

REPORT ON EXAMINATION

OF

UNIVERSAL PROPERTY & CASUALTY

INSURANCE COMPANY, INC.

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 32399-0326

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:

**UNIVERSAL PROPERTY & CASUALTY INSURANCE COMPANY, INC.
2875 NE 191ST STREET, SUITE 300
MIAMI, FLORIDA 33180**

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

SCOPE OF EXAMINATION

This examination covered the period of October 1, 2002 through December 31, 2003. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of September 30, 2002. This examination commenced, with planning at the Office, on August 30, 2004, to September 3, 2004. The fieldwork commenced on September 6, 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.

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 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 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.

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 September 30, 2002, along with resulting action taken by the Company in connection therewith.

Losses and LAE

The Company's reserves were deficient by \$541,000.

Resolution: The Company's reserves as of December 31, 2003 were adequate.

HISTORY

General

The Company was incorporated November 3, 1997, under the laws of the State of Florida, as a stock property and casualty insurer and commenced business on December 31, 1997, with the name of Universal Property and Casualty Insurance Company.

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

Homeowners Multi Peril	Fire
Allied Lines	Inland Marine
Other Liability	

Capital Stock

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

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	1,050
Total common capital stock	\$1,050
Par value per share	\$1.00

Control of the Company was maintained by its parent, Universal Insurance Holding Company of Florida, who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Universal Insurance Holdings, Inc., a Florida corporation.

Profitability of Company

The Company reported a net loss of (\$344,324) for 2003 and a net loss of (\$475,329) for 2002. The Company also reported an underwriting loss of (\$867,198) for 2003 and an underwriting loss of (\$1,769,424) for 2002.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2003, were:

Directors

Name and Location	Principal Occupation
Bradley Meier Miami, Florida	CEO/ President, Universal P&C Ins. Co.
Norman Meier Hollywood, Florida	CEO/ President, Pharma Matrix, Inc.
Reed J. Slogoff Philadelphia, Pennsylvania	Principal Owner, Pearl Properties
Joel M. Wilentz, MD. Hallandale, Florida	Skin & Cancer Associates
Sean P. Downes Miami, Florida	COO, Universal P&C Ins. Co.

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

Senior Officers

Name	Title
Bradley I. Meier	President
Reed J. Slogoff	Vice President
James Lynch	Treasurer
Norman Meier	Secretary

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2003:

Compensation Committee	Audit Committee	Investment Committee
Joel M. Wilentz ¹	Reed Slogoff ¹	Bradley Meier ¹
Bradley Meier	Bradley Meier	Norman Meier
Norman Meier	Norman Meier	Joel M. Wilentz
Reed J. Slogoff	Joel M. Wilentz	Reed J. Slogoff
Sean P. Downes	Sean P. Downes	Sean P. Downes

¹ Chairman

Conflict of Interest Procedure

The Company had adopted a policy statement requiring annual disclosure of 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 shareholder, Board of Directors, and Committee meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

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 statement was filed with the State of Florida on November 3, 2004, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

Managing Agency Agreement

The Company used an affiliate, Universal Risk Advisors, as its managing general agent (MGA). The MGA provided the Company comprehensive management and administration of the Company's insurance business. The MGA also provided or supervised any subcontractors appointed by the MGA of the Company for all underwriting and policy issuance for the Company's lines of insurance. The MGA also advised the Company regarding reinsurance coverage consistent with market availability.

Policy Administration Agreement

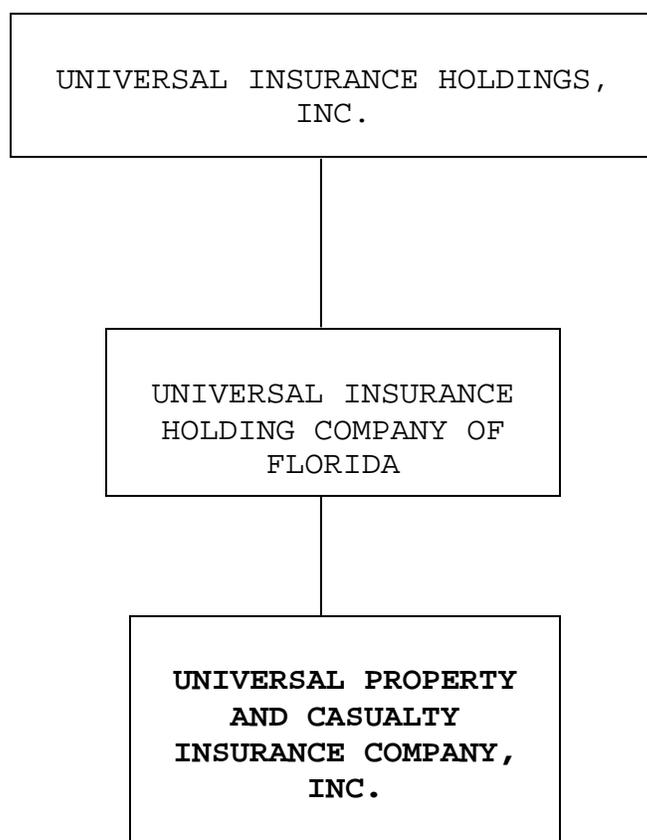
The Company had an agreement with an affiliate, Universal Risk Advisors, which provided policy administration and service functions to the Company for the Company's insurance business. The services provided by Universal Risk Advisors included, but were not limited to implementation, testing, policy processing, financial reporting, consumer assistance, first notice of loss, systems backup, and policy systems consulting.

Tax Allocation Agreement

The Company had a tax allocation agreement with its ultimate parent, Universal Insurance Holdings, Inc. (UIH). The Company was included in the UIH consolidated federal income tax return. UIH served as the agent in all matters relating to the Company's consolidated tax liability.

