

**REPORT ON EXAMINATION
OF THE
UNION AMERICAN INSURANCE COMPANY**

MIAMI, FLORIDA

**AS OF
DECEMBER 31, 2003**

**BY THE
OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida
January 21, 2005

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0300

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:

UNION AMERICAN INSURANCE COMPANY
8300 West Flagler Street, Suite 250
Miami, Florida 33144

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

INTRODUCTION

This examination covered the period of January 1, 1998 through December 31, 2003. The prior statutory examination of the Company was made as of December 31, 1997, by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office on October 4, 2004. The fieldwork commenced on October 11, 2004, and was concluded as of January 21, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

SCOPE OF 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, rules and regulations 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 or estimation of liabilities, as it affects 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 is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

- Deferred tax liability
- Agents' balances or uncollected premiums
- Ceded reinsurance premiums payable
- Funds held by company under reinsurance treaties
- Provision for reinsurance
- Reinsurance recoverables from reinsurers
- Other expenses

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, 1997, along with resulting action taken by the Company in connection therewith.

1. The Company had never written insurance coverage for workers' compensation and mortgage guaranty lines.

Resolution: The Company still has not written any mortgage guaranty and is not in compliance with Section 624.430, FS, which requires, the insurer to request to have such kinds or lines of insurance removed from its certificate of authority.

2. Although the transactions between the Company and AIB Mortgage Company were reflected in the footnotes, they were not reflected in Schedule Y, Part 2, as required by the NAIC Annual Statement Instructions.

Resolution: The Company was currently in compliance in disclosing such transactions in Schedule Y, Part 2 as required by Rule 69O-43.047, FAC.

3. The Company did not have written trust agreements with its banking institutions and its managing general agents.

Resolution: The Company entered into written trust agreements with its MGAs and its banking institutions in accordance with Section 625.012(5)(a)(1), FS, and provided copies of the agreements to the Office.

4. On December 31, 1997, the Company's intercompany account contained numerous transactions for which the examiner experienced difficulty in verifying the account entries, the account balance and subsequent payment information through the Company's accounts payable program.

Resolution: This account was reviewed and analyzed on September 30, 1998. A letter dated December 31, 1998 explained the significant increase of the amount from \$440,838 at December 31, 1997 to \$6,895,002 at September 30, 1998. The Company was placed into receivership by Consent Order # 2000-1515 dated June 27, 2000. While under receivership, the Receiver reviewed and determined that the affiliates did not have the ability to pay and agreed not to report the receivables as admitted assets in future financial statements. The Office required the Company to report these amounts as non-admitted assets on the books until the Company received written authorization from the Office to write off these assets. No approval has been given to date.

5. The Company's custodial agreements did not disclose proper clauses regarding indemnity, negligence, etc.

Resolution: The Company amended the custodial agreements to comply with Rule 690-143.042, FAC.

6. The Company was over-invested in common stocks in violation of Section 625.331(2), FS.

Resolution: The Company is no longer over-invested in common stocks.

HISTORY

General

The Company was incorporated on April 17, 1984, under the laws of the State of Florida, as a stock property and casualty insurer and commenced business on July 11, 1984, with the name of Union American Insurance Company.

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

Fire	Surety
Allied Lines	Inland Marine
Homeowners Multi Peril	Other Liability
Commercial Multi Peril	Fidelity
Private Passenger Auto Liability	Workers Comp
PPA Physical Damage	Mortgage Guaranty
Commercial Auto Liability	Commercial Auto Physical Damage
Mobile Home Multi Peril	Mobile Home Physical Damage

The Company has never written insurance coverage in the following line:

Mortgage Guaranty

The articles of incorporation and the bylaws were amended during the period covered by this examination. The Company was authorized to increase the number of shares from 6,000 to 50,000 with a \$100 per share value.

Capital Stock

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

Number of authorized common capital shares	50,000
Number of shares issued and outstanding	50,000
Total common capital stock	5,000,000

Par value per share \$ 100.00

The Company's parent, AIB Insurance Group, Inc., a Florida corporation, maintained control and owned 100 percent of the stock issued by the Company.

