

REPORT ON EXAMINATION

OF

MAPFRE INSURANCE COMPANY OF

FLORIDA

MIAMI, FLORIDA

AS OF

DECEMBER 31, 2003

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 30, 2005

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:

**MAPFRE INSURANCE COMPANY OF FLORIDA
5959 BLUE LAGOON DRIVE
SUITE 400
MIAMI, FLORIDA 33126**

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, 2003. 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 December 27, 2004, to December 30, 2004. The fieldwork commenced on January 3, 2005, and was concluded as of March 30, 2005. 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 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 (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, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination was 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:

- Federal income taxes
- Taxes, licenses and fees

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.

Custodial Agreement

The Company safekeeping agreement between the Company and its custodian did not include safeguards and controls indemnifying the Company. **Resolution:** The Company securities were in the custody of Merrill Lynch Trust Company, FSB; in compliance with Rule 4-143.042, FAC.

HISTORY

General

The Company was incorporated on November 17, 1988, as a stock property and casualty insurer under the applicable provisions of the State of Florida and commenced business on August 1, 1989 with the name Consolidated Property and Casualty Insurance Company. The Company was purchased by Mapfre Corporation of Florida, Inc. on June 6, 2002, and the name was subsequently changed to Mapfre Insurance Company of Florida effective October 1, 2002. Mapfre Insurance Company of Florida (formerly known as Consolidated Property & Casualty Insurance Company) merged with Mapfre Insurance Company of America on March 25, 2003.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2003:

Fire	Allied Lines
Commercial Multi Peril	Inland Marine
Other Liability	Private Passenger Auto Liability
Commercial Automobile Liability	PPA Physical Damage
Commercial Auto Physical Damage	Surety
Glass	Burglary and Theft
Fidelity	

The Articles of Incorporation were amended on July 16, 2002 to reflect the name change from Consolidated Property and Casualty Insurance Company to Mapfre Insurance Company of Florida.

Capital Stock

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

Number of authorized common capital shares	30,000
Number of shares issued and outstanding	20,000
Total common capital stock	\$2,000,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, Mapfre Corporation of Florida, Inc., who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Mapfre USA, a Florida corporation. Mapfre USA was wholly owned by Mapfre America, S.A., a Madrid, Spain company, who in turn, was 84.64% owned by Corporacion Mapfre. Corporacion Mapfre was 51% owned by Mapfre Mutualidad, which was owned by the policyholders.

Profitability of Company

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

	2001	2002	2003
Premiums Earned	7,543,775	7,761,003	10,233,646
Net Underwriting Gain/(Loss)	(722,800)	(493,104)	(1,135,918)
Net Income	(297,752)	359,494	409,826
Total Assets	17,158,802	20,707,951	26,614,939
Total Liabilities	11,093,965	13,391,887	15,556,191
Surplus As Regards Policyholders	6,064,837	7,316,064	11,058,748

Dividends to Stockholders

No dividends were declared or paid to the stockholder during the period covered by this examination.

Management

The annual shareholder meeting for the election of directors was not held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2003, were:

Directors

Name and Location	Principal Occupation
Gaston de Zarraga Sr. Miami, Florida	CEO, GDZ Investments
Jorge A. Fernandez-Silva Miami, Florida	Director, Amstar Insurance Company
Antonio Huertas San Juan, Puerto Rico	President, Mapfre PRAICO, Amstar Insurance Company and Mapfre Insurance Company of Florida
Jaime Tamayo Miami, Florida	Executive VP & COO, Mapfre Insurance Company of Florida and Amstar Insurance Company
Juan A. Terrassa San Juan, Puerto Rico	Chairman, Mapfre PRAICO

The Board of Directors appointed the following senior officers:

Senior Officers

Name	Title
Antonio Huertas	President & CEO
Jaime Tamayo	Executive Vice President
Jose V. Pagan	Treasurer
Pedro A. Freyre, Esq.	Secretary

Officers were reported on the Company's annual statement, however the minutes did not indicate that they were appointed by the Board in 2000 and 2002.

