

REPORT ON EXAMINATION
OF
EDISON INSURANCE COMPANY
ST. PETERSBURG, FLORIDA
AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
HISTORY	2
GENERAL	2
CAPITAL STOCK.....	3
PROFITABILITY OF COMPANY	3
DIVIDENDS TO STOCKHOLDERS	4
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	6
ORGANIZATIONAL CHART	7
COST SHARING AGREEMENT.....	8
MANAGING GENERAL AGENT AGREEMENT (MGA)	8
FIDELITY BOND AND OTHER INSURANCE	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
STATUTORY DEPOSITS	9
INSURANCE PRODUCTS	10
TERRITORY	10
TREATMENT OF POLICYHOLDERS.....	10
REINSURANCE	10
ASSUMED.....	10
CEDED	10
ACCOUNTS AND RECORDS	11
CUSTODIAL AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT	12
FINANCIAL STATEMENTS PER EXAMINATION	12
ASSETS	13
LIABILITIES, SURPLUS AND OTHER FUNDS	14
STATEMENT OF INCOME.....	15
COMMENTS ON FINANCIAL STATEMENTS	16
LIABILITIES	16

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 18
SUMMARY OF FINDINGS 19
SUBSEQUENT EVENTS..... 19
CONCLUSION 20

Tallahassee, Florida

February 8, 2008

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, 2006, of the financial condition and corporate affairs of:

**EDISON INSURANCE COMPANY
9800 4TH STREET NORTH, SUITE 307
ST. PETERSBURG, FLORIDA 33702**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2006 through December 31, 2006. This examination commenced, with planning at the Office, on November 6, 2007, to November 9, 2007. The fieldwork commenced on December 10, 2007, and was concluded as of February 8, 2008.

This financial examination was a first year annual 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 of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

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 A.M. Best Report, 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 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPA, after verifying the statutory requirements, for the following accounts:

- Federal and Foreign income taxes
- Deferred tax asset
- Fraud risk assessment

HISTORY

General

The Company was incorporated in Florida on March 9, 2005 and commenced business on January 4, 2006 as Edison Insurance Company. The Company is a domestic stock company licensed only in the State of Florida.

The Company was party to Consent Order 84582-06-CO filed January 4, 2006 with the Office regarding the application for the issuance of a certificate of authority. The Company was in compliance with its consent order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

- Home owners multi peril
- Fire
- Allied lines

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

Capital Stock

As of December 31, 2006, 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
Par value per share	\$1.00

Control of the Company was maintained by its parent, Edison Insurance Group, who owned 100% 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 examination, as reported in the filed annual statements.

	2006	2005
Premiums Earned	(4,158,471)	0
Net Underwriting Gain/(Loss)	(8,229,897)	(105,099)
Net Income	(7,802,803)	(54,083)
Total Assets	21,931,261	9,969,492
Total Liabilities	14,891,684	97,181
Surplus As Regards Policyholders	7,039,577	9,872,311

Dividends to Stockholders

The Company did not declare or pay dividends during this period of 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, 2006, were:

Directors

Name and Location	Principal Occupation
Gary V. Trippe Fort Myers, Florida	CEO Oswald Trippe Company
David M. Howard St. Petersburg, Florida	President & CEO Edison Insurance Company
Charles K. Idelson Fort Myers, Florida	President & CEO Investors Security Trust Company
Kelly K. (IO) King St. Petersburg, Florida	Secretary and CFO Edison Insurance Company
James W. Moore Fort Myers, Florida	Director Edison Insurance Company

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

Senior Officers

Name	Title
David M. Howard	President & Chief Executive Officer
Robert G. Gantley	Chief Operating Officer
Kelly K. (IO) King	Treasurer and Chief Financial Officer

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal committees and their members as of December 31, 2006:

Executive Committee

Gary V. Trippe¹
John D. Belisle
Douglas G. Fields
Robert G. Gantley
¹Chairman

Audit Committee

James W. Moore ¹
Charles K. Idelson
Steven C. Shimp

Claims Committee

Gary V. Trippe ¹
John D. Belisle
Charles K. Idelson
Robert G. Gantley

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

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.

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

The Company did not have any acquisitions, mergers, disposals, purchase, or sales through reinsurance.

Surplus Debentures

The Company did not have surplus debentures.

