

REPORT ON EXAMINATION
OF
UNIVERSAL INSURANCE COMPANY OF
NORTH AMERICA

SARASOTA, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
HISTORY	2
GENERAL	2
CAPITAL STOCK	3
PROFITABILITY OF COMPANY	3
DIVIDENDS TO STOCKHOLDERS	4
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE.....	6
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	7
SURPLUS DEBENTURES	7
AFFILIATED COMPANIES	7
MGA AGREEMENT	7
ORGANIZATIONAL CHART	8
FIDELITY BOND AND OTHER INSURANCE.....	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
STATUTORY DEPOSITS.....	9
INSURANCE PRODUCTS AND RELATED PRACTICES.....	10
TERRITORY	10
TREATMENT OF POLICYHOLDERS.....	10
REINSURANCE	10
ASSUMED.....	10
CEDED	11
ACCOUNTS AND RECORDS.....	11
CUSTODIAL AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT.....	12
RISK-BASED CAPITAL.....	12
FINANCIAL STATEMENTS PER EXAMINATION.....	12
ASSETS	13
LIABILITIES, SURPLUS AND OTHER FUNDS	14
STATEMENT OF INCOME.....	15
COMMENTS ON FINANCIAL STATEMENTS.....	16
LIABILITIES	16

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 17
SUMMARY OF FINDINGS 18
CONCLUSION 19

Tallahassee, Florida

March 23, 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 of December 31, 2005, of the financial condition and corporate affairs of:

**UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
101 Arthur Andersen Parkway, Suite 220
SARASOTA, FLORIDA 34232**

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, 2005 through December 31, 2005. This is the first examination of the Company by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on January 19, 2007, to January 26, 2007. The fieldwork commenced on January 29, 2007, and was concluded as of March 23, 2007. 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 Company's statement of assets and the determination of liabilities as of December 31, 2005, as those balances affect the financial solvency of the Company.

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

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.

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:

- Reinsurance recoverable from reinsurers
- Net deferred tax asset
- Aggregate write-ins for other than invested assets
- Reinsurance payable on paid losses and loss adjustment expense
- Commission payable
- Other expenses
- Taxes, licenses and fees
- Ceded reinsurance premiums payable
- Aggregate write-ins for liabilities

HISTORY

General

The Company was incorporated in Florida on May 19, 2004 and commenced business on May 19, 2004 as Universal Insurance Company of North America.

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

Fire
Allied Lines
Homeowners Multi Peril
Inland Marine
Other Liability
Private Passenger Auto Liability
Private Passenger Auto Physical Damage

The articles of incorporation and the 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
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 Universal Insurance Holdings of North America, Inc. (UIHNA), a Delaware corporation, who owned 100% of the stock issued by the Company, who in turn was 100% owned by Universal Insurance Group, Inc. (UIG), a Puerto Rico 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	19,819,453	4,455,903
Net Underwriting Gain/(Loss)	718,475	(3,034,718)
Net Income	1,472,026	(2,442,423)
Total Assets	77,479,804	22,324,022
Total Liabilities	59,603,587	16,211,443
Surplus As Regards Policyholders	17,876,217	6,112,577

Dividends to Stockholders

There was no dividend declared or paid to its stockholders during the years covered by this examination.

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

Luis Miranda Casanas
San Juan, Puerto Rico

Chairman, Chief Executive Officer, UIG

Ricardo A. Espino
Sarasota, Florida

Director, President

Monique M. Merle
San Juan, Puerto Rico

Vice President, UIG

Jorge L. Padilla
San Juan, Puerto Rico

CFO & Senior VP, UIG

Jose Medina
San Juan, Puerto Rico

Vice President, Universal Auto Care

Luis Berrios Monge
San Juan, Puerto Rico

President, UIG

Jorge Amadeo
San Juan, Puerto Rico

Executive VP, Eastern America Insurance
Agency

Josely Vega
San Juan, Puerto Rico

Chief Legal Council & VP, UIG

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 were the principal internal board committees and their members as of December 31, 2005:

Audit Committee

Donald Kevane¹
Luis M. Casanas
Dr. Jorge Freyre

Investment Committee

Luis M. Casanas¹
Donald Kevane
Jorge Padilla
Plinio P. Marrero
Cecilia Cruz
Luis Berrios
Raul Ramirez
Ricardo Espino

Compensation Committee

Luis M. Casanas
Plinio P. Marrero
Javier Vijil
Donald Kevane
Lillian Rivera¹

¹ Chairperson

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes. The selection of members were based on education and experience in the field of finance and accounting as indicated in the Company's audit committee charter.

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 adequately documented its meetings and approval of Company transactions 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 purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

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.

