

**REPORT ON EXAMINATION**  
**OF**  
**AZTEC INSURANCE COMPANY, INC.**  
**MIAMI, FLORIDA**

**AS OF**  
**DECEMBER 31, 2003**

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

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Tallahassee, Florida  
August 27, 2004

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 (FS), 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, 2003, of the financial condition and corporate affairs of:

**AZTEC INSURANCE COMPANY, INC.  
2000 SOUTH DIXIE HIGHWAY, STE. 100  
MIAMI, FLORIDA 33133**

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, 2001 through December 31, 2003. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2000. This examination commenced with planning at the Office on June 21, 2004, to June 25, 2004. The fieldwork commenced on June 28, 2004, and was concluded as of August 25, 2004. 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 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 (FAC), 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 and the A.M. Best Report 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, 2003. Transactions subsequent to year-end 2003 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.

### **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, 2000, along with resulting action taken by the Company in connection therewith.

### **Corporate Records**

The Board of Directors' minutes did not reflect the appointment of the actuary by year-end or the review of the prior financial examination report issued by the Office.

### **Resolution:**

The Company produced minutes verifying the timely appointment of the actuary. The Company stated that its Board of Directors would review all future examination reports and document such reviews in Board minutes.

### **Bonds and Stocks, Custodial Agreements**

The Company utilized the services of Merrill Lynch and Robertson-Stephens, investment brokers, in the capacity as custodians. The Company was not in compliance with the applicable Florida laws regarding investments and custodial agreements.

### **Resolution:**

The Company placed its investments with, and entered into a custodial agreement with, a qualified financial institution consistent with Rule 69O-143.041 and Rule 69O-143.042, FAC.

## **HISTORY**

### **General**

The Company was incorporated in Florida on May 9, 1984, under the laws of the state of Florida, as a stock property and casualty insurer and commenced business on December 6, 1984, as Aztec Insurance Company.

The Company was in runoff status and no longer writing or assuming new business. The Company agreed in Consent Order No. 18839-96-C to suspend writing new business, effective July 1, 1997, and continue to honor and renew all outstanding certificates until maturity of the underlying loan. The suspension of writings was still in effect as of the date of this examination.

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

## **Capital Stock**

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	2,500
Number of shares issued and outstanding	2,500
Total common capital stock	\$250,000
Par value per share	\$100.00

The Company was a member of an insurance holding company. Control of the Company was maintained by Joseph Falk, Judith Richard, and Rosemary Orlin, who together owned 100% of the common stock issued by the Company. Joseph Falk and Judith Richard each own 50% of the authorized shares of the preferred capital stock.

## **Profitability of Company**

The Company has been in runoff status since July 1997 and has not written any new business since April 1, 1997.

## **Dividends to Stockholders**

The Company did not declare or pay dividends to its stockholders during the three years 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, FS. Directors serving as of December 31, 2003, were:

## **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Joseph L. Falk Miami, Florida	President of Company
Judith S. Richard Miami Beach, Florida	Secretary/ Treasurer of Company
Ruth Falk Miami, Florida	Investor
Suzanne Richard Miami Beach, Florida	Director of Company
Rosemary Orlin Petak Tikva, Israel	Investor

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

## **Senior Officers**

<b>Name</b>	<b>Title</b>
Joseph L. Falk	President
Judith S. Richard	Secretary and Treasurer

The Company's Board appointed one internal committee in accordance with Section 607.0825, FS. The following is the principal internal board committee and the members as of December 31, 2003:

## **Audit Committee**

Joseph Falk<sup>1</sup>  
Judith S. Richard  
Suzanne R. Meltzer

<sup>1</sup> Chairman

### **Conflict of Interest Procedure**

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

### **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 and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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

There were no acquisitions, mergers, disposals, dissolutions, or purchase or sales through reinsurance during the period of this examination.

