

REPORT ON EXAMINATION

OF

FIRST FLORIDIAN AUTO AND HOME

INSURANCE COMPANY, INC.

TAMPA, FLORIDA

AS OF

DECEMBER 31, 2002

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
January 7, 2003

Kevin M. McCarty
Director
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, 2002, of the financial condition and corporate affairs of:

**FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY, INC.
7840 WOODLAND CENTER BOULEVARD
TAMPA, FLORIDA 33164**

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, 2000 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1999. This examination commenced with planning at the Office on October 6, 2003. The fieldwork commenced on October 13, 2003, and was concluded as of January 7, 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 4-137.001(4) and 4-138.001, 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, 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) 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, 2002. Transactions subsequent to year-end 2002 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.

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 CPAs, after verifying the statutory requirements, for the following accounts:

Cash	Ceded reinsurance premium payable
Agents balances	Payable for securities
Federal and foreign income tax receivable	
Losses	
Commissions payable	

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, 1999, along with resulting action taken by the Company in connection therewith.

Certificate of Authority

The Company had not written insurance coverage in the lines of business of fire, allied lines, glass, burglary and theft, or mobile home multi peril. The Company wrote fire coverage; however, the coverage is included in the homeowners multi peril line.

Resolution: The lines of business, other than fire, were removed from the certificate of authority.

HISTORY

General

The Company was incorporated in Florida on April 10, 1996 and commenced business on June 1, 1996 as First Floridian Auto and Home Insurance Company, Inc.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2002:

Homeowners multi peril	Fire
Inland marine	PPA physical damage
Other liability	Earthquake
Private passenger auto liability	

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

Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	\$5,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Travelers Property Casualty Corp. who in turn owned 100% of Travelers Insurance Group Holding, Inc. who in turn owned 100% of The Travelers Indemnity Company, who owned 100 percent of the stock issued by the Company.

Profitability of Company

The Company reported an underwriting income of \$16,426,300 and investment income of \$20,423,550.

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company declared and paid dividends to its stockholder in 2001 and 2002 in the amounts of \$15,000,000 and \$16,500,000, respectively.

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, 2002, were:

Directors

Name and Location	Principal Occupation
Francisco R. Angones Miami, Florida	Attorney Angones, Hunter, McClure, Lynch & Williams, P. A.
Nancy L. Baily Tampa, Florida	President and CEO First Floridian Auto & Home
Gregory E. Baker St. Augustine, Florida	Insurance Agent Thompson-Bailey-Baker Agency
Ronald E. Foley Hartford, Connecticut	Retired
Phyllis M. Forsyth Marlton, New Jersey	President First Trenton Indemnity Co.
Patrick F. Maroney Tallahassee, Florida	Professor Florida State University
Judy P. O'Brien Richmond, Virginia	Regional Vice-President Travelers Property Casualty Claims Services
Edwin J. Rinehimer Hartford, Connecticut	Senior Vice-President Travelers Property Casualty Risk Management
William H. White Hartford, Connecticut	Treasurer Travelers Property Casualty Corp.
Richard E. Welch, Jr. Worcester, Massachusetts	President and CEO The Premier Insurance Company of Massachusetts

Subsequent Event

On November 21, 2003 the Company decreased the number of members of the Board of Directors from ten directors to five directors. The stockholder appointed the following directors: Nancy L. Baily, Phyllis M. Forsyth, Edwin J. Rinehimer, Paul F. Sangeloty, Richard E. Welch, Jr. Each of these directors is a Travelers Property Casualty Corp. employee.

Directors no longer serving are Francisco R. Angones, Gregory E. Baker, Ronald E. Foley, Patrick F. Maroney, William H. White and Judy P. O'Brien.

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

Senior Officers

Name	Title
Nancy L. Baily	President & CEO
John S. Hill	Treasurer & CFO
Manuel S. Gonzalez	Vice President
David H. Griner	Vice President
James C. Santo	Actuary
Perry I. Cone	Secretary
William H. White	Assistant Treasurer
Judith R. Kelly	Vice President
Mary T. Perry	Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2002:

Executive Committee	Audit Committee	Investment Committee
Edwin J. Rinehimer	Francisco R. Angones	Edwin J. Rinehimer
Nancy L. Baily	Gregory E. Baker	William H. White
Phyllis M. Forsyth	Patrick F. Maroney	Nancy L. Baily
		Judy P. O'Brien

Subsequent Event

On November 21, 2003 the Company appointed Leslie B. Disharoon, Clarence Otis, Jr., Frank J. Tasco, Laurie J. Thomsen, and Blyth McGarvey as Audit Committee members. These members were also members of the board of directors of Travelers Property and Casualty Corp.

Conflict of Interest Procedure

The Company had adopted a policy statement requiring 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, Board of Directors, and Executive and Investment Committee meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented the 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, purchase or sales through reinsurance.

Surplus Debentures

The Company had no outstanding surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 4-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on September 12, 2002, as required by Section 628.801, FS, and Rule 4-143.046, FAC.

Subsequent event: The Company filed an updated holding company registration statement on May 19, 2003.

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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2002, the method of allocation between the Company and its parent was as if each member filed on a separate basis.

Inter-Company Service Agreement

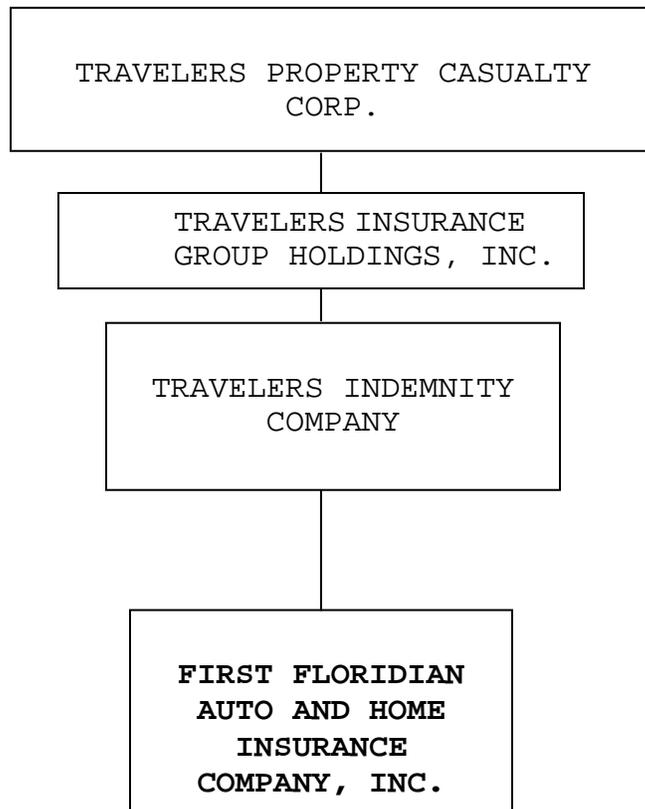
The Company entered into a service agreement with Travelers Indemnity Company (Travelers) and the Standard Fire Insurance Company of Hartford, Connecticut, as of June 1, 1996. The agreement indicates that the Company will provide certain policy, claim and management services with respect to its Florida personal lines business. Travelers shall provide certain services including, but not limited to, accounting, payroll, internal audit and tax for remuneration. The agreement indicates that all remuneration shall be reasonable, as it is not intended that Travelers realize a profit or incur a loss as a result of providing these services.

Investment Advisory Agreement

The Company entered into an investment advisory agreement with Travelers Asset Management International Corporation (TAMIC) of Hartford, Connecticut. The Company retained TAMIC to provide investment advisory services, which includes investment counseling and consulting, and supervising and directing investments and re-investments.

A simplified organizational chart as of December 31, 2002 reflecting the holding company system is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group.

**FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART
DECEMBER 31, 2002**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$210,000,000 with a deductible of \$15,000,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company's business insurance was adequate.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company participated in a qualified noncontributory defined benefit pension plan sponsored by Travelers Property Casualty Corp., the Company's ultimate parent. Benefits for the qualified pension plan was based on the account balance formula where each employee's account was credited with amounts based upon their pay, length of service and a specified interest rate. Each Company was charged for its allocable share of the pension funding cost based upon its covered salary expense. The Company's employees were also eligible to participate in a 401(k) savings plan, as well as a stock option plan and management incentive plan of Travelers Property Casualty Corp. The Company did not match funds in the savings plan. In addition to pension benefits, the Company participated in certain health care and life insurance benefit plans for employees and retired employees sponsored by the Travelers Insurance Group. Expenses of these plans were charged to affiliates according to the inter-company cost sharing agreement.

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	USTNTS, 5.85%, 02/15/04	<u>\$ 350,000</u>	<u>\$ 368,046</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 350,000</u>	<u>\$ 368,046</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company provided homeowners and auto coverage throughout the State of Florida.

Territory and Plan of Operation

The Company was authorized to transact insurance in the State of Florida in accordance with Section 624.401(2), FS.

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 did not assume risk.

Ceded

The Company ceded risk on a quota share, excess of loss, and catastrophe excess of loss basis.

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

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2000, 2001 and 2002, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 4-137.002, FAC.

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 maintained its principal operational offices in Tampa, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company utilized the investment services of Citibank. The safekeeping agreement contained the appropriate safeguards and controls provided by Rule 4-143.042, FAC, indemnifying the Company for any loss of securities occasioned by the negligence or dishonesty of the broker's officers or employees, or burglary, robbery, holdup, theft or mysterious disappearance, and included loss by damage or destruction.

Independent Auditor Agreement

The Company had an agreement with KPMG to perform the annual audit.

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, 2002, 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."

FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$309,240,621		\$309,240,621
Stocks:			
Preferred	11,724,160		11,724,160
Common	826,780		826,780
Cash:			
On deposit	18,442,146		18,442,146
Short-term investments	9,588,087		9,588,087
Other investments	1,045,110		1,045,110
Receivable for securities	1,618,146		1,618,146
Agents' Balances:			
Uncollected premium	4,252,437		4,252,437
Deferred premium	25,684,357		25,684,357
Federal income tax asset	7,318,899		7,318,899
Interest and dividend income due & accrued	3,745,787		3,745,787
Equities and deposits in pools and associations	18,979		18,979
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Totals	\$393,505,509	\$0	\$393,505,509
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FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$97,493,227		\$97,493,227
Loss adjustment expenses	16,483,864		16,483,864
Commissions payable, contingent commissions and other similar charges	6,120,037		6,120,037
Other expenses	4,241,825		4,240,825
Taxes, licenses and fees	2,800,000		2,800,000
Federal income tax payable	10,947,023		10,947,023
Unearned premium	65,218,885		65,218,885
Ceded reinsurance premiums payable	5,778,105		5,778,105
Remittances and items not allocated	242,441		242,441
Payable to parent, subsidiaries and affiliates	2,185,934		2,185,934
Payable for securities	<u>10,375,764</u>		<u>10,375,764</u>
Total Liabilities	\$221,887,105		\$221,886,105
Common capital stock	\$5,000,000		\$5,000,000
Gross paid in and contributed surplus	129,350,000		129,350,000
Unassigned funds (surplus)	<u>37,268,404</u>		<u>37,268,404</u>
Surplus as regards policyholders	<u>\$171,618,404</u>		<u>\$171,618,404</u>
Total liabilities, capital and surplus	<u>\$393,505,509</u>	<u>\$0</u>	<u>\$393,504,509</u>

FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2002

Underwriting Income

Premiums earned	\$176,668,913
DEDUCTIONS:	
Losses incurred	100,228,776
Loss expenses incurred	17,315,936
Other underwriting expenses incurred	42,697,901
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$160,242,613</u>

Net underwriting gain or (loss) \$16,426,300

Investment Income

Net investment income earned	\$21,148,912
Net realized capital gains or (losses)	<u>(725,362)</u>
Net investment gain or (loss)	\$20,423,550

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$1,227,774)
Finance and service charges not included in premiums	2,046,163
Aggregate write-ins for miscellaneous income	<u>77,474</u>
Total other income	\$895,863

Net income before dividends to policyholders and before federal & foreign income taxes \$37,745,713

Dividends to policyholders 0

Net Income, after dividends to policyholders, but before federal & foreign income taxes \$37,745,713

Federal & foreign income taxes 12,921,820

Net Income \$24,823,893

Capital and Surplus Account

Surplus as regards policyholders, December 31 2001 \$167,107,360

Gains and (Losses) in Surplus

Net Income	\$24,823,893
Net unrealized capital gains or losses	(3,198,075)
Change in net deferred income tax	(163,698)
Change in nonadmitted assets	(451,076)
Change in excess statutory over statement reserves	0
Dividends to stockholders	(16,500,000)
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$4,511,044</u>

Surplus as regards policyholders, December 31 current year \$171,618,404

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$113,977,091

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, 2002 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.

FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY, INC.
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2002

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, 2002, Annual Statement	\$171,618,404
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
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ASSETS:

LIABILITIES:

Net Change in Surplus:	<u>0</u>
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Surplus as Regards Policyholders December 31, 2002, Per Examination	<u><u>\$171,618,404</u></u>
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SUMMARY OF FINDINGS

Compliance with previous directives

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

Current examination comments and corrective action

There were no items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2002.

SUBSEQUENT EVENT

Subsequent event: The Company filed an updated holding company registration statement on May 19, 2003.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of First Floridian Auto and Home Insurance Company, Inc. as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$171,618,404, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CPA, CFE, DABFA, CFE, Financial Examiner/Analyst Supervisor and Doug Hazeltine, Actuary, participated in the examination.

Respectfully submitted,

Bill Myers
Financial Examiner/Analyst II
Florida Office of Insurance Regulation