audit Committee

Mark Cecil Shealy, CPA ¹
Sandip Indravadan Patel, Esq.
Manubhai Chhotubhai Karia
Stuart Thomas Wheeler
Kiran Chhotbhai Patel, MD
¹Chairman

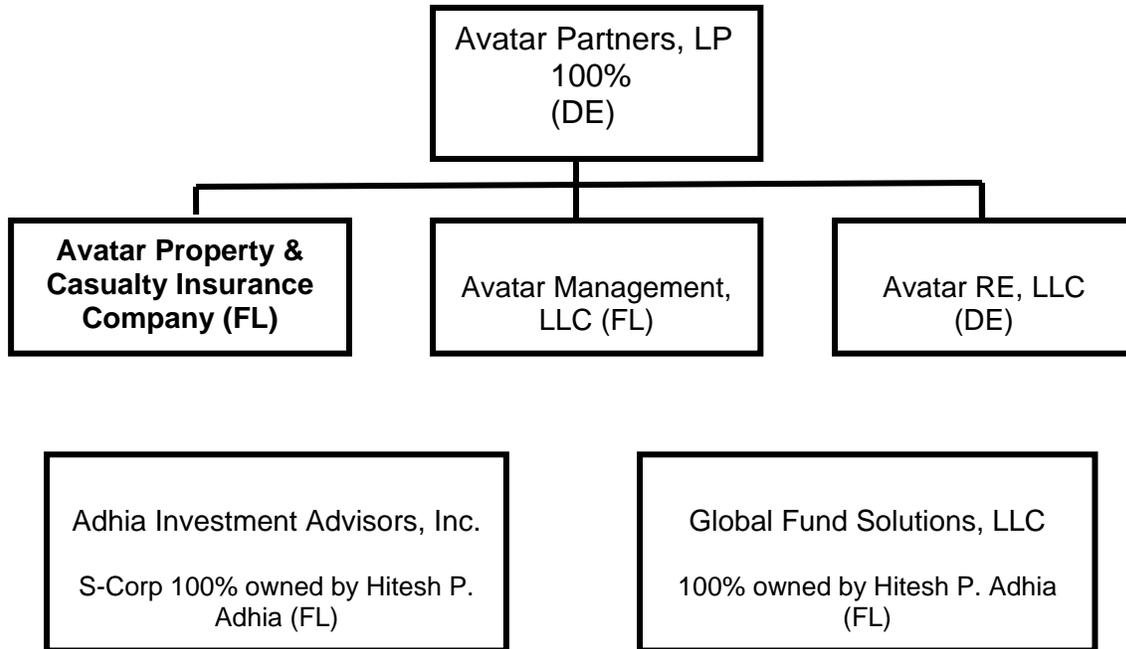
Affiliated Companies

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 March 1, 2012, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2011, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

**AVATAR PROPERTY AND CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2011



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

Managing General Agent Agreement

The Company entered into a Managing General Agent (MGA) Agreement with Avatar Management, LLC effective February 22, 2008. Pursuant to the agreement, services provided by the MGA include claims payment, underwriting, premium collection, customer service, data processing and accounting for a fee of 15% of earned premium. The fixed fee will not cover any other costs, fees or expenses including but not limited to marketing, legal costs, annual audit costs, director and officer liability coverage and other insurance coverage as well as any extraordinary items. During the period ended December 31, 2011, fees paid to the MGA, by the Company, totaled \$1,744,930. The MGA also collected \$25 per policy fee from each policyholder. The

Company did not include all fees and assessments charged in consideration for an insurance contract as written premium in accordance with Section 627.403, Florida Statutes. The Company did not include the required \$25 MGA policy fee as written premium. In addition, the Company's MGA agreement with Avatar Management, LLC did not include a reference and a requirement for receipt of the \$25 MGA fee.

