

REPORT ON EXAMINATION

OF

AMERICAN BANKERS INSURANCE

COMPANY OF FLORIDA

MIAMI, FLORIDA

AS OF

DECEMBER 31, 2003

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
Status of Adverse Findings from Prior Examination	2
HISTORY	3
General	3
Capital Stock	4
Profitability	4
Dividends to Stockholders	5
Management	5
Conflict of Interest Procedure	6
Corporate Records	7
Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance	7
Surplus Debentures	7
AFFILIATED COMPANIES	7
Tax Allocation Agreement	8
Cost Sharing Agreement	8
Management Agreement	8
ORGANIZATIONAL CHART	9
FIDELITY BOND AND OTHER INSURANCE	10
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS	10
STATUTORY DEPOSITS	12
INSURANCE PRODUCTS AND RELATED PRACTICES	13
Territory and Plan of Operation	13
Treatment of Policyholders	13
REINSURANCE	14
Assumed	14
Ceded	14

ACCOUNTS AND RECORDS	18
Custodial Agreement	20
MGA Agreement	20
Risk-Based Capital	20
FINANCIAL STATEMENTS PER EXAMINATION	20
Assets	21
Liabilities, Surplus and Other Funds	22
Statement of Income	23
COMMENTS ON FINANCIAL STATEMENTS	24
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	37
SUMMARY OF FINDINGS	38
SUBSEQUENT EVENTS	50
CONCLUSION	51

Tallahassee, Florida

December 3, 2004

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Dear Sirs:

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 of December 31, 2003, of the financial condition and corporate affairs of:

**AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA
11222 QUAIL ROOST DRIVE
MIAMI, FLORIDA 33157**

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, 2000 through December 31, 2003. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1999. This examination commenced, with planning at the Office, on March 10, 2004, to March 12, 2004. The fieldwork commenced on March 15, 2004, and was concluded as of December 3, 2004. 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 an association zone statutory financial examination conducted in accordance with the Financial Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O137.001(4) and 69O138.001, 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 December 31, 1999, along with resulting action taken by the Company in connection therewith.

Custodial Agreements

The Company had two custodial service agreements that were in violation of Rule 690-143.042(k), FAC. The agreements did not contain the controls and language required by the NAIC or the FAC.

Resolution: All custodial service agreements were found to be in compliance with Rule 690-143.042(k), FAC.

Real Estate – Properties Occupied by the Company

As of December 31, 1999, the Company reported a book value increase by an adjustment of \$5,126,257 in Schedule A, Part 1. The actual cost of real estate should have been increased to the total amount paid of \$7,965,900.

Resolution: No errors were noted in the real estate transactions or balances as of this examination date.

Federal Income Tax Recoverable

The Company reported a Federal income tax recoverable of \$20,444,467 as of December 31, 1999. The Company received a payment from its parent, American Bankers Insurance Group (ABIG) of \$8,175,000 on October 18, 2000, therefore the remaining \$12,269,467 was non-admitted. The Company was directed to comply with Section 625.031, FS, regarding the admissibility of such recoverables.

Resolution: During the current examination, it was noted that as of December 31, 2003, the Company had overstated its Federal income taxes recoverable by \$404,032.

HISTORY

General

The Company was incorporated in Florida on October 29, 1947 and commenced business on December 30, 1948 as American Bankers Insurance Company of Florida. On August 18, 1999, United Family Life Insurance Company (GA), a subsidiary of Fortis, Inc. acquired American Bankers Insurance Group, the parent company of ABIC. Fortis, NV and Fortis SA/NV, Netherlands domiciled companies, collectively owned 100% of Fortis, Inc. as of December 31, 2003. During 2004, Fortis, Inc. was merged into Assurant, Inc. as part of an initial public offering of its stock by Fortis, NV and Fortis SA/NV.

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

Fire	Allied Lines	Farmowners Multi-peril
Homeowners Multi-peril	Commercial Multi Peril	Ocean Marine
Inland Marine	Group Accident and Health	Credit Accident and Health
Other Accident and Health	Other Liability – Occurrence	Private Passenger Auto
Auto Physical Damage	Surety	Burglary and Theft
Credit	Aggregate Other Insurance	
Reinsurance – Non Proportional		

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	10,000,000
Number of shares issued and outstanding	5,083,164
Total common capital stock	\$5,083,164
Par value per share	\$1.00
Number of authorized preferred capital shares	500,000
Number of preferred shares issued and outstanding	0
Total preferred capital stock	\$ 0
Par value per share	\$10.00

Control of the Company was maintained by its parent, ABIG, a Florida based holding company. ABIG had acquired 100% of the Company on December 2, 1980, under a plan of reorganization. ABIG was 100% owned by United Family Life Insurance Company (GA), which in turn was 100% owned by Interfinancial, Inc. (GA), which in turn was 100% owned by Fortis, Inc. (now Assurant, Inc.).