Profitability of Company

The Company continued to incur losses and has discontinued writing Private Passenger Auto risks. The Company had net underwriting losses of \$1,327,148, \$3,058,778 and \$2,274,343 for 2001, 2002 and 2003 respectively. The Company had net income of \$575,516 in 2001, a net loss of \$2,543,787 in 2002 and another net loss of \$2,067,370 in 2003.

Dividends to Shareholders/Policyholders

No dividends have been declared or paid during the period of examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 628.231, FS. The Directors serving as of December 31, 2003, were as follows and is one short of the required five pursuant to Section 628.231 FS.

Directors

Name and Location

Jose M. Alvarez
Miami, Florida

John M. Soto
Miami, Florida

Principal Occupation

Chairman/President,
AIB Financial Group, Inc.

Vice President/Secretary
AIB Financial Group, Inc.

Anette R. Alvarez
Miami, Florida

Executive Vice President
AIB Financial Group, Inc.

Juan P. Valdes-Fauli
Miami, Florida

Litigation Manager
AIB Insurance Group, Inc.

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

Senior Officers

Name	Title
Jose M. Alvaraz	President
John M. Soto	Vice President/Secretary
Anette R. Alvarez	Vice President
Winslow Stilwell	Vice President/Chief Financial Officer
Juan P. Valdes-Fauli	Vice President
Marlen Valdes-Fauli	Vice President

The Company used an Investment Committee in accordance with Section 607.0825, FS. as well as an audit committee. Committee members serving as of December 31, 2003, were as follows:

Investment Committee

Jose M. Alvarez
John M. Soto

Audit Committee

Jose M. Alvarez
Anette R. Alvarez
John M. Soto

Conflict of Interest Procedure

The Company adopted a policy statement that required annual disclosure on conflicts of interest, in accordance with Section 607.0832 FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the meetings by the Shareholder, Board of Directors, and the Investment Committee were reviewed for the period under examination. The minutes were documented and adequately approved Company transactions, in accordance with Section 607.1601 FS. The minutes included documentation of review of the previous examination report by Company directors and the authorization of investments in accordance with Section 625.304, FS.

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

None of these types of transactions occurred during the examination period.

Surplus Debentures

The Company had no surplus debentures.

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 filing with the State of Florida, as required by Section 628.801, FS, and Rule 69O-143.046, FAC, was filed on April 22, 2004.

On December 31, 2003, the following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company filed a consolidated Federal income tax return with their affiliates. On December 31, 2003, the method of allocation between the Company and its ultimate parent was such that the Company paid what would have been required if tax liabilities were paid on a separate basis. The allocation of the consolidated tax liability was computed in the manner provided by U.S. Treasury Regulation Section 1.1502-33(d)(2)(ii), in conjunction with the method described in U.S. Treasury Regulation Section 1.1552.1(a)(2). The agreement was maintained at the Company.

Lease Agreement

The Company had an expired lease of about 40,000 square feet of office space from AIB Financial Group, Inc. as of February, 1999. The Company entered into a sub-lease agreement for office space in 2002 and collected \$55,929. The Company also sub-leased warehouse space to Cigar Connection, an affiliate, and collected \$19,662. There was no existing lease agreement with AIB Financial Group, Inc. in 2003.