### **Surplus Debentures**

As of December 31, 2003, the outstanding surplus debentures of the Company totaled \$2,400,000, consisting of three notes, which matured on August 21, 2000, having an accruing interest rate of 14.5%. The current holder of these obligations is Judith Richard and Joseph Falk severally. The Company was denied approval to pay these notes by the Office in 2000. The Company did pay interest on two notes, which did not require the approval of the Office.

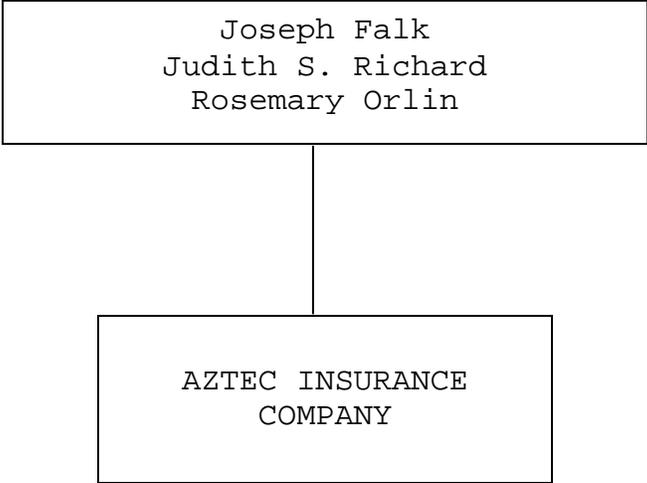
## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The Company did not file an updated holding company registration statement with the State of Florida on December 31, 2003, as required by Section 628.801, FS, and Rule 69O-143.046, FAC. The Company also did not file an updated holding company registration statement to report subsequent changes in affiliates, as required.

**Subsequent event:** The Company filed an updated holding company registration statement prior to the completion of this examination.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 annual statement provided a list of all related companies of the holding company group.

**AZTEC INSURANCE COMPANY  
ORGANIZATIONAL CHART  
DECEMBER 31, 2003**



## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$100,000 with a deductible of \$5,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had none.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Cash	<u>\$300,000</u>	<u>\$ 300,000</u>
<b>TOTAL FLORIDA DEPOSITS</b>		<u><u>\$300,000</u></u>	<u><u>\$ 300,000</u></u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operation

The Company was previously authorized to transact mortgage guaranty insurance in the State of Florida, in accordance with Section 624.401(2), FS, through July 31, 1997. The Company voluntarily agreed in Consent Order Number 18839-96-C to suspend writing new business. Additionally, all outstanding certificates were to be renewed and honored until the maturity of the underlying loan. The Company also continued to assume on a renewal basis from Triton Insurance

Company. The Triton Insurance Company was formerly named Voyager Guaranty Insurance Company.

### **Treatment of Policyholders**

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## **REINSURANCE**

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

### **Assumed**

The Company assumed 100% risk from Triton Insurance Company (Triton). Triton paid 100% of its premiums on the renewal business to the Company less a commission equal to 2.5% of such premiums.

The Company had a trust agreement with Triton, dated November 29, 1993, which required that the assets equal to the reserves were required to be established by the reinsuring company. These reserves were deposited at Wachovia Bank as custodian for Triton Insurance Company and the Company. Withdrawals could not be made without consent of both parties.

**Ceded**

The Company did not cede any risk.

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 was not audited annually by an independent CPA for the years 2001 through 2003. The Company completed and submitted an Audited Financial Statements Exemption Affidavit for each year in the examination period.

The Company's accounting records were maintained both manually and 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 utilized the services of Merrill Lynch Trust Company and Wachovia Bank as custodians. However, the custodial agreement with Merrill Lynch Trust Company did not meet all of the requirements of Rule 69O-143.042, FAC. On October 29, 2004, the custodial agreement was amended to comply with the aforementioned rule.

## **Risk-Based Capital**

The Company was exempt from filing a Risk Based Capital Report in accordance with Section 624.4085, FS.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, 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."

