

REPORT ON EXAMINATION
OF
EDISON INSURANCE COMPANY
ST. PETERSBURG, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

November 14, 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, 2007, of the financial condition and corporate affairs of:

EDISON INSURANCE COMPANY
9800 Fourth Street North
St. Petersburg, Florida 33702

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, 2007 through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office on September 15, 2008 to September 19, 2008. The fieldwork commenced on September 29, 2008 and was concluded as of November 14, 2008.

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.

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.

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 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.

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, 2006, along with resulting action taken by the Company in connection therewith.

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. **Resolution: The 2007 loss and loss adjustment expense reserves were adequate.**

Fidelity Bond

The Company did not maintain fidelity bond coverage as recommended by the NAIC. **Resolution:** **On June 19, 2008, the Company purchased a Fidelity Bond with coverage of \$500,000 which is adequate coverage under the NAIC recommendations.**

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, 2007:

Homeowners 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, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
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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, LLC, who owned 100% of the stock issued by the Company.

Profitability of Company

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

	2007	2006
Premiums Earned	8,526,188	(4,158,471)
Net Underwriting Gain/(Loss)	(722,274)	(8,229,897)
Net Income	175,838	(7,802,803)
Total Assets	26,263,468	21,931,261
Total Liabilities	18,772,958	14,891,684
Surplus As Regards Policyholders	7,490,510	7,039,577

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. The following directors for the Company were serving as of December 31, 2007:

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, Treasurer and CFO Edison Insurance Company
James W. Moore Fort Myers, Florida	Director Edison Insurance Company
John D. Belisle Fort Myers, Florida	Senior Vice President Oswald Trippe Company
Robert G. Gantley Bradenton, Florida	Chief Operating Officer Edison Insurance Company
Douglas G. Fields Weston, Florida	Senior Vice President Oswald Trippe Company
John M. Pollock Fort Meyers, Florida	President Oswald Trippe Company
Steven C. Shimp Fort Meyers, Florida	President Owens – Ames – Kimball 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	Secretary, Treasurer and CFO

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, 2007:

Executive Committee	Audit/Finance Committee	Claims Committee	Executive Compensation Committee
Gary V. Trippe ¹	James W. Moore ¹	Gary V. Trippe ¹	Charles K. Idelson ¹
David M. Howard	Charles K. Idelson	John D. Belisle	James W. Moore
Charles K. Idelson	Steven C. Shimp	Douglas J. Fields	Gary V. Trippe
Kelly K. (IO) King	Kelly K. (IO) King	Robert G. Gantley	

¹ Chairman

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 had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

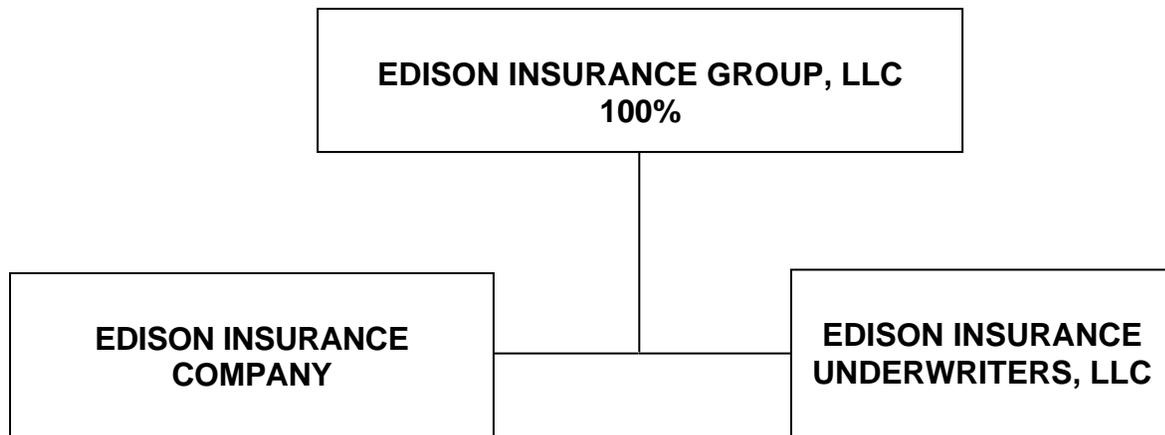
The Company did not have surplus debentures.

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 February 12, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

ORGANIZATIONAL CHART



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

Cost Sharing Agreement

The Company entered into a cost sharing agreement on October 1, 2006, with Edison Insurance Group, LLC (EIG), and Edison Insurance Underwriters, LLC (EIU). This agreement provides for sharing of certain expenses, determined annually, between the Company, EIG and EIU it's affiliated MGA. The Director's & Officer's Liability insurance and Errors & Omissions insurance is shared on a risk basis. Salaries and related employment expenses are shared on a function basis as well as home office rent.