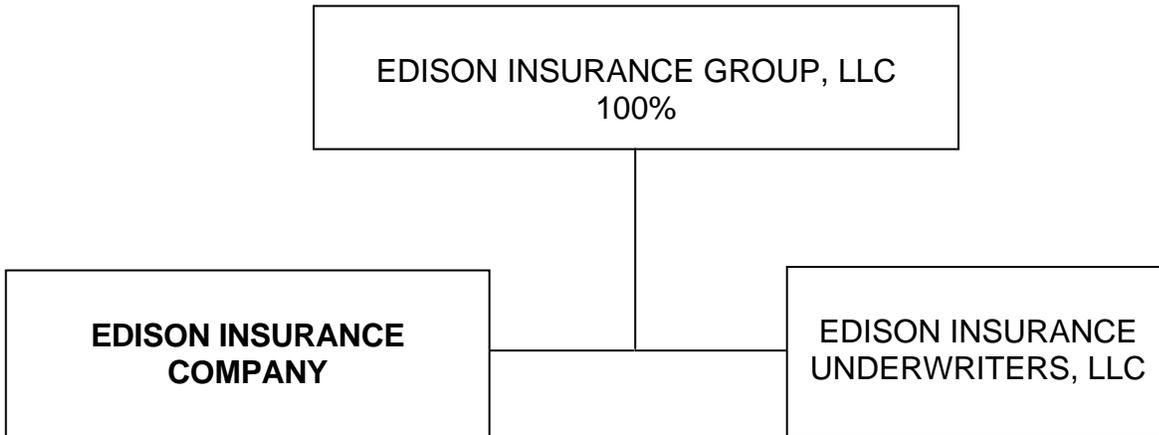
AFFILIATED COMPANIES

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 April 12, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**EDISON INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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

Cost Sharing Agreement

The Company entered into a cost sharing agreement on January 1, 2006, with Edison Insurance Group, LLC, and Edison Insurance Underwriters, LLC. This agreement provided for sharing of administrative services between the Company, parent and affiliate.

Managing General Agent Agreement

The Company entered into a managing general agent (MGA) agreement with its affiliate, Insurance Underwriters, LLC dated October 15, 2005. The agreement stated that Edison Insurance Underwriters, LLC would act as the MGA for the insurance policies issued in the State of Florida. It further stated that Edison Insurance Underwriters, LLC had the authority to handle claims and negotiate reinsurance on behalf of the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage as recommended by the NAIC.

The Company maintained Directors and Officers (D&O) liability insurance and management liability coverage with limits of \$5,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have employees, pension plans, stock ownership or insurance plans. All services were provided by the Company's parent, Edison Insurance Group, LLC. The Company incurred pension and insurance costs as part of the inter-company cost sharing agreement.

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	Cash	<u>\$ 313,693</u>	<u>\$ 313,693</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 313,693</u>	<u>\$ 313,693</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the State of 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 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 did not assume risk.

Ceded

The Company ceded risk on a quota share and excess of loss basis to various authorized and unauthorized reinsurers. The largest reinsurers were Harco National Insurance Company (an authorized reinsurer), Renaissance Reinsurance Ltd, and Montpelier Reinsurance Ltd, (both

unauthorized) reinsurers. The Company also utilized the services of a reinsurance intermediary, Guy Carpenter.

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 St. Petersburg, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the year 2006, 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 had a custodial agreement with Investors Securities Trust Bank in Fort Myers, Florida. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code. Investors Securities Trust Bank qualified as a custodian as defined by Rule 69O-143.041, Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Thomas Howell Ferguson P.A. to perform a statutory annual audit of the Company's financial statements for the 2006 year.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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."