Investment Advisory Agreement

The Company entered into an agreement with Adhia Investment Advisors, owned and operated by Hitesh Adhia, on June 15, 2010. Pursuant to the agreement, the Company employed Hitesh Adhia as the investment advisor to manage the investment and reinvestment of Company assets for the period and term of the agreement. The agreement was effective from the date of signing and automatically renews every two years. The Company paid Adhia Investment Advisors an annualized 1% of invested assets and the fee was billed monthly.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$250,000 with a deductible of \$5,000, which exceeds the suggested minimum amount of \$125,000 as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees. Therefore, the Company did not have any pension, stock ownership or insurance plans in during the period under examination.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only 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.

COMPANY GROWTH

The Company planned to progress slowly at a controlled growth by focusing on conservative premium to surplus writing ratios and controlling reinsurance costs through diversification of exposures throughout the state of Florida. The plan consisted of marketing its business through three regional marketing representatives servicing the agency force in areas not actively solicited.

The Company was approved by the Office to write mobile homeowners multi peril line on March 19, 2012. The Company did not have the management experience to produce, underwrite and adjudicate claims for the mobile homeowners line. The business plan submitted to the Office indicated however, that the Company will obtain the necessary expertise to manage the mobile homeowners business production. There is a prospective risk that the Company may not be able to properly underwrite, price and adjudicate claims for the new mobile homeowners line if they do not obtain the necessary management experience.

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.

	2011	2010	2009	2008
Premiums Earned	6,312,902	5,411,947	7,986,847	3,304,213
Net Underwriting Gain/(Loss)	(630,670)	(336,188)	710,403	(10,359)
Net Income	85,006	646,209	2,462,830	(21,449)
Total Assets	19,306,883	16,994,983	21,808,643	17,777,431
Total Liabilities	5,817,653	3,869,842	10,125,193	8,021,556
Surplus As Regards Policyholders	13,489,230	13,125,141	11,683,450	9,755,875

LOSS EXPERIENCE

There were no significant changes in the Company's loss experience during the examination period.

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 participated in the (Citizens) takeout program in 2008. The various policies assumed from Citizens totaled 8,995, of which 2,096 or approximately 23% of the policies remain in force at December 31, 2011.

Ceded

The Company ceded catastrophe risks on an excess of loss basis to the Florida Hurricane Catastrophe Fund (FHCF) and certain private reinsurers. All private reinsurance treaties were written through the intermediary, Axiom Re. Under the catastrophe excess of loss agreements, the Company had retention of \$2.5 million and coverage of up to \$38.3 million.

The Company also participated in an automatic facultative excess agreement written through intermediary Axiom Re, placing insured property business on a risk attaching basis above \$1 million to a per occurrence event limit of \$4 million. The Company has written 43 risks (less than one-percent) where facultative coverage would apply.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Tampa, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2008, 2009, 2010 and 2011, 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 third party vendor system called Global Fund Solutions (GFS). Policy data was maintained through a third party policy administration

system called SimpleSolve. Claims data was maintained on a separate module of the GFS system. The Company utilized Freedom annual statement software for financial reporting purposes.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with the Bank of New York Mellon entered into on September 17, 2010. The Company was in compliance with Rule 69O-143.042, Florida Administrative Code.

Special Investigation Unit Agreement

The Company entered into a special investigation unit (SIU) agreement, with TSI Investigations (TSI) on May 21, 2010. The agreement automatically renews on an annual basis unless otherwise determined. Pursuant to this agreement, TSI will perform all services normally performed in its usual line of business, including but not limited to vendor management of SIU service providers, administration and surveillance and claims investigations, development and maintenance of fraud plans, implement of state required fraud detection testing.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002(7)(c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

The Office engaged ParenteBeard LLC to perform an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

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	Certificate of Deposit	<u>\$ 300,000</u>	<u>\$ 330,872</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 330,872</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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."