The Company did not maintain an audit committee, as required by Section 624.424(8), FS.

Conflict of Interest Procedure

The Company failed to obtain and maintain conflicts of interest statements from its officers and directors during 2000, 2001, 2002, and 2003, in violation of Section 607.0832, FS.

Corporate Records

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period under examination. Except for the following, 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.

The minutes of the Company's board of director's meetings for 2002 and 2003 did not reflect the appointment of an audit committee in violation of Section 624.424(8), FS.

The Company failed to maintain minutes of the 2002 and 2003 shareholders meetings, the 2003 board of directors meetings, or the 2001 through 2004 audit committee and investment committee meetings in violation of Section 607.1601 FS.

There was no documentation in the minutes that the Company's directors reviewed the previous examination report.

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

The Company merged with its affiliate, Mapfre Insurance Company of America on March 25, 2003.

Surplus Debentures

As of December 31, 2003, there were no outstanding surplus debentures of the Company.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on August 10, 2004, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

Tax Allocation Agreement

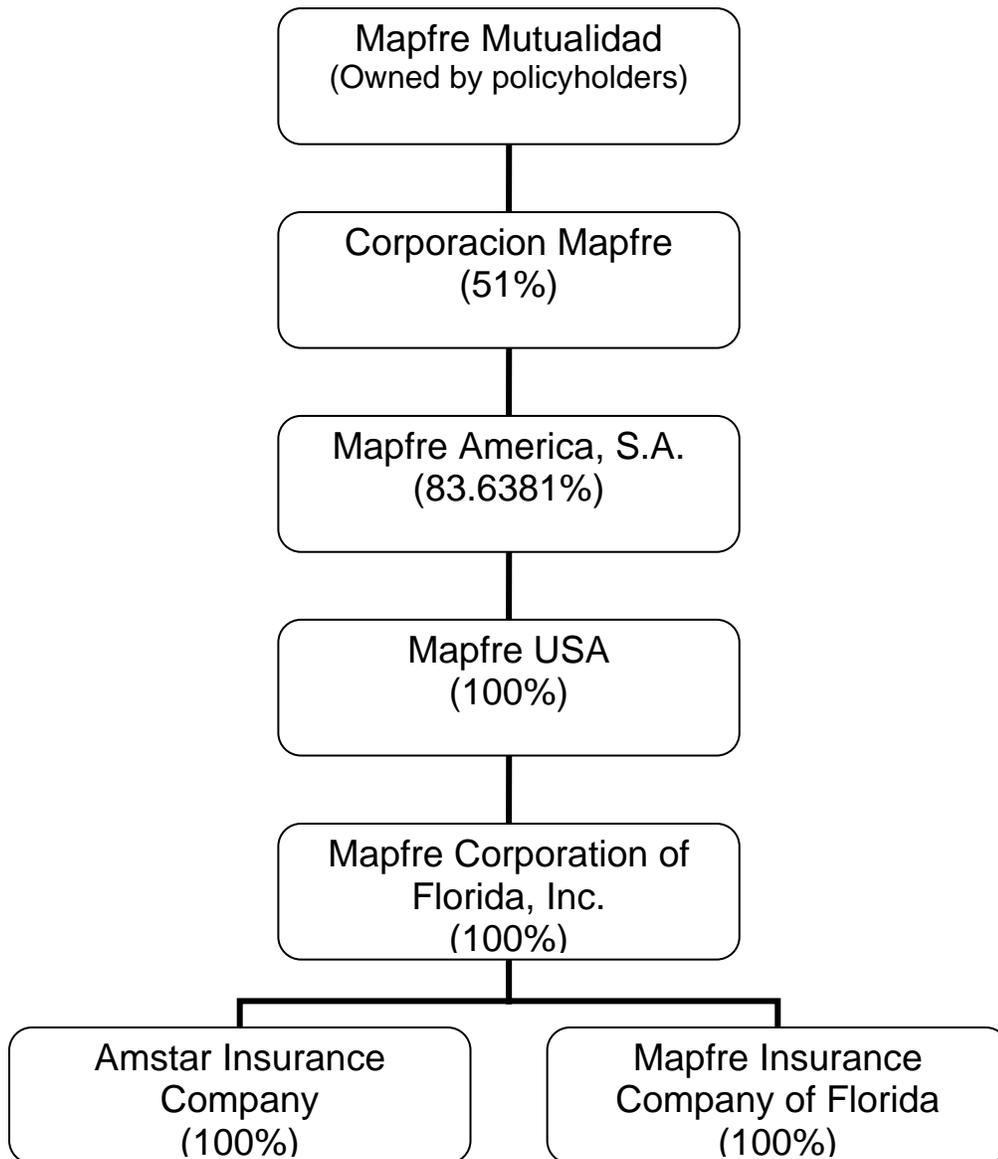
The Company, along with its parent and other affiliated companies filed a consolidated federal income tax return. On December 31, 2003, the method of allocation between the Company and its parent was based on a separate tax liability as if the Company had filed a separate tax return.