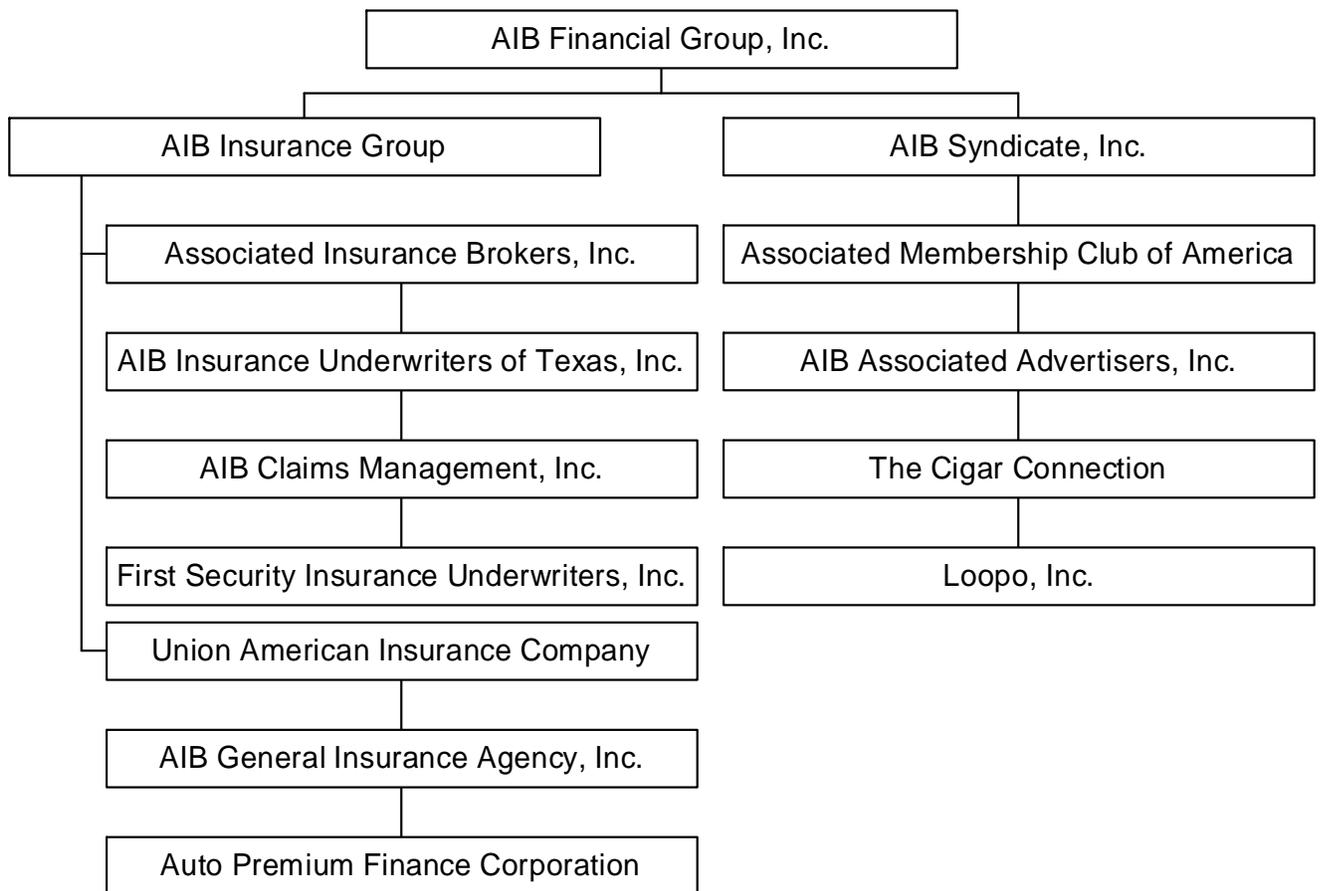
MGA Agreements

The Company was a party to a managing general agency (MGA) agreement with its affiliate, Associated Insurance Brokers, Inc. The MGA's responsibilities included marketing, policy administration and the negotiation of reinsurance. The Company also had a claim services agreement with AIB Claims Management, Inc. for claims administration.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system is shown below. The Schedule Y of the 2003 annual statement provided a list of all related companies of Union American Insurance Company.

**UNION AMERICAN INSURANCE COMPANY
ORGANIZATIONAL CHART**

December 31, 2003



FIDELITY BOND AND OTHER INSURANCE

The Company had no fidelity bond coverage. The Company should have fidelity bond coverage for its directors, officers and key employees at the NAIC suggested minimum amount for the Company, in accordance with the NAIC Financial Condition Examiners Handbook.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The profit sharing and health plans were provided to Company employees through its parent, AIB Financial Group, Inc.

