

REPORT ON EXAMINATION
OF
USIC OF FLORIDA, INC.
PINELLAS PARK, FLORIDA
AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

November 3, 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 December 31, 2005, of the financial condition and corporate affairs of:

**USIC OF FLORIDA, INC.
7785 66th STREET NORTH
PINELLAS PARK, FLORIDA 33781**

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

SCOPE OF EXAMINATION

This examination covered the period of April 21, 2005 through December 31, 2005. The Company had not been previously examined by representatives of the Florida Office of Insurance Regulation (Office) as this was the Company's first year of operations. This examination commenced, with planning at the Office, on August 14, 2006, to August 23, 2006. The fieldwork commenced on September 18, 2006, and was concluded as of November 3, 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 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 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 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 integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 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.

HISTORY

General

The Company was incorporated in Florida on December 12, 2003 and commenced business on April 21, 2005 as USIC of Florida, Inc. It was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Homeowners Multi Peril
Mobile Home Multi Peril

Inland Marine

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

Capital Stock

As of December 31, 2005, 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, USIC Group, Inc., a Puerto Rico corporation, who owned 100 percent 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 Statement.

	2005	2004
Premiums Earned	213,986	0
Net Underwriting Gain/(Loss)	(451,466)	(42,777)
Net Income	(305,730)	40,044
Total Assets	5,557,411	5,046,035
Total Liabilities	823,097	5,991
Surplus As Regards Policyholders	4,734,314	5,040,044

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2005.

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, 2005, were:

Directors

Name and Location	Principal Occupation
Maria Gonzalez Inclan Guaynabo, Puerto Rico	Chairwoman USIC of Florida, Inc.
Frederick Millan Benitez Aguas Buenas, Puerto Rico	President USIC of Florida, Inc.
Duhamel Iglesias Cacho Trujillo Alto, Puerto Rico	Vice President USIC of Florida, Inc.
Carlos Ramon Irizarry Lozada Trujillo Alto, Puerto Rico	Treasurer USIC of Florida, Inc.
Carlos Gonzalez Inclan Red Hook, New York	Consultant
Hector Saldana Egozcue San Juan, Puerto Rico	Lawyer
Rafael Blanes Gonzalez Guaynabo, Puerto Rico	Director USIC of Florida, Inc.

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

Senior Officers

Name	Title
Frederick Millan Benitez	President
Duhamel Iglesias Cacho	Vice President
Hector Saldana Egozcue	Secretary
Carlos Ramon Irizarry Lozada	Treasurer

The Company did not maintain an audit committee as required under Section 624.424(8)(c), Florida Statutes.

Conflict of Interest Procedure

The Company had not adopted a policy statement requiring annual disclosure of conflicts of interest.

Subsequent Event: During the examination, the Company provided copies of the conflict of interest statements of the Board of Directors.

Corporate Records

The recorded minutes of the shareholders and Board of Directors meetings were reviewed for the period under examination. The recorded minutes of the Board did not adequately document its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes. Also, the authorization of investments as required by Section 625.304, Florida Statutes, were not documented in the recorded minutes.

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

The Company had no acquisitions, mergers, disposals, dissolutions, purchase or sales through reinsurance during the calendar year 2005.

Surplus Debentures

The Company did not have any surplus debentures at December 31, 2005.

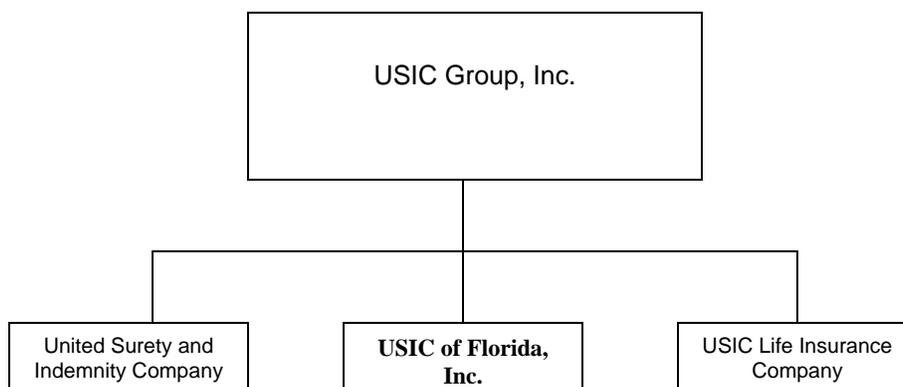
AFFILIATED COMPANIES

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 October 6, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below.