Profitability of Company

The following table reflects ABIC's statutory reported net underwriting gain (loss) and total net income since the last examination:

<u>Year</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Income</u>
2000	\$ (27,925,000)	\$ 12,892,000
2001	\$ (63,449,000)	\$ (27,677,000)
2002	\$ (12,819,000)	\$ 16,049,000
2003	\$ 19,991,000	\$ 50,916,000

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company declared and paid dividends to its stockholder as follows:

<u>Year</u>	<u>Dividends Paid</u>
2000	\$ 12,999,977
2001	\$ 12,200,000
2002	\$ 11,000,000
2003	\$ 10,500,000

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
Steven Craig Lemasters Atlanta, Georgia	Chairman, Group Senior Vice President American Bankers Insurance Company of Florida
Jerome A. Atkinson Atlanta, Georgia	General Counsel American Bankers Insurance Company of Florida
Philip Bruce Camacho Atlanta, Georgia	Chief Executive Officer American Bankers Insurance Company of Florida
Floyd Gene Denison Miami, Florida	Executive Vice President American Bankers Insurance Company of Florida

Arthur William Heggen, CPA, FLMI Senior Vice President
Miami, Florida American Bankers Insurance Company of Florida

Adam David Lamnin, CPA President
Miami, Florida American Bankers Insurance Company of Florida

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

Senior Officers

Name	Title
Adam David Lamnin, CPA	President
Enrique Lazaro Castelo, CPA, FLMI	Treasurer
Arthur William Heggen, CPA, FLMI	Secretary

The Company's December 31, 2003, annual statement also listed 16 additional individuals as vice presidents. The Company's board appointed a finance committee to approve investment transactions. The board did not name a direct audit committee, since those functions were handled by the audit committee of Assurant, Inc.

Finance Committee

Philip Bruce Camacho
Floyd Gene Denison
Steven Craig Lemasters

Conflict of Interest Procedure

The Company 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 Finance Committee meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented meetings and the 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

The Company was not a party to any mergers or acquisitions during the period of this examination.

Surplus Debentures

The Company had no surplus debentures outstanding during the period under review.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida for the year ending December 31, 2003, as required by Section 628.801, FS, and Rule 690-143.046, FAC.

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

Tax Allocation Agreement

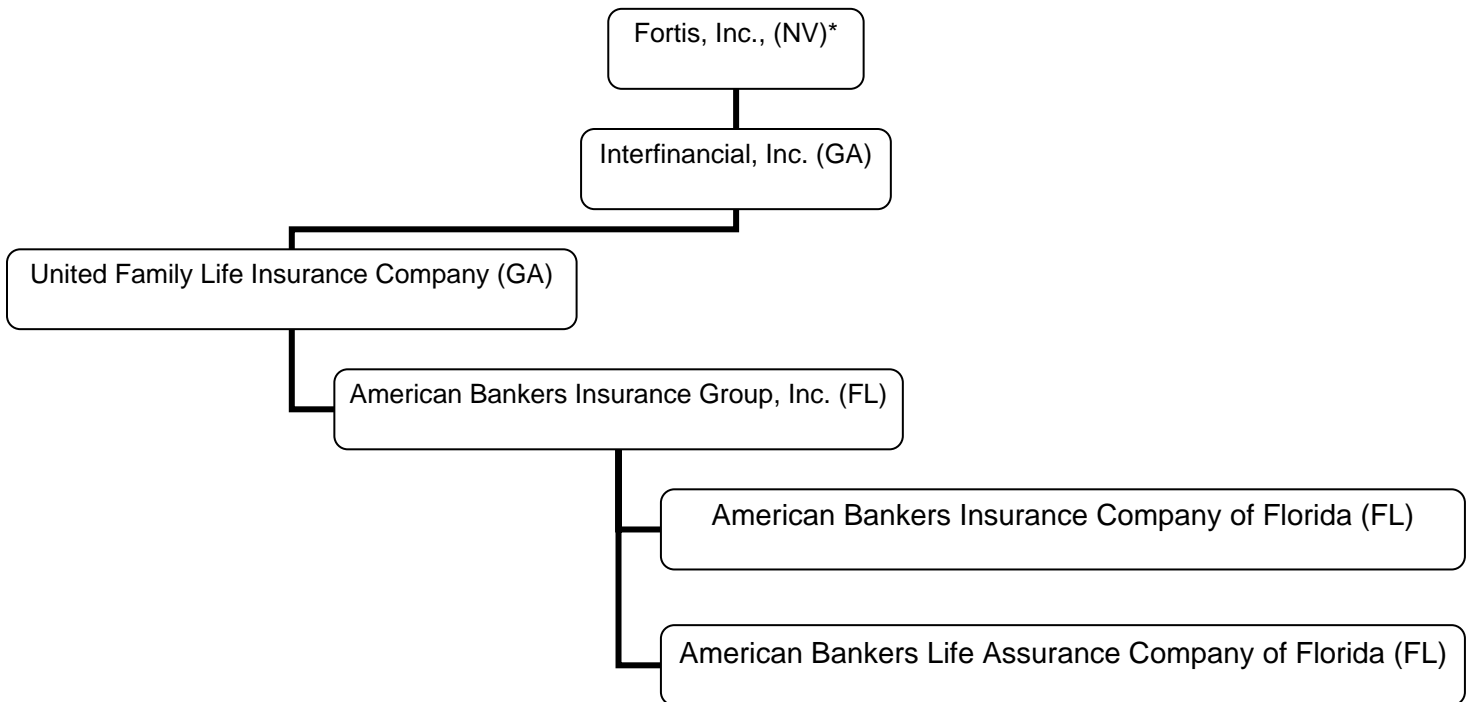
The Company, along with its parent, Fortis, Inc. and most U. S. affiliates, filed a consolidated federal income tax return during the period under review. This was the same agreement in effect as of the last examination. Tax expense or refund was allocated to each affiliate in accordance with Treasury Regulations 1.1552-1 and 1.1502-33.