Administrative Services Agreement

The Company entered into the agreement effective January 2, 2003, whereby the Company would provide administrative and management services to other members of the holding company group, such as accounting and payroll assistance, underwriting, claims and collection, data processing assistance, personnel administration training, and administration of employee benefits.

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.

**MAPFRE INSURANCE COMPANY OF FLORIDA
ORGANIZATIONAL CHART
DECEMBER 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company failed to maintain the suggested minimum amount of fidelity bond coverage as recommended by the NAIC for the years 2001, 2002 and 2003.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company's employees were eligible to participate in 401K plans. The Company was responsible for the portion of any matching contributions attributable to its employees.

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	\$650,000	\$650,000
FL	Cmwlth Edison, 6.4%, 10/15/05	<u>\$500,000</u>	<u>\$535,200</u>
TOTAL FLORIDA DEPOSITS		<u>\$1,150,000</u>	<u>\$1,150,000</u>
Total Special Deposits		<u>\$1,150,000</u>	<u>\$1,150,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance only 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.

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 any insurance business during the period covered by this examination.

Ceded

The Company ceded risk on an excess of loss basis to authorized and unauthorized reinsurers. The primary reinsurer was General Re, an authorized reinsurer.

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, 2002, and 2003, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-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, with the exception of adjustments to line items as noted within this report.

The Company maintained its principal operational offices in Miami, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Independent Auditor Agreement

The Company engaged Ernst & Young LLP for the purpose of annually auditing and reporting on the statutory basis financial statements at year-end.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

INFORMATION TECHNOLOGY REQUIREMENTS

Dixon Hughes PLLC, under the direction of the Office, conducted an evaluation of the Company's information systems requirements to determine if the Company was in compliance with information technology (IT) standards. The Company's primary information systems and support were provided by Mapfre Corporation USA based in Puerto Rico, who maintained, operated, controlled and updated programs and software. The following is a summary of principal findings and recommendations:

Logical and Physical Security

There is no periodic user access review on the primary applications such as Tronador. The Company has undergone significant organizational changes in the past 12 months. With these changes comes the risk of users having functional access that is incompatible with current job duties. It is the responsibility of Information Systems (IS) to provide security access reports for user management review and sign off. This review provides clear accountability between IS and user management and minimizes the risk of users having access to incompatible functions.

The Company did not have a documented information security policy. While physical security standards seem to be adequately deployed, the IT examiner noted inconsistency with logical security administration documentation, a lack of security monitoring procedures, and no periodic user access reviews by management. Information security requires corporate-wide responsibility, and not having a clearly defined and supported information security policy places inordinate responsibility on the IS area.

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."