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

**UNIVERSAL PROPERTY AND CASUALTY INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART
DECEMBER 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company did not have any pension plans, profit sharing plans, or bonus plans for employees. The Company did make available a simple Individual Retirement Account (IRA) for employees.

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	FL Cash Deposit Trust Fund	\$1,500,000	\$1,500,000
Total Special Deposits		<u>\$1,500,000</u>	<u>\$1,500,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact insurance only 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 maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The reinsurance agreements reviewed were found to comply 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 any risk.

Ceded

The Company ceded risk on a quota share and excess of loss basis to various reinsurers. The Company's reinsurance intermediary was Willis Re. All reinsurance contracts were handled and agreed upon through Willis Re.

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 2002 and 2003, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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 Miami, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with SunTrust Bank.

Investment Agreement

The Company had an investment agreement with SunCoast Capital Group, Ltd.

Corporate and Commercial Cash Management Agreement

The Company had cash management agreements for each account with SunTrust Bank. These agreements allowed SunTrust Bank to invest funds in overnight repo accounts for the benefit of the Company.

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, 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."

UNIVERSAL PROPERTY AND CASUALTY INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$100,243		\$100,243
Stocks:			
Common	149,796		149,796
Real Estate:			
Other properties	204,743		204,743
Cash:			
On deposit	8,608,256		8,608,256
Short-term investments	1,663,293		1,663,293
Agents' Balances:			
Deferred premium	282,704		282,704
Reinsurance Recoverable	2,166,133		2,166,133
Amounts receivable under reinsurance contracts	2,159,162		2,159,162
Interest and dividend			
income due & accrued	14,733		14,733
Receivable from parent, subsidiaries and affiliates	503,994		503,994
Net deferred tax asset	214,093		214,093
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Totals	<u>\$16,067,150</u>	<u>\$0</u>	<u>\$16,067,150</u>

UNIVERSAL PROPERTY AND CASUALTY INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$1,108,796		\$1,108,796
Loss adjustment expenses	242,204		242,204
Commissions Payable	183,350		183,350
Other expenses	110,183		110,183
Taxes, licenses and fees	64,013		64,013
Unearned premium	1,923,199		1,923,199
Ceded reinsurance premiums payable	5,135,834		5,135,834
Remittances and Items not Allocated	803,001		803,001
Drafts outstanding	1,905,952		1,905,952
Total Liabilities	<u>\$11,476,532</u>		<u>\$11,476,532</u>
Common capital stock	1,050		1,050
Gross paid in and contributed surplus	7,212,784		7,212,784
Unassigned funds (surplus)	<u>(2,623,215)</u>		<u>(2,623,215)</u>
Surplus as regards policyholders	<u>\$4,590,619</u>		<u>\$4,590,619</u>
Total liabilities, capital and surplus	<u><u>\$16,067,151</u></u>		<u><u>\$16,067,151</u></u>

UNIVERSAL PROPERTY AND CASUALTY INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2003

Underwriting Income

Premiums earned	\$2,694,170
DEDUCTIONS:	
Losses incurred	1,276,555
Loss expenses incurred	382,338
Other underwriting expenses incurred	1,902,475
Total underwriting deductions	\$3,561,368
Net underwriting gain or (loss)	(\$867,198)

Investment Income

Net investment income earned	\$88,255
Net realized capital gains or (losses)	(5,903)
Net investment gain or (loss)	\$82,352

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$245,920
Aggregate write-ins for miscellaneous income	48,894
Total other income	\$294,814
Net income before dividends to policyholders and before federal & foreign income taxes	(\$490,033)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$490,033)
Federal & foreign income taxes	(145,710)
Net Income	(\$344,324)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$4,491,628
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Gains and (Losses) in Surplus

Net Income	(\$344,324)
Net unrealized capital gains or losses	48,062
Change in non-admitted assets	230,840
Change in net deferred income tax	18,577
Surplus adjustments: Paid in	145,834
Examination Adjustment	0
Change in surplus as regards policyholders for the year	\$98,771
Surplus as regards policyholders, December 31 current year	\$4,590,617

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	<u>\$1,351,000</u>
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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, 2003, 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.

UNIVERSAL PROPERTY AND CASUALTY INSURANCE COMPANY, INC.
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	\$4,590,619
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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 adjustment needed.			
LIABILITIES:			
No adjustment needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$4,590,619

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2001 examination report issued by the Office.

Current examination comments and corrective action

There are no corrective actions to be taken by the Company regarding findings in the examination as of December 31, 2003.

SUBSEQUENT EVENTS

The Company provided a copy of a new inter-company tax allocation agreement. The Office approved the agreement on December 14, 2004.

The Company provided a copy of its fidelity bond coverage for the year 2004. The effective dates were January 19, 2004 through January 19, 2005. The Company had business liability coverage limits of \$1,000,000 each for liability and medical expenses with a \$10,000 limit for medical expenses per person and also hired and non-owned auto liability. The Company also had business liability coverage of \$2,000,000 each for fire legal liability and general aggregate, other than products and completed operations.

During 2004, four major hurricanes have impacted the insurance industry in the State of Florida. These hurricanes occurred subsequent to the period of this examination and may have affected

the Company's financial position. This examination does not include any assessment of the potential impact on the Company of the hurricanes; however, based upon preliminary information, anticipated losses are not expected to result in regulatory violations.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Universal Property and Casualty 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 \$4,590,619, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Joe Boor, Actuary, and March Fisher, Senior Actuarial Analyst, participated in the examination.

Respectfully submitted,

Maurice Fuller
Financial Examiner/Analyst II
Florida Office of Insurance Regulation