EDISON INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$9,181,422		\$9,181,422
Cash:	480,143		480,143
Short-term investments	9,702,414		9,702,414
Investment income due and accrued	117,623		117,623
Agents' Balances:			
Uncollected premium	1,735,522		1,735,522
Reinsurance recoverable	20,329		20,329
Net deferred tax asset	340,000		340,000
Receivable from parents, subsidiaries and affiliates	169,385		169,385
Aggregate write-in for other than invested assets	184,423		184,423
	<hr/>		<hr/>
Totals	\$21,931,261	\$0	\$21,931,261
	<hr/> <hr/>		<hr/> <hr/>

EDISON INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$522,497	\$367,000	\$889,497
Loss adjustment expenses	20,986		20,986
Other expenses	111,888		111,888
Taxes, licenses and fees	279,856		279,856
Unearned premium	9,251,004		9,251,004
Advance premium	737,873		737,873
Ceded reinsurance payable	3,967,580		3,967,580
Total Liabilities	<u>\$14,891,684</u>	<u>\$367,000</u>	<u>\$15,258,684</u>
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	13,600,000		13,600,000
Unassigned funds (surplus)	<u>(7,560,423)</u>	<u>(367,000)</u>	<u>(7,927,423)</u>
Surplus as regards policyholders	<u>\$7,039,577</u>	<u>(\$367,000)</u>	<u>\$6,672,577</u>
Total liabilities, surplus and other funds	<u><u>\$21,931,261</u></u>		<u><u>\$21,931,261</u></u>

EDISON INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned		(\$4,158,471)
	Deductions:	
Losses incurred		592,889
Loss expenses incurred		101,719
Other underwriting expenses incurred		3,376,818
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$4,071,426
Net underwriting gain or (loss)		(\$8,229,897)

Investment Income

Net investment income earned		\$440,145
Net realized capital gains or (losses)		(16,193)
Net investment gain or (loss)		\$423,952

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$422)
Finance and service charges not included in premiums		3,564
Aggregate write-ins for miscellaneous income		0
Total other income		\$3,142
Net income before dividends to policyholders and before federal & foreign income taxes		(\$7,802,803)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$7,802,803)
Federal & foreign income taxes		0
Net Income		(\$7,802,803)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$9,872,311
Net Income		(\$7,802,803)
Net unrealized capital gains or losses		0
Change in non-admitted assets		(2,277,431)
Change in provision for reinsurance		0
Change in net deferred income tax		2,647,500
Surplus adjustments: Paid in		4,600,000
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		(367,000)
Change in surplus as regards policyholders for the year		(\$3,199,734)
Surplus as regards policyholders, December 31 current year		\$6,672,577

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$910,483

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, 2006, 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 contracted Leigh J. Halliwell, FCAS, MAAA, an independent actuary to review work papers provided by the Company. Mr. Halliwell was not in concurrence with this opinion. Mr. Halliwell determined that the Company's loss reserves were deficient by \$367,000.

The Company did not maintain adequate loss reserves as required by Section 625.101, Florida Statutes.

Subsequent Event

The actual results of the incurred development factors for loss ratios reported in the year-end 2007 annual statement revealed that the loss and loss adjustment expenses were adequate for calendar year 2006.

Capital and Surplus \$6,672,577

The amount reported by the Company of \$7,039,577 was reduced by \$367,000 and exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A Comparative analysis of changes in surplus is shown below.

**EDISON INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

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, 2006, per Annual Statement	\$7,039,577
---	-------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments			
LIABILITIES:			
Losses & Loss adjustment expense	\$543,483	\$910,483	(\$367,000)
Net Change in Surplus:			<u>(367,000)</u>
Surplus as Regards Policyholders December 31, 2006, Per Examination			<u><u>\$6,672,577</u></u>

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, 2006.

Loss and Loss adjustment expense reserves

The Company reported \$543,483 in Loss and Loss adjustment expense reserves. The Office contracted actuary reported \$910,483, a deficiency of \$367,000. The Company was not in compliance with Section 625.101, Florida Statutes. **We recommend the Company that the Company correct the deficiency to comply with Section 625.101, Florida Statute.**

Subsequent event: The incurred loss development reported on the December 31, 2007 annual statement analysis revealed adequate loss and loss adjustment expenses for calendar year 2006.

Fidelity Bond

The Company did not maintain fidelity bond coverage as recommended by the NAIC. **We recommend that the Company acquire an adequate amount of fidelity bond coverage.**

SUBSEQUENT EVENTS

John D. Belisle, Douglas G. Fields, John M. Pollock, Steven C. Shimp, and Robert G. Gantley were appointed as directors for 2007.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Edison Insurance Company** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$6,672,577, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, and Leigh J. Halliwell, FCAS, MAAA participated in the examination,

Respectfully submitted,

James Collins
Reinsurance/Financial Specialist
Florida Office of Insurance Regulation