MAPFRE INSURANCE COMPANY OF FLORIDA
Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$19,947,045		\$19,947,045
Stocks:			
Preferred Stocks	970,480		970,480
Common Stocks	517,925		517,925
Cash:			
On deposit	2,316,235		2,316,235
Investment income due & accrued	226,743		226,743
Agents' balances:			
Uncollected premium	1,658,928		1,658,928
Reinsurance:			
Amounts recoverable	208,545		208,545
Net deferred tax asset	716,440		716,440
EDP equipment	52,598		52,598
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Totals	\$26,614,939	\$0	\$26,614,939
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MAPFRE INSURANCE COMPANY OF FLORIDA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$7,716,608		\$7,716,608
Loss adjustment expenses	1,181,901		1,181,901
Other expenses	148,624		148,624
Taxes, licenses and fees	165,833		165,833
Current foreign & federal Income tax	151,373		151,373
Unearned premium	5,825,301		5,825,301
Ceded Reinsurance Payable	<u>366,551</u>		<u>366,551</u>
Total Liabilities	\$15,556,191		\$15,556,191
Common capital stock	\$1,487,900	\$512,100	\$2,000,000
Gross paid in and contributed surplus	17,936,320	(512,100)	17,424,220
Unassigned funds (surplus)	<u>(8,365,472)</u>		<u>(8,365,472)</u>
Surplus as regards policyholders	<u>\$11,058,748</u>		<u>\$11,058,748</u>
Total liabilities, capital and surplus	<u>\$26,614,939</u>	\$0	<u>\$26,614,939</u>

MAPFRE INSURANCE COMPANY OF FLORIDA
Statement of Income

DECEMBER 31, 2003

Underwriting Income

Premiums earned	\$10,233,646
DEDUCTIONS:	
Losses incurred	5,072,482
Loss expenses incurred	2,363,927
Other underwriting expenses incurred	3,933,155
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$11,369,564</u>
Net underwriting gain or (loss)	(\$1,135,918)

Investment Income

Net investment income earned	\$1,043,114
Net realized capital gains or (losses)	586,958
Net investment gain or (loss)	<u>\$1,630,072</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	770
Aggregate write-ins for miscellaneous income	(5,510)
Total other income	<u>(\$4,740)</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$489,414
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$489,414</u>
Federal & foreign income taxes	<u>79,588</u>
Net Income	\$409,826

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$7,316,064
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Gains and (Losses) in Surplus

Net Income	\$409,826
Net unrealized capital gains or losses	37,277
Change in net deferred income tax	(87,745)
Change in non-admitted assets	(4,607)
Capital changes: Paid in	487,900
Surplus adjustments: Paid in	10,416,320
Aggregate write-ins for gains and losses in surplus	(7,516,287)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$3,742,684</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$11,058,748</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds \$19,947,045

The above amount is the same as that reported by the Company. The Company used the Sungard System Software to amortize their bonds using the scientific interest method as required by SSAP 26 paragraph 6. Several discrepancies were found by this examination; however, no adjustment was made as the amount is immaterial.

Cash \$2,316,235

The above amount is the same as that reported by the Company. However, the Company did not maintain an Escheat payable account and had not filed a report of abandoned property with the Department of Financial Services for year-end 2003, in violation of Section 717.117, FS.

Reinsurance Recoverable \$208,545

The above amount is the same as that reported by the Company. The Company erroneously reported all reinsurance recoverable on paid loss and loss adjustment expenses as current, in violation of NAIC annual statement instructions.

EDP Equipment \$52,598

The above amount is the same as that reported by the Company. The Company failed to include the disclosures required by SSAP 16 in the 2003 annual statement.

Liabilities

Losses and Loss Adjustment Expenses

\$8,898,509

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.

The Company did not properly report payments for Adjusting and Other expenses as required by NAIC statutory accounting procedures. Rather, they booked all of each calendar year's payments to the one corresponding accident year.

Common Capital Stock

\$2,000,000

The above amount is \$512,000 greater than that reported by the Company. The Company incorrectly recorded the amount of capital stock after the merger with Mapfre Insurance Company of America in 2003. The difference was reclassified from gross paid in and contributed surplus.