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	Treasury CD with variable rate	<u>\$ 650,304</u>	<u>\$ 655,656</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 650,304</u>	<u>\$ 655,656</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company was licensed to write sixteen lines of business in Florida and wrote most of their business in the private passenger auto and commercial auto lines. The Company consented to receivership on June 27, 2000. The Company exited receivership on December 20, 2001. The Company's license was suspended in March of 2003 due to their financial impairment. The Company received a capital infusion that brought it into compliance with the surplus requirements and was allowed to resume writing business in May of 2003. The Company discontinued writing auto business on August 28, 2003. In 2003, the Company had issued one workers' compensation policy to Cura Group but subsequently did not renew the policy in 2004.

Territory and Plan of Operation

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

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS. The Company's claims management maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The reinsurance agreements reviewed as of December 31, 2003, were found to meet NAIC regulations with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume risk.

Ceded

The Company ceded private passenger automobile risk on a 50% quota share basis. The Company ceded risk on the workers' compensation policy on an excess of loss basis using reinsurance intermediaries. Reinsurance contracts were reviewed by the Company's appointed actuary as well as the Office actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statement for the years 2001, 2002 and 2003 in accordance with Section 624.424 (8), FS. The supporting work papers prepared by the CPA were in accordance with Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system in accordance with Section 607.1601 (2), FS. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

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

On December 31, 2003, the following agreements were in effect between the Company and non-affiliates:

Custodial Agreement

The Company had an agreement with Commercial Bank, NA of Ft. Lauderdale, Florida. The agreement was in compliance with Rule 69O-143.042, FAC.

CPA Agreement

The Company had acquired the services of Infante and Company to conduct the annual audit in accordance with Section 624.424(8)(a), FS.

Risk-Based Capital

The Company's risk-based capital was reported at an adequate level.

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."

UNION AMERICAN INSURANCE COMPANY
Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$1,064,516		\$1,064,516
Stocks	\$441,206		441,206
Real estate	\$520,541		520,541
Cash:			
Cash and Short-term investments	6,172,830		6,172,830
Interest and dividend income due & accrued	15,591		15,591
Agents' Balances:			
Uncollected premium	1,292,997		1,292,997
Deferred premium	2,777,803		2,777,803
Reinsurance recoverables from reinsurers	292,621		292,621
Net deferred tax asset	129,923		129,923
EDP	13,556		13,556
Aggregate write-in for other than invested assets	100,637		100,637
Totals	\$12,822,221	\$0	\$12,822,221

UNION AMERICAN INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per	Examination	Per
	Company	Adjustments	Examination
Losses	\$ 1,385,638		\$ 1,385,638
Loss adjustment expenses	248,820	600,000	848,820
Commissions payable, contingent & other charges	792,765		792,765
Other expenses	763,050		763,050
Taxes, licenses and fees	8,429		8,429
Unearned premiums	1,903,484		1,903,484
Ceded reinsurance premiums payable	2,254,990		2,254,990
Funds held company under reinsurance treaties	49,190		49,190
Provision for reinsurance	391,810		391,810
Drafts outstanding	415,175		415,175
Aggregate write-ins for liabilities	253,234		253,234
Total Liabilities	<u>\$ 8,466,585</u>		<u>\$ 9,066,585</u>
Common capital stock	5,000,000		5,000,000
Surplus notes	4,500,000		
Gross paid in and contributed surplus	8,135,000		8,135,000
Unassigned funds (surplus)	(13,279,364)	(600,000)	(13,879,364)
Surplus as regards policyholders	<u>\$ 4,355,636</u>	<u>(600,000)</u>	<u>3,755,636</u>
Total liabilities, capital and surplus	<u>\$ 12,822,221</u>	<u>\$0</u>	<u>\$ 12,822,221</u>

UNION AMERICAN INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2003

Losses incurred	3,404,803
Loss expenses incurred	1,541,080
Other underwriting expenses incurred	4,605,396
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$9,551,279</u>
Net underwriting gain or (loss)	<u>(\$2,274,343)</u>

