

REPORT ON EXAMINATION

OF

UNIVERSAL INSURANCE COMPANY OF

NORTH AMERICA

SARASOTA, FLORIDA

AS OF

DECEMBER 31, 2006

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

May 15, 2008

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:

**UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
101 ARTHUR ANDERSON PARKWAY
ORLANDO, FLORIDA 34232**

Hereinafter referred to as the "Company". The 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 August 20, 2007, to August 24, 2007. The fieldwork commenced on August 27, 2007, and was concluded as of May 15, 2008.

This financial examination was a second year 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 A.M. Best Report, 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.

HISTORY

General

The Company was incorporated in Florida on April 23, 2004 and commenced business on April 23, 2004 as Universal Insurance Company of North America.

The Company was party to Consent Order No. 73706-04-CO filed April 21, 2004 with the Office regarding the application for the issuance of a certificate of authority. The Company was in compliance with the provisions of the consent order.

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

Homeowners multi peril	Fire
Inland marine	Other liability

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

Capital Stock

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

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Universal Insurance Holdings of North America, which owned 100% of the stock issued by the Company, which in turn was 100% owned by Universal Insurance Group, a Puerto Rican corporation.

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 statements.

	2006	2005	2004
Premiums Earned	25,508,733	19,819,453	4,455,903
Net Underwriting Gain/(Loss)	1,194,332	718,475	(3,034,718)
Net Income	2,788,919	1,472,026	(2,442,423)
Total Assets	92,113,856	77,479,804	22,234,022
Total Liabilities	67,836,305	59,603,587	16,211,443
Surplus As Regards Policyholders	24,277,551	17,876,217	6,112,577

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

Luis M. Casanas
San Juan, Puerto Rico

Principal Occupation

Chairman, Chief Executive Officer,
Universal Insurance Group

Ricardo A. Espino Sarasota, Florida	Director, President Universal Insurance Company of North America
Monique M. Merle San Juan, Puerto Rico	Vice President Universal Insurance Group
Jorge L. Padilla San Juan, Puerto Rico	CFO and Senior Vice President Universal Insurance Group
Jose Medina Jacksonville, Florida	Vice President Universal Auto Care
Luis B. Monge San Juan, Puerto Rico	President Universal Insurance Group
Jorge Amadeo San Juan, Puerto Rico	Executive Vice President Eastern America Insurance Agency
Josely Vega San Juan, Puerto Rico	Chief Legal Council & Vice President Universal Insurance Group
Jorge Freyre San Juan, Puerto Rico	Economist

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

Senior Officers

Name	Title
Ricardo A. Espino	President
Jorge L. Padilla	Treasurer
Monique M. Merle	Secretary

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:

Compensation Committee

Lillian Rivera¹
Plinio P. Marrero
Javier Vijil

Audit Committee

Donald Kevane¹
Luis M. Casanas
Dr. Jorge Freyer

Investment Committee

Luis M. Casanas¹
Donald Kevane
Jorge Padilla

Donald Kevane
Luis M. Casanas

Plinio P. Marrero
Cecilla Cruz
Luis Berrios
Raul Ramirez
Ricardo Espino

¹ Chairman

The Company maintained an audit committee, as required by Section 624.424(8), Florida Statutes.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the period under examination.

Surplus Debentures

The Company did not have any surplus debentures.

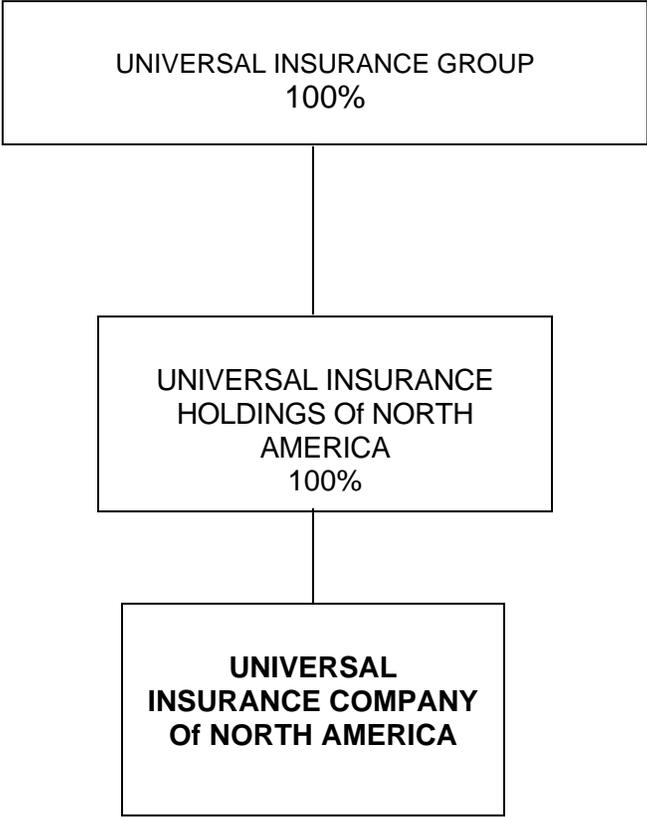
AFFILIATED COMPANIES

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 March 1, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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

Managing General Agent Agreement

The Company entered into a managing general agent (MGA) agreement with its affiliate, Universal Insurance Managers, Inc. dated April 26, 2004. The agreement stated that Universal Insurance Managers Inc. would act as the MGA for the insurance policies issued in the State of Florida. It further stated that Universal Insurance Managers, Inc. had the authority to handle claims and negotiate reinsurance on behalf of the Company.