MAPFRE INSURANCE COMPANY OF FLORIDA
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	\$11,058,748
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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>
ASSETS:			
No adjustment needed.			
LIABILITIES:			
No adjustment needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$11,058,748

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 1999 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.

Management

The Company did not maintain an audit committee. **It is recommended that the Company comply with Section 624.424(8)(c), FS, which requires the Board to establish an audit committee of three or more directors of the insurer or an affiliated company. The Company should provide documentation of compliance to the Office within 90 days after this report is issued.**

Conflicts of Interest

The Company failed to obtain conflicts of interest statements from its officers and directors during 2000, 2001, 2002, and 2003, in violation of Section 607.0832, FS. **It is recommended that the Company provide documentation of compliance to the Office within 90 days after this report is issued.**

Corporate Records

The Company failed to maintain minutes of the 2002 and 2003 shareholders meetings, the 2003 board of directors meetings, and the audit committee and investment committee meetings from 2000 through 2004, in violation of Section 607.1601 FS. **It is recommended that the Company comply with Section 607.1601, FS, in the future.**

There was no documentation in the minutes that the Company's directors reviewed the previous examination report. **It is recommended that the Board of directors review all Office reports in the future.**

Fidelity Bond

The Company failed to maintain the suggested minimum amount of fidelity bond coverage as recommended by the NAIC for the years 2000, 2001, 2002 and 2003. **It is recommended that the Company comply with Rule 69O-142.011(11)(b)16, FAC and NAIC pronouncements and provide documentation of compliance to the Office for the current year within 90 days after this report is issued.**

Bonds

Discrepancies were found in the amortization of several bonds using the scientific interest method. **It is recommended that the Company insure the amortization is correct when reporting amortization amounts in the future.**

Cash

The Company did not maintain an Escheat payable account and had not filed a report of abandoned property with the Department of Financial Services for year-end 2003 in violation of

Section 717.117 FS. **It is recommended that the Company comply with Section 717.117, FS, and provide documentation of compliance to the Office within 90 days after this report is issued.**

Reinsurance Recoverable

The Company erroneously reported all reinsurance recoverable on paid loss and loss adjustment expenses as current, in violation of NAIC annual statement instructions. **It is recommended that the Company age reinsurance recoverables in accordance with NAIC annual statement instructions, and comply with NAIC instructions with future filings.**

EDP Equipment

The Company failed to include all the disclosures required by SSAP 16 in the 2003 annual statement. **It is recommended that the Company comply with SSAP 16 and fully disclose all items with regard to EDP equipment in all future filings.**

Capital Stock

The Company incorrectly recorded the amount of capital stock after the merger with Mapfre Insurance Company. **It is recommended that the Company prepare all future annual and quarterly financial statements in compliance with NAIC annual statement instructions.**

Loss and Loss Adjustment Expenses

The Company recorded each calendar year payment to the corresponding accident year, and improperly reported the payments for Adjusting and Other expenses. **It is recommended that the Company properly report these payments according to the NAIC statutory accounting procedures in the future.**

Logical and Physical Security

The Company did not periodically review computer access for compatibility with employee's changing job duties. The Company also did not have a documented information security policy. **It is recommended that the Company provide the Office with documentation of compliance within 90 days after this report is issued.**

SUBSEQUENT EVENT

Jaime Tamayo became President of the Company in 2005.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Mapfre Insurance Company of Florida** 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 \$11,058,748, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Maurice Fuller, Financial Examiner/Analyst II; David Schleit, CPA, CA, FCIP, CFP, Financial Examiner/Analyst II; Jay Ambler, Financial Examiner/Analyst I; Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Joseph Boor, Actuary; and Tracy Gates, CPA, CISA of Dixon-Hughes, PLLC participated in the examination.

Respectfully submitted,

Kethessa Carpenter
Financial Specialist
Florida Office of Insurance Regulation