**USIC OF FLORIDA, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



The Company had no agreements in effect between the Company and its affiliates.

FIDELITY BOND

The Company did not maintain the NAIC suggested minimum amount of fidelity bond coverage as of December 31, 2005, which was \$75,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees at December 31, 2005.

STATUTORY DEPOSITS

The following security was deposited with the State of Florida as required by Section 624.411, Florida Statutes:

State	Description	Rate	Maturity Date	Par Value	Market Value
FL	USTN	4.25%	11/15/13	<u>\$ 331,000</u>	<u>\$ 327,846</u>
TOTAL FLORIDA DEPOSITS				<u>\$ 331,000</u>	<u>\$ 327,846</u>

INSURANCE PRODUCTS

Territory

The Company was licensed only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), 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 had not assumed risk during the period covered by this examination.

Ceded

The Company ceded risk on a quota share and excess of loss basis to Liberty American Insurance Company, ARCH Reinsurance LTD and Catlin Insurance Company. The Company participated in the Florida Hurricane Catastrophe Fund.

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 2005 and 2004, 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 did not maintain a principal operational office in Florida, as required by Section 628.271, Florida Statutes, which requires that every domestic insurer shall have an office in this state and shall keep complete records of its assets, transactions, financial records, corporate records, reinsurance documents, accounting transactions and all original accounting documents. The examination was conducted in Pinellas Park, Florida at the Company's unaffiliated MGA's office (Liberty American Insurance Services, Inc.) which it utilized as the statutory home address on the annual statement. The Company's claim system documents and

the Company's premium system documents were located at this office. However, most other documents, including cash, investment, expense, and accounting documents were located in Puerto Rico. Personnel at the Company's parent performed work for the Company, except for the work performed by the Company's unaffiliated MGA. All personnel of the Company's parent were located in Puerto Rico.

The Company and non-affiliates had the following agreements at December 31, 2005:

Managing General Agency Agreement

The Company had a managing general agency agreement (MGA) with Liberty American Insurance Company, formerly Mobile Homeowners Insurance Agencies, Inc. The agreement stated the MGA would supervise and conduct the writing of insurance covering homeowners and mobile homeowners' risks in Florida. The MGA duties and responsibilities included soliciting, evaluating and binding applications for insurance, issuing all endorsements and policies, and issuing notices of cancellation and nonrenewal of policies. The MGA also performed invoicing, receipts processing and claims administration.

Custodial Agreement

The Company had a custodial agreement with USB Financial Services, Inc. (USB) which did not contain all of the required terms of Rule 690-143.042(2), (b), (e), (g), (h), (i), (j), (k), (l), (n) and (o), Florida Administrative Code defined as follows:

- (b) Securities held in a fungible bulk by the custodian and securities in a clearing corporation or in the Federal Reserve book-entry system shall be separately identified on the custodian's official records as being owned by the insurance company. Said records shall identify which custodied securities are held by the custodian or by its agent and which securities are in a clearing corporation or in the Federal Reserve book-entry system. If the securities are in a clearing corporation or in the Federal Reserve book-entry system, said records shall also identify where the

securities are and if in a clearing corporation, the name of the clearing corporation and if through an agent, the name of the agent.

