

REPORT ON EXAMINATION
OF
USIC OF FLORIDA, INC.
PINELLAS PARK, FLORIDA
AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 8, 2007

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

**USIC OF FLORIDA, INC.
7785 66th STREET
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 January 1, 2006 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced, with planning at the Office, on March 12, 2007, to March 16, 2007. The fieldwork commenced on March 27, 2007, and was concluded as of June 8, 2007.

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 of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2005, along with resulting action taken by the Company in connection therewith.

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

Resolution: The Company established a six member audit committee during the calendar year 2006.

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.

Resolution: The Company provided minutes which documented the meetings and approval of transactions.

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

Resolution: The Company has not provided a custodial agreement which is in compliance with Rule 690-143.042(2),(b)(e)(g)(h)(i)(j)(k)(l)(n) and (o), Florida Administrative Code. See the Custodial Agreement section for the definitions of each omitted clause.

The Company did not maintain the NAIC suggested minimum amount of fidelity bond coverage as of December 31, 2005.

Resolution: The Company has not obtained adequate fidelity bond coverage.

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 the state.

Resolution: The Company did not maintain a principal operational office in Florida as required by Section 628.271, Florida Statutes.

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 690-143.045(3), Florida Administrative Code.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Homeowners multi peril
Mobile Home multi peril
Inland Marine

The articles of incorporation and the bylaws were amended during the period covered by this examination.

Capital Stock

As of December 31, 2006, 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, which owned 100% 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 and the two prior years, as reported in the filed annual statements.

	2006	2005	2004
Premiums Earned	931,895	213,986	0
Net Underwriting Gain/(Loss)	238,112	(451,466)	1,094,234
Net Income	401,560	(305,730)	(42,777)
Total Assets	6,137,923	5,557,411	40,044
Total Liabilities	1,003,878	823,097	5,991
Surplus As Regards Policyholders	5,134,046	4,734,314	5,040,044

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders in 2006.

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, 2006, were:

Directors

Name and Location	Principal Occupation
Maria G. Blanes 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	Student

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
Carlos Ramon Irizarry Lozada	Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

Audit Committee

Maria De Lourdes Gonzalez Inclan
Raphael Blanes Gonzalez
Carlos Gonzalez Inclan
Frederick Millan Benitez
Carlos Ramon Irizarry Lozada
Hector Saldana Egozque

Investment Committee

Maria De Lourdes Gonzalez Inclan
Raphael Blanes Gonzalez
Carlos Gonzalez Inclan
Frederick Millan Benitez
Carlos Ramon Irizarry Lozada

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

The Company had no acquisitions, mergers, disposals, dissolutions, purchase or sales through reinsurance during the calendar year 2006.

Surplus Debentures

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

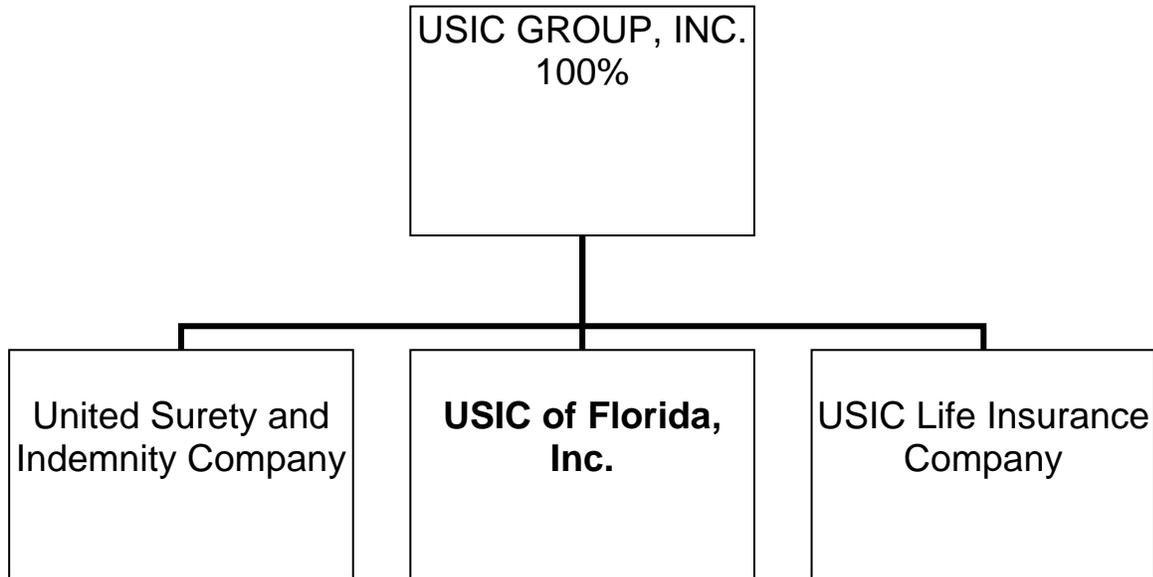
AFFILIATED COMPANIES

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 February 27, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2006, reflecting the holding company system, is shown below.