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2006, the method of allocation between the Company and its parent was subject to written agreement, as approved by the Board of Directors. Allocation was made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. Inter-company tax balances were settled annually.

Cost Sharing Agreement

The Company had a cost sharing agreement with its ultimate parent, Universal Insurance Group. In connection with Universal Insurance Group's ownership of the Company and Universal Insurance Managers, Universal Insurance Group incurred certain expenses for employee salaries and benefits and other operating expenses and provided certain finance department information services, as well as technology and investment support for and on behalf of the Company and Universal Insurance Managers, Inc.

Universal Insurance Managers, Inc. made payments to Universal Insurance Group equal to the monthly average of the operating expenses incurred by Universal Insurance Group in order to provide supportive services for the immediately preceding year. Payment was made within 15 days after the final balance of the total operating expenses was determined.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$1,250,000 with a deductible of \$250,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC Financial Condition Examiners Handbook.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have employees, pension plans, stock ownership or insurance plans. All services were provided by the Company's parent, Universal Insurance Holdings of North America. The Company incurred pension and insurance costs as part of the inter-company cost allocation agreement.

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	Cash	<u>\$ 300,000</u>	<u>\$ 300,000</u>

TOTAL FLORIDA DEPOSITS

\$ 300,000

\$ 300,000

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance 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 assumed risk on a quota share basis from Allstate Floridian Insurance Company.

Ceded

The Company ceded risk on a quota share and excess of loss basis to various authorized and unauthorized reinsurers. The largest reinsurers were Glencoe Insurance Ltd., and Renaissance Reinsurance Ltd. Both of these companies were unauthorized, but were covered by adequate amounts in letters of credit.

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

ACCOUNTS AND RECORDS

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 maintained its principal operational offices in Sarasota, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the 2006 year, 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 and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Salem Trust Bank in Jacksonville, Florida. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code. Salem Trust Bank qualified as a custodian as defined by Rule 69O-143.041, Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Deloitte & Touche to perform a statutory annual audit of the Company's financial statements for the 2006 year.

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."

UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$43,507,737		\$43,507,737
Cash:	17,524,901		17,524,901
Uncollected premium	4,253,680		4,253,680
Deferred premium	11,245,946		11,245,946
Reinsurance recoverable	5,384,266		5,384,266
Net deferred tax asset	1,547,393		1,547,393
Interest and dividend income due & accrued	434,159		434,159
Receivable from parents, subsidiaries and affiliates	10,657		10,657
Aggregate write-in for other than invested assets	8,205,117		8,205,117
Totals	\$92,113,856	\$0	\$92,113,856

UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$6,084,745		\$6,084,745
Reinsurance payable on losses and loss adjustment expenses	1,382,286		1,382,286
Loss adjustment expenses	396,278		396,278
Commissions payable, contingent commissions	1,257,118		1,257,118
Other expenses	85,700		85,700
Taxes, licenses and fees	1,719,190		1,719,190
Current federal and foreign income taxes	1,153,954		1,153,954
Unearned premium	18,369,756		18,369,756
Advance premiums	3,083,314		3,083,314
Ceded reinsurance premiums payable	28,547,873		28,547,873
Remittances and items not allocated	219,015		219,015
Payable to parent, subsidiaries and affiliates	26,715		26,715
Aggregate write-ins for liabilities	5,510,361		5,510,361
Total Liabilities	\$67,836,305	\$0	\$67,836,305
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	20,999,000		20,999,000
Unassigned funds (surplus)	3,277,551		3,277,551
Surplus as regards policyholders	\$24,277,551		\$24,277,551
Total liabilities, surplus and other funds	\$92,113,856	\$0	\$92,113,856

UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
Statement of Income

DECEMBER 31, 2006

Underwriting Income	
Premiums earned	\$25,508,733
Deductions:	
Losses incurred	8,820,697
Loss expenses incurred	1,642,461
Other underwriting expenses incurred	13,851,243
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$24,314,401</u>
Net underwriting gain or (loss)	\$1,194,332
Investment Income	
Net investment income earned	\$3,181,785
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$3,181,785</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$37,111)
Finance and service charges not included in premiums	172,666
Aggregate write-ins for miscellaneous income	350,000
Total other income	<u>\$485,555</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$4,861,672
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$4,861,672
Federal & foreign income taxes	<u>2,072,753</u>
Net Income	\$2,788,919
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$17,876,217
Net Income	\$2,788,919
Net unrealized capital gains or losses	9,101
Change in non-admitted assets	(44,031)
Change in provision for reinsurance	0
Change in net deferred income tax	647,345
Surplus adjustments: Paid in	3,000,000
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$6,401,334</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$24,277,551</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$6,481,023

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.

Actuarial Review

The Office contracted with Kufera Consulting, Inc., an independent actuary, to perform the actuarial review. The independent actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$24,277,551, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A Comparative analysis of changes in surplus is shown below.

**UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2006, per Annual Statement	\$24,277,551
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments needed			\$0
LIABILITIES:			
No adjustments needed			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, per Examination			\$24,277,551

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Universal Insurance Company of North America** 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 \$24,277,551, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, and Jay Ambler, Financial Examiner/Analyst II participated in the examination. We also recognize the participation of Kay Kufera, FCAS, MAAA, of Kufera Consulting, Inc. in this examination.

Respectfully submitted,

James D. Collins
Reinsurance/Financial Specialist
Florida Office of Insurance Regulation