- (e) The custodian shall arrange for execution of transactions in custodied securities in accordance with the insurance company's instructions and shall not exercise discretionary authority to effect transactions in custodied securities except in such limited or special circumstances as the insurance company may authorize.
- (g) During the course of the custodian's regular business hours, any representative of the Company or an appropriate regulatory body shall be entitled to examine the custodian records relating to the custodied securities.
- (h) Upon request, the custodian shall send to the Company all reports received from a clearing corporation or the Federal Reserve book-entry system.
- (i) The custodian shall maintain sufficient records to determine and verify information relating to the custody securities.
- (j) The custodian shall provide, upon written request from the Insurance Director or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms OIR-D0-341 (A), (B), or (C) or substantially similar forms with respect to custodied securities. Forms OIR-D0-341 (A), (B) and (C), entitled "Custodian Affidavit," are hereby incorporated by reference. These forms shall become effective on the effective date of these rules and may be obtained from the Office of Insurance Regulation, Larson Building, Tallahassee, Florida.
- (k) The custodian shall be obligated to indemnify the Company for any loss of custody securities.
- (l) In the event of (k) above, the custodian shall promptly replace the securities or the value thereof and the value of any loss of rights or privileges resulting from said loss of securities.
- (n) In the event that the custodian gains entry in a clearing corporation or in the Federal Reserve book-entry system through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian, provided, however, that, if the agent shall be subject to regulation under the laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the Director may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to the custodian.
- (o) The agreement must be terminable by the insurance company on not more than thirty (30) days' notice.

Additionally, USB is a registered securities broker/dealer which did not meet the requirements of a custodian as defined in Rule 69O-143.041(2), Florida Administrative Code. A custodian must be a national bank, state bank or trust company which has at all times aggregate capital, surplus and undivided profits of not less than \$500,000 and which is regulated by the state banking laws or is a member of the Federal Reserve System and is legally qualified to accept custody of securities in accordance with the standards set forth in Rule 69O-143.042, Florida Administrative Code.

Investment Consulting Services

The Company utilized Eagle Asset Management, Inc. to manage its investment account at UBS Financial Services, Inc.

Independent Auditor Agreement

The Company had an agreement with Deloitte & Touche, LLP to perform an audit of its GAAP and statutory financial statements for the years 2004 and 2005.

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, 2005, 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."

USIC OF FLORIDA, INC.
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$4,683,659		\$4,683,659
Cash:			
On deposit	655,989		655,989
Interest and dividend income due & accrued	47,143		47,143
Uncollected premiums and agents' balances in course of collection	135,446		135,446
Amounts recoverable from reinsurers	35,174		35,174
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Totals	\$5,557,411		\$5,557,411
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USIC OF FLORIDA, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	\$214,680		\$214,680
Loss adjustment expenses	7,200		7,200
Other expenses (excluding taxes, licenses and fees)	59,864		59,864
Current federal income taxes	564		564
Unearned premium	465,683		465,683
Ceded reinsurance premiums payable	75,106		75,106
Total Liabilities	\$823,097		\$823,097
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	4,000,000		4,000,000
Unassigned funds (surplus)	(265,686)		(265,686)
Surplus as regards policyholders	4,734,314		4,734,314
Total liabilities, capital and surplus	\$5,557,411		\$5,557,411

USIC OF FLORIDA, INC.
Statement of Income

DECEMBER 31, 2005

Underwriting Income

Premiums earned	\$213,986
DEDUCTIONS:	
Losses incurred	341,720
Loss expenses incurred	28,317
Other underwriting expenses incurred	295,415
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$665,452</u>
Net underwriting gain or (loss)	(\$451,466)

Investment Income

Net investment income earned	\$158,688
Net realized capital gains or (losses)	(12,952)
Net investment gain or (loss)	<u>\$145,736</u>

Other Income

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

Net income before dividends to policyholders and before federal & foreign income taxes	(\$305,730)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$305,730)
Federal & foreign income taxes	<u>0</u>
Net Income	(\$305,730)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$5,040,044
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Gains and (Losses) in Surplus

Net Income	(\$305,730)
Change in net deferred income tax	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$305,730)</u>
Surplus as regards policyholders, December 31 current year	<u>\$4,734,314</u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$221,880

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, 2005, 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.

**USIC OF FLORIDA, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

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, 2005, per Annual Statement	\$4,734,314
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<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
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ASSETS:
No adjustments needed

LIABILITIES:
No adjustments needed

0

Surplus as Regards Policyholders December 31, 2005, Per Examination	<u><u>\$4,734,314</u></u>
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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, 2005.