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

DECEMBER 31, 2006



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 of \$100,000 as of December 31, 2006.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees at December 31, 2006.

STATUTORY DEPOSITS

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

State	Description	Rate	Maturity Date	Par Value	Market Value
FL	US Treasury Note	4.25%	11/15/03	<u>\$331,000</u>	<u>\$316,965</u>
TOTAL FLORIDA DEPOSITS				<u>\$ 331,000</u>	<u>\$ 316,965</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.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i)3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume risk 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, General Re, 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 2006 and 2005, 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, in violation of Section 628.271, Florida Statutes, which states 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 principally conducted in Pinellas Park, Florida at the Company's unaffiliated managing general agent (MGA) office of Liberty American Insurance Group, Inc. The Company used the MGA address as the statutory home address on the annual statement.

The exit conference was conducted at the Company's parent office in Guaynabo, Puerto Rico. The Company's claim system documents and the Company's premium system documents were located in Pinellas Park, Florida. However, most other documents, including cash, investment, expense, and accounting documents were located in Puerto Rico.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company did not have a custodial agreement with US Bank. The Company is not in compliance with Rule 69O-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.

Managing General Agent Agreement

The Company had a MGA agreement with Liberty American Insurance Company, which was formerly named, Mobile Homeowners Insurance Agencies, Inc. The agreement stated the MGA

supervised and conducted 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 along with issuing all endorsements and policies and issuing notices of cancellation and nonrenewal of policies. The MGA also performed invoicing and receipts processing and claims administration.

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 2005 and 2006.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$5,328,740		\$5,328,740
Cash:	463,115		\$463,115
Agents' Balances:			
Uncollected premium	272,804		272,804
Reinsurance recoverable	5,824		5,824
Interest and dividend income due & accrued	62,273		62,273
Receivable from parents, subsidiaries and affiliates	5,167		5,167
	<hr/>		
Totals	\$6,137,923	\$0	\$6,137,923

USIC OF FLORIDA, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$13,309		\$13,309
Loss adjustment expenses	593		593
Other expenses	73,312		73,312
Taxes, licenses and fees	12,529		12,529
Current federal taxes	9,916		9,916
Unearned premium	1,027,752		1,027,752
Ceded Reinsurance premiums payable	<u>(133,533)</u>		<u>(133,533)</u>
Total Liabilities	\$1,003,878		\$1,003,878
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	4,000,000		4,000,000
Unassigned funds (surplus)	<u>134,046</u>		<u>134,046</u>
Surplus as regards policyholders	<u>\$5,134,046</u>		<u>\$5,134,046</u>
Total liabilities, surplus and other funds	<u>\$6,137,924</u>	<u>\$0</u>	<u>\$6,137,924</u>

USIC OF FLORIDA, INC.
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned		\$931,895
	Deductions:	
Losses incurred		64,822
Loss expenses incurred		10,832
Other underwriting expenses incurred		618,129
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$693,783
Net underwriting gain or (loss)		\$238,112

Investment Income

Net investment income earned		\$185,409
Net realized capital gains or (losses)		(12,610)
Net investment gain or (loss)		\$172,799
Net income before dividends to policyholders and before federal & foreign income taxes		\$410,912
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$410,912
Federal & foreign income taxes		9,352
Net Income		\$401,560

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		\$4,734,314
Net Income		\$401,560
Change in net deferred income		457
Change in nonadmitted assets		(2,285)
Examination adjustment		0
Change in surplus as regards policyholders for the year		\$399,732
Surplus as regards policyholders, December 31, 2006		\$5,134,046

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$13,902

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, 2006, 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, 2006

December 31, 2006, per Annual Statement \$5,134,046

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments needed			
LIABILITIES:			
No adjustments needed			
			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$5,134,046

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with only 2 of the 5 comments made in the 2005 examination report issued by the Office. The Company has not complied with the following three exceptions issued in the year end 2005 examination report.

Fidelity Bond Coverage

The Company did not maintain the NAIC suggested minimum amount of fidelity bond coverage as of December 31, 2005.

Principal Operational Office

The Company did not maintain a principal operational office in Florida.

Custodial Agreement

The Company did not have a custodial agreement.

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, 2006.

Fidelity Bond Coverage

The Company did not maintain the NAIC suggested minimum amount of fidelity bond coverage as of December 31, 2006. **It is recommended that the Company purchase fidelity bond coverage of at least \$100,000, 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. **It is recommended that the Company maintain a principal operational office in Florida to comply with Section 628.271, Florida Statutes.**

Custodial Agreement

The Company did not maintain a custodial agreement with a fiduciary authorized by Rule 690-143.042(2),(b)(e)(g)(h)(i)(j)(k)(l)(n) and (o), Florida Administrative Code. **It is recommended that the Company obtain a custodial agreement to comply with Rule 690-143.042(2), Florida Administrative Code.**

CONCLUSION

The 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, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,134,046, in compliance with Section 624.408, Florida Statutes.

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

Respectfully submitted,

Mike Young
Financial Examiner/Analyst II
Florida Office of Insurance Regulation