Managing General Agent Agreement (MGA)

The Company entered into a managing general agent (MGA) agreement with its affiliate Edison Insurance Underwriters, LLC effective November 30, 2005. The agreement stated that Edison Insurance Underwriters, LLC would act as the MGA for the insurance policies issued in the State of Florida. The Company is aware that a per policy fee is charged by the MGA and this fee is included in premium income by the Company.

FIDELITY BOND AND OTHER INSURANCE

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

Subsequent Event:

On June 19, 2008, the Company purchased a Fidelity Bond with coverage of \$500,000, which is adequate coverage under the NAIC recommendations.

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 pension plans or stock ownership plans. The Company does have an employee health insurance plan.

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	\$ 332,263	\$ 332,263
TOTAL SPECIAL DEPOSITS		<u>\$ 332,263</u>	<u>\$ 332,263</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

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 detail 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 authorized reinsurers were Harco National Insurance Company (Harco) and Transatlantic Reinsurance Company. The Harco treaty was commuted on June 30, 2007 and the Company received \$189,545 in unpaid loss reserves. The largest unauthorized reinsurers were Endurance Specialty Reinsurance Ltd, and New Castle Reinsurance Company Limited. The Company also utilized the services of a reinsurance intermediary, Guy Carpenter through November 2007 before changing to Willis Re.

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 firm audited the Company's statutory basis financial statements annually for the year 2006 and 2007, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA firm 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 Security 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 2007 year.

IT Report

Highland Clark, LLC conducted an onsite Information Systems (IS) examination of the Company. Results of the evaluation were noted in the IT Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination.

EDISON INSURANCE COMPANY Assets

DECEMBER 31, 2007

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$13,174,451		\$13,174,451
Cash and Short-term Investments	8,768,160		8,768,160
Investment income due and accrued	180,012		180,012
Deferred Premiums	2,507,046		2,507,046
Amounts recoverable from reinsurers	252,008		252,008
Other amounts receivable under reinsurance contracts	326,230		326,230
Deferred Tax Asset	639,751		639,751
Receivables from parent, subsidiaries and affiliates	1,910		1,910
Aggregate write-ins	413,900		413,900
Totals	\$26,263,468	-	\$26,263,468

EDISON INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$1,035,567		\$1,035,567
Loss adjustment expenses	118,561		118,561
Other expenses	525,565		525,565
Taxes, licenses and fees	395,954		395,954
Unearned premium	9,606,429		9,606,429
Advance premium	1,266,777		1,266,777
Ceded reinsurance premiums payable	5,329,959		5,329,959
Provision for reinsurance	10,870		10,870
Payable to parent, subsidiaries and affiliates	294,488		294,488
Aggregate write-ins for liabilities	<u>188,788</u>		<u>188,788</u>
Total Liabilities	18,772,958		18,772,958
Common capital stock	1,000,000		1,000,000
Gross paid in and contributed surplus	13,600,000		13,600,000
Unassigned funds (surplus)	(7,109,490)		(7,109,490)
Surplus as regards policyholders	<u>7,490,510</u>		<u>7,490,510</u>
Total liabilities, capital and surplus	<u><u>\$26,263,468</u></u>		<u><u>\$26,263,468</u></u>

EDISON INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned		\$8,526,188
	Deductions	
Losses incurred		\$3,435,064
Loss expenses incurred		550,295
Other underwriting expenses incurred		5,263,104
Total underwriting deductions		\$9,248,463
Net underwriting gain or (loss)		(\$722,274)

Investment Income

Net investment income earned		\$882,417
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$882,417

Other Income

Net loss from agents' or premium balances charged off		(\$30,640)
Finance and service charges not included in premium		46,335
Total other income		\$15,695

Net income before dividends to policyholders and before federal & foreign income taxes		\$175,838
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Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$7,039,577
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Gains and (Losses) in Surplus

Net Income		\$175,838
Change in net deferred income tax		(58,465)
Change in non-admitted assets		344,430
Change in provision for reinsurance		(10,870)
Change in surplus as regards policyholders for the year		\$450,933
Surplus as regards policyholders, December 31 current year		\$7,490,510

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 1,154,128

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, 2007, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Taylor – Walker & Associates, Inc., an independent actuarial firm, as part of this examination, determined the reserves make a reasonable provision for all unpaid loss and loss expense obligations.

Capital and Surplus

Surplus as regards policyholders

The amount reported by the Company of \$7,490,510 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, 2007

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, 2007, Annual Statement \$7,490,510

	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			<u>\$0</u>
Surplus as Regards Policyholders December 31, 2007, Per Examination			<u><u>\$7,490,510</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

There were no comments or recommendations in the current examination.

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, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,490,510, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Robert Moore, CFE, Examiner-In-Charge and Tracy D. Gates, CISA participated in the examination for Highland Clark, LLC. We also recognize Taylor – Walker & Associates' participation in the examination.

Respectfully submitted,

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