Investment Income

Net investment income earned	\$87,402
Net realized capital gains or (losses)	(36,163)
Net investment gain or (loss)	<u>\$51,239</u>

Other Income

Aggregate write-ins for miscellaneous income	155,734
Total other income	<u>\$155,734</u>

Net income before dividends to policyholders and before federal & foreign income taxes	(\$2,067,370)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$2,067,370)
Federal & foreign income taxes	<u>0</u>

Net Income (\$2,067,370)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year \$2,169,875
Gains and (Losses) in Surplus

Net Income	(\$2,067,370)
Net unrealized capital gains or losses	99,470
Change in net deferred income tax	(5,924)
Change in non-admitted assets	32,354
Change in provision for reinsurance	(372,769)
Paid in surplus	4,500,000
Examination Adjustments	<u>(600,000)</u>
Change in surplus as regards policyholders for the year	<u>\$1,585,761</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$3,755,636</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses **\$2,234,458**

The Company actuary, appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2003, made 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 except that there was no unallocated loss adjustment expense reserve. A \$600,000 reserve for unallocated loss adjustment expenses is recommended based on an approximate ratio of 7% of the collateral need (unpaid loss).

In addition, the Company was holding only \$3.5 million in collateral for the deductible in the policy issued to the CURA Group, as of December 31, 2003. The total collateral needed was \$9.9 million; therefore, the Company had a deficiency in the collateral of \$6.4 million. This deficiency was not corrected in 2004.

UNION AMERICAN INSURANCE COMPANY
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	\$4,355,636
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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 adjustments			
LIABILITIES:			
Loss adjustment expenses	248,820	848,820	(600,000)
Net Change in Surplus:			(600,000)
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$3,755,636

SUMMARY OF FINDINGS

Compliance with previous directives

The Company had taken the necessary actions to comply with the comments made in the 1997 Examination Report issued by the Office, with the exception of requesting that the mortgage guaranty line of business be removed from its certificate of authority.

Current examination comments and corrective action

The following is a brief summary of items of interest and recommendations to be considered by Union American Insurance Company regarding findings in the examination as of December 31, 2003.

Certificate of Authority

The Company still has not written any mortgage guaranty and is not in compliance with Section 624.430, FS, which requires, the insurer to request to have such kinds or lines of insurance removed from its certificate of authority. **It is recommended the Company have the mortgage guaranty line of insurance removed from its certificate of authority to comply with Section 624.430, FS.**

Management

The Company had less than five directors. **It is recommended that the Company add one more director to comply with Section 628.231, FS.**

Fidelity Bond

The Company had no fidelity bond coverage. **It is recommended that the Company acquire adequate fidelity bond coverage as recommended by the NAIC.**

SUBSEQUENT EVENT

The Company issued a non-renewal notice to its policyholder, the CURA Group, on October 25, 2004. The CURA Group stopped funding the claims and collateral accounts, which were deficient \$6.4 million as of December 31, 2003 and not corrected through 2004. The Company then issued a cancellation notice to the CURA Group effective on December 1, 2004. On February 9, 2005, a Consent Order placed the Company into receivership for the purpose of rehabilitation. The court appointed receiver was the Division of Rehabilitation and Liquidation, Florida Department of Financial Services. As of February 9, 2005, the CURA Group has not funded the claims or collateral accounts and has not been reimbursing the Company for paid claims within the deductible portion of the policy.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **Union American Insurance Company** 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 3,755,636, which was in compliance with Section 624.408, FS as of December 31, 2003. However, the Company consented to receivership on February 9, 2005 as a result of the failure of one of its policyholders, the CURA Group, to fund a collateral account and to reimburse the Company for claims paid within the deductible portion of the CURA group's policy. The collateral for the deductible portion of the policy issued to the CURA Group was deficient \$6.4 million as of December 31, 2003 and was not corrected prior to the entry of the Order of Receivership.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, March Fisher, Senior Actuarial Analyst and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

JOEL V. BENG
Financial Examiner/Analyst II
Florida Office of Insurance Regulation