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

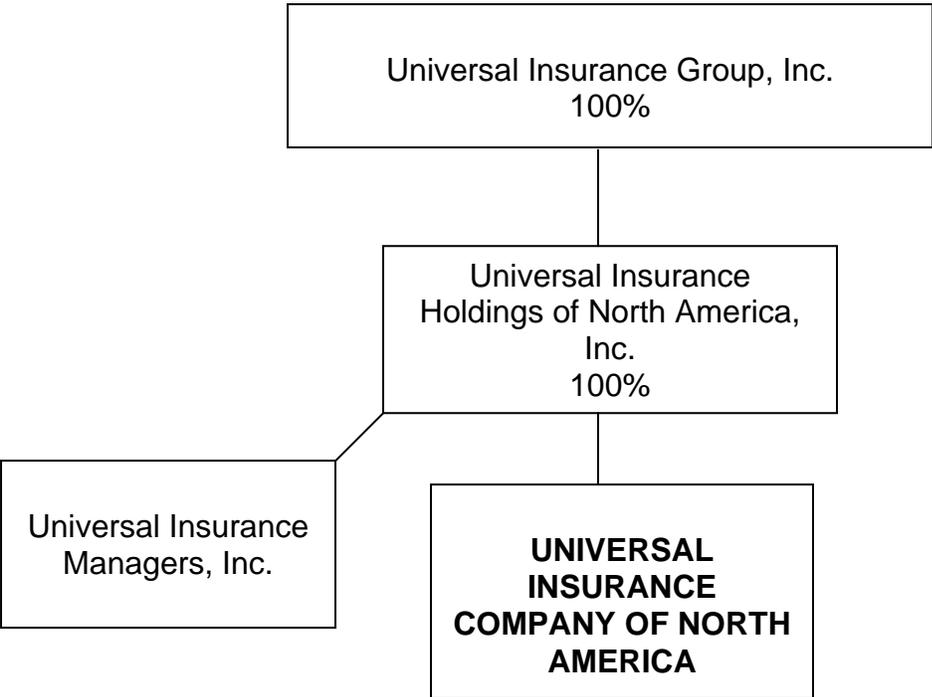
MGA Agreement

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

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

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

DECEMBER 31, 2005



FIDELITY BOND AND OTHER INSURANCE

The Company maintained a commercial crime policy with coverage of up to \$500,000 with a deductible of \$25,000 per loss. Crime policy coverage was an acceptable alternative to a fidelity bond pursuant to the NAIC guidelines. The Company had other property and liability insurance coverage needed in the operation of the Company.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, no pension plans, stock ownership or insurance plans. All employees providing the services were employed by the parent company, UIHNA. The Company incurred pension and insurance costs as part of the intercompany expense 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 Deposit	\$ 300,000	\$ 300,000
TOTAL FL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

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 626.954(1)(i)3,a, Florida Statutes.

REINSURANCE

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

The reviewed contracts 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. All unauthorized reinsurers utilized a trust agreement or letter of credit.

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 annually for the years 2004 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 and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Salem Trust Company in Jacksonville, Florida. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code. Salem Trust Company 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 an audit of its 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."

UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$28,720,089		\$28,720,089
Cash and Short-term investments	32,984,632		32,984,632
Agents' Balances:			
Uncollected premium	2,729,680		2,729,680
Deferred premiums	2,704,746		2,704,746
Interest and dividend income due & accrued	248,115		248,115
Reinsurance recoverable from reinsurers	809,564		809,564
Net deferred tax asset	915,236		915,236
Receivable from parents, subsidiaries and affiliates	412,667		412,667
Aggregate write-ins for other than invested assets	7,955,076		7,955,076
Totals	\$77,479,805	\$0	\$77,479,805

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

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	\$4,566,568		\$4,566,568
Reinsurance payable on losses & Loss adjustment expense	14,050,893		14,050,893
Loss adjustment expenses	401,413		401,413
Commissions payable	650,299		650,299
Other expenses	79,151		79,151
Taxes, licenses and fees	880,216		880,216
Current federal & foreign income taxes	81,201		81,201
Unearned premium	10,659,810		10,659,810
Advance premiums	2,853,120		2,853,120
Ceded reinsurance premiums payable	17,219,916		17,219,916
Aggregate write-ins for liabilities	8,161,000		8,161,000
Total Liabilities	\$59,603,587	\$0	\$59,603,587
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	17,999,000		17,999,000
Unassigned funds (surplus)	(123,783)		(123,783)
Surplus as regards policyholders	\$17,876,217		\$17,876,217
Total Liabilities, Surplus and Other Funds	\$77,479,804	\$0	\$77,479,804

UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$19,819,453
DEDUCTIONS:	
Losses incurred	14,485,100
Loss expenses incurred	1,430,584
Other underwriting expenses incurred	3,185,294
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$19,100,978</u>
Net underwriting gain or (loss)	\$718,475
Investment Income	
Net investment income earned	\$1,284,831
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$1,284,831</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$2,194)
Finance and service charges not included in premiums	62,419
Aggregate write-ins for miscellaneous income	512,500
Total other income	<u>\$572,725</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$2,576,031
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$2,576,031</u>
Federal & foreign income taxes incurred	<u>1,104,005</u>
Net Income	\$1,472,026
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$6,112,577
Gains and (Losses) in Surplus	
Net Income	\$1,472,026
Net unrealized capital gains or losses	(9,101)
Change in non-admitted assets	25,819
Change in net deferred income tax	274,896
Surplus adjustments: Paid in	10,000,000
Aggregate write-ins for gains and losses in surplus	0
Change in surplus notes	0
Change in surplus as regards policyholders for the year	<u>\$11,763,640</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$17,876,217</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses **\$4,967,981**

Nancy P. Watkins, FCAS, MAAA with Milliman USA, 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. The loss and loss adjustment expense reserves were in compliance with Section 625.041(1) and 625.101, Florida Statutes.

**UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
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 per December 31, 2005, Annual Statement	\$ 17,876,217
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment.			
LIABILITIES:			
No adjustment.			
Net Change in Surplus:			<u>\$0</u>
Surplus as Regards Policyholders December 31, 2005, Per Examination			<u>\$ 17,876,217</u>

SUMMARY OF FINDINGS

Current examination comments and corrective action

There are no material items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

CONCLUSION

The customary 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, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$17,876,217, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned; Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Joel V. Bengo
Financial Examiner/Analyst II
Florida Office of Insurance Regulation