AVATAR PROPERTY & CASUALTY INSURANCE COMPANY

Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$15,627,111		\$15,627,111
Stocks:			
Common	800,040		800,040
Cash	1,964,925		1,964,925
Investment income due and accrued	111,987		111,987
Uncollected premium	403,917		403,917
Current federal and foreign income tax recoverable	91,101		91,101
Net deferred tax asset	274,678		274,678
Aggregate write-in for other than invested assets	33,124		33,124
Totals	<u>\$19,306,883</u>	<u>\$0</u>	<u>\$19,306,883</u>

AVATAR PROPERTY & CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,848,091		\$1,848,091
Loss adjustment expenses	410,145		410,145
Commissions payable	42,483		42,483
Other expenses	16,528		16,528
Taxes, licenses and fees	44,092		44,092
Unearned premium	3,091,977		3,091,977
Advanced premium	247,117		247,117
Payable to parent, subsidiaries and affiliates	103,835		103,835
Aggregate write-ins for liabilities	13,385		13,385
Total Liabilities	<u>\$5,817,653</u>	\$0	<u>\$5,817,653</u>
Common capital stock	1,000		1,000
Gross paid in and contributed surplus	9,999,000		9,999,000
Unassigned funds (surplus)	3,489,230		3,489,230
Surplus as regards policy holders	<u>\$13,489,230</u>	\$0	<u>\$13,489,230</u>
Total liabilities, surplus and other funds	<u>\$19,306,883</u>	\$0	<u>\$19,306,883</u>

AVATAR PROPERTY & CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2011

Underwriting Income

Premiums earned		\$6,312,902
	Deductions:	
Losses incurred		\$1,756,199
Loss expenses incurred		1,047,477
Other underwriting expenses incurred		4,054,117
Aggregate write-ins for underwriting deductions		85,779
Total underwriting deductions		\$6,943,572
Net underwriting gain or (loss)		(\$630,670)

Investment Income

Net investment income earned		\$866,923
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$866,923

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		7,652
Aggregate write-ins for miscellaneous income		0
Total other income		\$7,652
Net income before dividends to policyholders and before federal & foreign income taxes		\$243,905
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$243,905
Federal & foreign income taxes		158,899
Net Income		\$85,006

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$13,125,141
Net Income		\$85,006
Change in net unrealized capital gains or (losses) less capital gains tax of \$		48,344
Change in net deferred income tax		121,310
Change in non-admitted assets		109,429
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$364,089
Surplus as regards policyholders, December 31 current year		\$13,489,230

A comparative analysis of changes in surplus is shown below.

AVATAR PROPERTY & CASUALTY INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

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, 2011, per Annual Statement	\$13,489,230
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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:			<u>0</u>
Surplus as Regards Policyholders December 31, 2011, Per Examination			<u><u>\$13,489,230</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$2,258,236

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, 2011, 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 consulting actuary, Rusty Kuehn, FCAS, MAAA and Todd Dashoff, ACAS, MAAA of Huggins Actuarial Services, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and they were in concurrence with this opinion.

Capital and Surplus

The amount of Capital and surplus reported by the Company of \$13,489,230, exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Written Premium

We recommend that the Company comply with Section 627.403, Florida Statutes, and include all fees and assessments charged in consideration for an insurance contract as written premium. The Company should be including the MGA fee as premium and then should have an offsetting expense to their MGA. To that regard, the Company should modify the MGA agreement to include reference to the MGA fee.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Avatar Property & Casualty Insurance Company** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$13,489,230, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, CFE, Examiner-In-Charge and Phil Schmoyer and Eric Cortese, Participating Examiners, of ParenteBeard, LLC participated in the examination. In addition, Rusty Kuehn, FCAS MAAA and Todd Dashoff, ACAS MAAA, consulting actuary of Huggins Actuarial Services, Inc., Andy Wittig, CISA, IT Senior Manager and Leon Pressman, CISA, IT Manager of ParenteBeard, LLC and Kyra Brown, APIR, Financial Specialist of the Office also participated in the examination.

Respectfully submitted,

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