**AZTEC INSURANCE COMPANY, INC.**  
**Assets**

**DECEMBER 31, 2003**

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$6,248,508	\$0	\$6,248,508
Stocks:			
Common	284,855		284,855
Preferred	390,772		390,772
Mortgage Loans			
First Liens	162,344		162,344
Real Estate:			
Other properties	44,278		44,278
Cash:			
On deposit	305,225		305,225
Short-term investments	40,529		40,529
Agents' Balances:			
Uncollected premium	10,819		10,819
Deferred premium	84,323		84,323
Reinsurance:			
Funds Held or Deposited	1,661,790		1,661,790
Interest and dividend income due & accrued	80,716		80,716
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Totals	\$9,314,159	\$0	\$9,314,159
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**AZTEC INSURANCE COMPANY, INC.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2003**

<i>Liabilities</i>	<i>Per Company</i>	<i>Examination Adjustments</i>	<i>Per Examination</i>
Losses	\$0		\$0
Loss adjustment expenses	40,649		40,649
Other expenses	42,473		42,473
Unearned premium	84,323		84,323
Aggregate write-ins for liabilities	<u>3,918,125</u>		<u>3,918,125</u>
Total Liabilities	\$4,085,570		\$4,085,570
Preferred Capital Stock	250,000		250,000
Common capital stock	250,000		250,000
Surplus Notes	2,400,000		2,400,000
Unassigned funds (surplus)	<u>2,328,589</u>		<u>2,328,589</u>
Surplus as regards policyholders	<u>\$5,228,589</u>		<u>\$5,228,589</u>
Total liabilities, capital and surplus	<u><u>\$9,314,159</u></u>	<u>\$0</u>	<u><u>\$9,314,159</u></u>

**AZTEC INSURANCE COMPANY, INC.**  
**Statement of Income**

**DECEMBER 31, 2003**

**Underwriting Income**

Premiums earned	\$227,604
DEDUCTIONS:	
Losses incurred	3,381
Loss expenses incurred	5,467
Other underwriting expenses incurred	292,344
Aggregate write-ins for underwriting deductions	119,522
Total underwriting deductions	<u>\$420,714</u>
Net underwriting gain or (loss)	(\$193,110)

**Investment Income**

Net investment income earned	\$53,251
Net realized capital gains or (losses)	89,677
Net investment gain or (loss)	<u>\$142,928</u>

**Other Income**

Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	(\$50,182)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$50,182)
Federal & foreign income taxes	<u>(27,551)</u>
Net Income	(\$22,631)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$5,282,755
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**Gains and (Losses) in Surplus**

Net Income	(\$22,631)
Net unrealized capital gains or losses	(31,784)
Change in non-admitted assets	18,947
Change in net deferred income tax	(18,697)
Examination Adjustment	<u>0</u>
Change in surplus as regards policyholders for the year	(\$54,165)
Surplus as regards policyholders, December 31 current year	<u><u>\$5,228,590</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

<b>Losses and Loss Adjustment Expenses</b>	<u>\$40,649</u>
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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, 2003, 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.

**AZTEC INSURANCE COMPANY, INC.**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2003**

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, 2003, Annual Statement	\$5,228,589
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	INCREASE (DECREASE) <u>IN SURPLUS</u>
ASSETS:			
No adjustment needed			\$0
LIABILITIES:			
No adjustment needed			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$5,228,589

## SUMMARY OF FINDINGS

### Compliance with previous directives

The Company has complied with the directives made in the 2000 examination report issued by the Office.

### 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, 2003.

### Actuarial Opinion

The Company's actuary did not include the broad statement "That reserves are computed according to generally accepted actuarial principles". **The Company is directed to ensure that in the future that the actuarial opinion and report include the phrase "That reserves are computed according to generally accepted actuarial principles".**

## SUBSEQUENT EVENTS

The Company filed an updated Holding Company Registration Statement with the Office on August 17, 2004.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Aztec Insurance Company** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$5,228,589, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Mary James, CFE, CPM, Financial Examiner/Analyst Supervisor, Joe Boor, Actuary, and March Fisher, Actuarial Assistant, participated in the examination.

Respectfully submitted,

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Maurice Fuller  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation