

REPORT ON EXAMINATION

OF

INSURANCE COMPANY OF THE AMERICAS

ORISKANY, NEW YORK

AS OF

JUNE 30, 2006

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

	PAGE
LETTER OF TRANSMITTAL.....	
SCOPE OF EXAMINATION.....	1
Status of Adverse Findings from Prior Examination.....	2
HISTORY	5
Profitability of Company	5
Dividends to Stockholders.....	6
Surplus Debentures	6
ORGANIZATIONAL CHART	6
REINSURANCE	8
Assumed	8
Ceded	8
ACCOUNTS AND RECORDS	9
FINANCIAL STATEMENTS PER EXAMINATION	10
Assets	11
Liabilities, Surplus and Other Funds	12
Statement of Income	13
COMMENTS ON FINANCIAL STATEMENTS.....	14
Liabilities	14
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	16
SUMMARY OF FINDINGS	17
CONCLUSION	18

Tallahassee, Florida

December 1, 2006

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 June 30, 2006, of the financial condition and corporate affairs of the:

**INSURANCE COMPANY OF THE AMERICAS
1310 UTICA STREET
ORISKANY, NEW YORK 13424**

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination was as of June 30, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. The fieldwork on an examination as of September 30, 2005 commenced on November 29, 2005, was suspended on April 21, 2006, and recommenced when the scope of the examination was changed to be as of June 30, 2006. The examination recommenced on August 28, 2006 and was concluded on December 1, 2006. 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, 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 selected records deemed pertinent to the Company's operations and practices. In addition, the Company's independent audit report as of December 31, 2005, prepared by the Company's independent certified public accountant (CPA) was reviewed and considered 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 filed quarterly statement as of June 30, 2006. The transactions subsequent to June 30, 2006 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, 2003, along with resulting action taken by the Company.

Accounts and Records

Although there was improvement in maintaining the accounting records, the internal control system and accounting systems require further improvement. Section 607.1601(2), Florida Statutes, requires the Company to maintain accurate accounting records.

Resolution: Improvements have been made. Where tested, the general ledger and subsidiary ledgers reconciled. The Company undertook an extensive time study resulting in a new cost allocation procedure, which resulted in adjustments to prior period misallocations in the fourth quarter of 2005.

Related Party Transactions

The Company paid legal fees to the Company president and his law firm. The payments were not disclosed in the annual statement, as required by SSAP No. 25, paragraph 17.

Resolution: The Company reported transactions with the president's law firm, KPG LLP, in its 2005 Annual Statement and June 30, 2006 Quarterly Statement, in accordance with SSAP No. 25.

Audit Committee Minutes

The Company appointed all five of its board of directors as members of the audit committee. Section 624.424(8), Florida Statutes, requires that the audit committee be comprised solely of members who are free from any relationship that, in the opinion of its board of directors, would interfere with the exercise of independent judgment as a committee member.

Resolution: The Company has populated its audit committee with members who are not affiliated with the Company.

Surplus Notes and Sale of IPA Acquisitions, Inc. (IPA) Preferred Stock

IPA received funds in conjunction with the issuance of high-deductible policies written by the Company. These funds should be held by the Company, in the Company's name.

Resolution: Any funds due to ICA that were received by IPA, were appropriately remitted to ICA.

Commutations

The Company entered into commutation and release agreements with two of its policyholders.

Resolution: The Company has not entered into any policyholder commutations during the period of this examination.

Affiliated Agreements – Expense Allocation Agreement and Management Service Agreements

The Company entered into a management services agreement, despite disapproval from the Office, and did not comply with the specific requirement of the expense allocation agreement regarding the billing and payment procedures.

Resolution: The Company is currently operating under an expense allocation agreement approved by the Office.

Loss and Loss Adjustment Expenses

The loss and loss adjustment expense reserves were deficient by the amount of \$7,027,000.

Resolution: The Company's loss and loss adjustment expense reserves were not deficient as of June 30, 2006.

Aggregate Write-Ins for Other than Invested Assets

The amount of the Company's prior collateral held compared to the required collateral was deficient by approximately \$12,000,000.

Resolution: The Company's collateral was not deficient as of June 30, 2006.

Ceded Reinsurance Premiums Payable

In the September 30, 2004, quarterly statement, the Company had an adjustment to income of \$1,783,504. This represented a reinstatement of a liability to a former reinsurer, Dallas Fire Insurance Company. This reinstatement should have been reported as a liability as of December 31, 2003.

Resolution: The restatement of the prior period liability is not relevant to this examination period.

Taxes, Licenses and Fees

The Company paid all of the quarterly 2003 Division of Workers' Compensation assessment fees late on April 15, 2004. The Company did not accrue these fees as Taxes, Licenses & Fees in the annual statement; instead, these fees were included in the Incurred But Not Reported reserve component of the liability for losses.

Resolution: The Company properly reported Workers' Compensation assessment fees as Taxes, Licenses and Fees during the period of this examination.

HISTORY

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported by the Company.

	For the Six Months ended June 30, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004	For the year ended December 31, 2003
Premiums Earned	5,536,160	31,022,502	38,036,250	27,065,376
Net Underwriting Gain/(Loss)	(869,288)	2,769,313	2,425,843	2,238,987
Net Income	(243,936)	3,881,104	781,544	1,328,154
Total Assets	61,356,268	58,839,970	43,369,535	28,840,684
Total Liabilities	47,084,826	44,565,094	34,456,926	21,351,607
Surplus As Regards Policyholders	14,271,442	14,274,876	8,912,609	7,489,077

Dividends to Stockholders

There were no dividends paid during this examination period.

Surplus Debentures

The Company had a total of \$10.4 Million in outstanding surplus debentures.

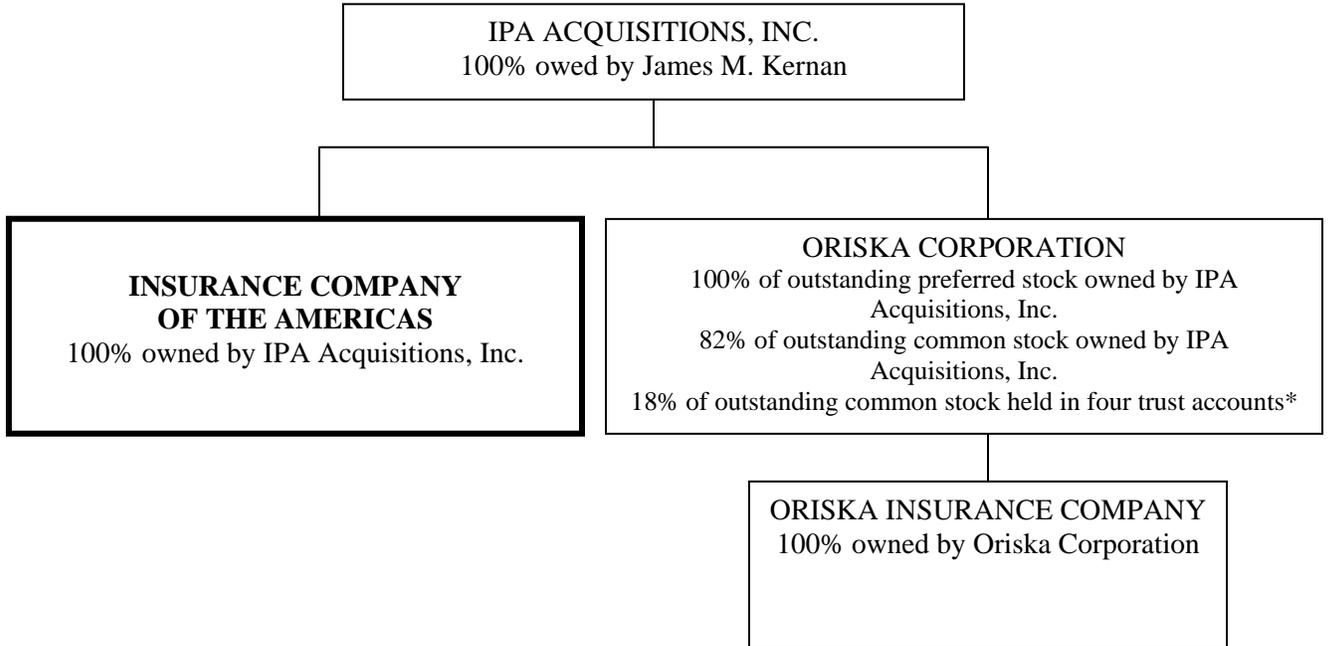
ORGANIZATIONAL CHART

A simplified organizational chart as of June 30, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provides a list of all related companies of the holding company group.

INSURANCE COMPANY OF THE AMERICAS

ORGANIZATIONAL CHART

JUNE 30, 2006



*Ryan Kernan Trust
Michele Kernan Trust
Martin Kernan Trust
Adam Kernan Trust

REINSURANCE

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

Assumed

The Company did not assume risk. The Company continued its run-off of an assumed treaty reinsurance book of business originally written from 1977 to 1984, when the Company was known as Ormond Reinsurance Company.

Ceded

The Company ceded risk on a 100% quota share basis to its affiliate, Oriska Insurance Company (Oriska). The quota share agreement was intended to cover the AMS Staff Leasing policy only and was assumed by Oriska from Dallas Fire Insurance Company through a novation agreement effective December 1, 2002.

The Company also ceded risk on three excess of loss reinsurance agreements to various Lloyds syndicates.

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

Review of the excess of loss agreements determined that the contracts lacked sufficient risk transfer as required by SSAP No. 62, paragraph 34. These treaties expired on December 31, 2005, and the Company did not finalize replacement treaties by the conclusion of examination field work.

ACCOUNTS AND RECORDS

An independent CPA audited the Company for the year 2005 in accordance with Section 624.424(8), Florida Statutes. Audited statutory financial statements and 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 various computerized systems. The Company's balance sheet accounts were verified with the line items of the June 30, 2006, Quarterly Statement submitted to the Office.

In Consent Order 78181-4-C0, Section 5(i), the Company agreed to file all side agreements with the Office for approval. The PEO agreements constituted side agreements and should be filed in compliance with the Consent Order.

The Company maintained its principal operational offices in Oriskany, New York and its claims office in Bradenton, Florida. The examination was conducted in Oriskany, New York.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of June 30, 2006, and the results of its operations for the quarter then ended, as determined by this examination. There were no adjustments made as a result of the examination.

INSURANCE COMPANY OF THE AMERICAS
Assets

JUNE 30, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$32,466,713	\$0	\$32,466,713
Preferred stocks	1,852,140		1,852,140
Common stocks	5,559,640		5,559,640
Cash and short term investments	8,220,106		8,220,106
Investment income due and accrued	306,820		306,820
Uncollected premiums in the course of collection	960,134		960,134
Deferred premiums not yet due	5,626,659		5,626,659
Current federal income tax recoverable	248,786		248,786
Net deferred tax asset	1,568,130		1,568,130
Receivables from parent, subsidiaries and affiliates	5,499		5,499
Receivable under high deductible policies	4,541,641		4,541,641
	<hr/>		<hr/>
Totals	<u>\$61,356,268</u>	<u>\$0</u>	<u>\$61,356,268</u>

INSURANCE COMPANY OF THE AMERICAS
Liabilities, Surplus and Other Funds

JUNE 30, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$27,498,590	\$0	\$27,498,590
Reinsurance payable on loss and Loss adjustment expense	891		891
Loss adjustment expenses	8,973,033		8,973,033
Commissions payable	31,330		31,330
Other expenses	1,037,072		1,037,072
Taxes, licenses and fees	166,756		166,756
Current federal income taxes	694,260		694,260
Unearned premiums	6,590,722		6,590,722
Ceded reinsurance premiums payable	1,815,138		1,815,138
Remittances and items not allocated	275,034		275,034
Provision for reinsurance	2,000		2,000
Total Liabilities	\$47,084,826	\$0	\$47,084,826
Common capital stock	\$1,000,000		\$1,000,000
Surplus notes	10,449,557		10,449,557
Gross paid in and contributed surplus	7,894,929		7,894,929
Unassigned funds (surplus)	(5,073,044)		(5,073,044)
Surplus as regards policyholders	\$14,271,442		\$14,271,442
Total liabilities, capital and surplus	\$61,356,268	\$0	\$61,356,268