Audit Committee

The Company did not maintain an audit committee as required by Section 624.424(8)(c), Florida Statutes. **We recommend that the Company establish an audit committee in accordance with Section 624.424(8)(c), Florida Statutes, which states the board of directors should establish an audit committee of three or more directors who are free from an relationship that, in the opinion of its board of directors, would interfere with the exercise of independent judgment as a committee member.**

Corporate Records

The recorded minutes of the Board of Directors and Shareholder did not adequately document its meetings and approval of Company transactions in accordance with Section 607.0701, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes: **We recommend that the Company adequately document its meetings and approval of Company transactions timely in the minutes of the Board of Directors and Shareholder to comply with Section 607.0701, Florida Statutes. We further recommend that the Company authorize its investments and document it timely in its corporate minutes to comply with Section 625.304, Florida Statutes.**

Custodial Agreement

The custodial agreement between the Company and USB Financial Services, Inc. (USB) was not in compliance with Rule 690-143.042(2),(b)(e)(g)(h)(i)(j)(k)(l)(n) and (o), Florida Administrative Code defined as follows:

- (b) Securities held in a fungible bulk by the custodian and securities in a clearing corporation or in the Federal Reserve book-entry system shall be separately identified on the custodian's official records as being owned by the insurance company. Said records shall identify which custodied securities are held by the custodian or by its agent and which securities are in a clearing corporation or in the Federal Reserve book-entry system. If the securities are in a clearing corporation or in the Federal Reserve book-entry system, said records shall also identify where the securities are and if in a clearing corporation, the name of the clearing corporation and if through an agent, the name of the agent.
- (e) The custodian shall arrange for execution of transactions in custodied securities in accordance with the insurance company's instructions and shall not exercise discretionary authority to effect transactions in custodied securities except in such limited or special circumstances as the insurance company may authorize.
- (g) During the course of the custodian's regular business hours, any representative of the Company or an appropriate regulatory body shall be entitled to examine the custodian records relating to the custodied securities
- (h) Upon request, the custodian shall send to the Company all reports received from a clearing corporation or the Federal Reserve book-entry system
- (i) The custodian shall maintain sufficient records to determine and verify information relating to the custody securities
- (j) The custodian shall provide, upon written request from the Insurance Director or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms OIR-D0-341 (A), (B), or (C) or substantially similar forms with respect to custodied securities. Forms OIR-D0-341 (A), (B) and (C), entitled "Custodian Affidavit," are hereby incorporated by reference. These forms shall become effective on the effective date of these rules and may be obtained from the Office of Insurance Regulation, Larson Building, Tallahassee, Florida.
- (k) The custodian shall be obligated to indemnify the Company for any loss of custody securities
- (l) In the event of (k) above, the custodian shall promptly replace the securities or the value thereof and the value of any loss of rights or privileges resulting from said loss of securities

- (n) In the event that the custodian gains entry in a clearing corporation or in the Federal Reserve book-entry system through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian, provided, however, that, if the agent shall be subject to regulation under the laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the Director may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to the custodian.
- (o) The agreement must be terminable by the insurance company on not more than thirty (30) days' notice.

Additionally, USB did not meet the requirements of a custodian as defined in Rule 690-143.041(2), Florida Administrative Code which states that a custodian must be a national bank, state bank, or trust company. **We recommend that the Company enter into an agreement with its custodian in compliance with Rule 690 143.041(2), Florida Administrative Code.**

Fidelity Bond Coverage

The Company did not maintain the NAIC suggested minimum amount of fidelity bond coverage as of December 31, 2005. **We recommend that the Company purchase fidelity bond coverage of at least \$75,000, which was the suggested minimum amount of coverage in the NAIC Financial Condition Examiners Handbook.**

Principal Operational Office

The Company did not maintain a principal operational office in Florida as required by Section 628.271, Florida Statutes which states that every domestic insurer is required to have an office in this state and also keep complete records of its assets, transactions, financial records, corporate records, reinsurance documents, accounting transactions and all original accounting documents. **We recommend that the Company maintain a principal operational office in Florida to comply with Section 628.271, Florida Statutes.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **USIC of Florida, Inc.** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$4,734,314 which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Christine Afolabi, Financial Examiner/Analyst, and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Donna Letterio, CFE, CPA, MS
Financial Specialist
Florida Office of Insurance Regulation