INSURANCE COMPANY OF THE AMERICAS
Statement of Income

June 30, 2006

Underwriting Income

Premiums earned	\$5,536,160
DEDUCTIONS:	
Losses incurred	2,107,044
Loss expenses incurred	378,155
Other underwriting expenses incurred	3,920,249
Total underwriting deductions	<u>\$6,405,448</u>
Net underwriting gain or (loss)	(\$869,288)

Investment Income

Net investment income earned	\$719,455
Net realized capital gains or (losses)	69,339
Net investment gain or (loss)	<u>\$788,794</u>

Other Income

Net loss from agents balances charged off	(\$15,153)
Finance and service charges not included in premiums	182,300
Aggregate write-ins for miscellaneous income	7,411
Total other income	<u>\$174,558</u>

Net income before dividends to policyholders and before federal income taxes	\$94,064
Dividends to policyholders	<u>0</u>
Net income, after dividends to policyholders, but before federal income taxes	\$94,064
Federal income taxes incurred	<u>338,000</u>
Net Income	<u><u>(\$243,936)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005	\$14,274,876
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Gains and (Losses) in Surplus

Net Income	(\$243,936)
Net unrealized capital gains or losses	223,882
Change in net deferred income tax	365,383
Change in non-admitted assets	<u>(348,763)</u>
Change in surplus as regards policyholders for the period	(\$3,434)
Surplus as regards policyholders, June 30, 2006	<u><u>\$14,271,442</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$36,471,623

The Company reported Loss Reserves of \$27,498,590 and Loss Adjustment Expense (LAE) Reserves of \$8,973,033, for total reserves of \$36,471,623.

Policyholder collateral held by the Company was insufficient to cover the total receivable and outstanding loss and loss adjustment expense reserve obligations. The total receivable plus future obligations were \$42,052,000 and collateral held by the company was \$22,669,000 resulting in a deficiency of \$19,383,000. No financial adjustment was made during this examination.

An independent actuary participated in this examination for the purpose of determining the adequacy of Loss and LAE Reserves as of the date of this examination. The independent actuary determined that the reserves June 30, 2006, Quarterly Statement were adequate.

Company carried reserves	\$36,471,623
Independent actuary's estimate	<u>30,884,379</u>
Difference	<u>\$5,587,244</u>
Percent	15.3%

The Company maintained an off general ledger and balance sheet account for the purpose of paying claims. The Company asserted that the procedure evolved out of a misunderstanding in communication between the Company and the Office regarding the

treatment of loss fund trust accounts for policyholder retention responsibility for claim payments. The Company paid claims from this account, including both its share and the policyholder's share of the claim. The Company subsequently billed the policyholder for its share and established a receivable for the recovery.

The maintenance of the off balance sheet claims account distorted both the Company's general ledger and the reporting of paid claims activity in the Company's financial statements.

INSURANCE COMPANY OF THE AMERICAS
Comparative Analysis of Changes in Surplus

JUNE 30, 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 June 30, 2006 per Annual Statement	\$14,271,442
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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:			0
Surplus as Regards Policyholders June 30, 2006, Per Examination			\$14,271,442

SUMMARY OF FINDINGS

Compliance with previous directives

The Company did comply with all of the directives in the prior examination report.

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 June 30, 2006:

Side Agreements

The Company did not file all side agreements as required in Consent Order 78181-4-CO, Section 5(i). **We recommend that the Company file PEO agreements to comply with Consent Order 78181-4-CO, Section 5(i).**

Loss Fund Account

The Company maintained an off general ledger and balance sheet account for the purpose of paying claims. This procedure resulted in a lack of control of claim payments in the Company's accounting system and in the reporting of paid claims in its financial statements. Section 607.1601(2), Florida Statutes, requires the Company to maintain accurate accounting records. **We recommend that the Company establish a bank account for the payment of claims that is controlled through its general ledger and report its activity in its financial statements.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **Insurance Company of the Americas** as of June 30, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$14,271,442, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey Davis, CFE, and Robert W. Gardner, FCAS, MAAA, Actuary, contract representative of INS Consultants, Inc., participated in this examination.

Respectfully submitted,

Kethessa Carpenter
Financial Examiner/Analyst Supervisor
Office of Insurance Regulation