Cost Sharing, Management and Investment Agreements

The Company shared office space, employees, and various services with its parent, certain affiliates, and subsidiaries. As of December 31, 2003, the Company had approximately 40 separate agreements relating to administrative, marketing, and investment management services. Additionally, the agreements provided for cost or expense sharing among the affiliates. The agreements were reflected in the holding company filings made by and on behalf of the Company and its parent and affiliates. The most significant agreements between the Company and its affiliates were reviewed as part of the current examination, with no exceptions noted.

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 as did the Form B insurance holding company system registration statement.

**AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA
ORGANIZATIONAL CHART
Error! DECEMBER 31, 2003**



*As of 2004, Fortis Inc. was merged into a newly formed holding Company, Assurant, Inc. (DE) publicly traded as AIZ on the NYSE.

FIDELITY BOND AND OTHER INSURANCE

As of year-end 2003, the Company and 49 affiliated entities of American Insurance Group, Inc. were named insured under a financial institution bond providing coverage up to \$15,000,000 with a \$250,000 deductible. This bond adequately covered the suggested minimum amount of coverage for the Company based on its assets and income, as recommended by the NAIC.

The Company's parent, ABIG maintained insurance coverage for officers' and directors' liability; automobile; property damage including flood, earthquake, and excess wind; general liability, and workers' compensation. The policies issued to ABIG had language stating that the coverage either extended to the subsidiaries of ABIG or provided a Broad Form Named Insured Endorsement.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Fortis, Inc., (now Assurant, Inc.) had a noncontributory defined benefit pension plan and a 401(K) plan, covering substantially all of the employees of its subsidiaries and affiliates. Benefits under the pension plan were based on the employees' years of service and compensation levels near retirement. Under the 401(k) plan, the Company matched employee contributions based on years of vesting service, up to 5% of salary. In addition, the Company provided certain post-retirement benefits to retired employees through a plan sponsored by Fortis, Inc. The Company had no legal obligation for benefits under these plans. However, Fortis, Inc. allocated expenses to the Company based on head count. The Company's share of expense for the qualified pension plan was \$5,468,005 and \$2,621,255 for 2003 and 2002, respectively. The Company's share of expense for other post-retirement benefit plans was \$4,503,060 and \$1,256,600 for 2003 and 2002, respectively.

The Company's employees were also eligible for group medical, life, accidental death and disability, dental, and long-term disability insurance coverage to qualifying employees and officers. Other benefits offered by ABIG included on-site childcare, a health facility, subsidized cafeteria meals, career development opportunities, extended illness bank and paid vacations.

STATUTORY DEPOSITS

As of December 31, 2003, the Company had \$3,200,000 in bonds issued by the State of Mississippi on deposit with the State of Florida being held for the benefit of all policyholders under Section 625.52, FS. As of December 31, 2003, the Company also maintained additional deposits having a market value of \$15,391,673, which were not held for the benefit of all policyholders. The following schedule reflects the par value and market value for each type of asset deposited:

Jurisdiction	Description	Par Value	Market Value
Arkansas	Political Subdivision Bonds	\$ 470,000	\$ 461,829
Florida	State Bonds	4,160	4,160
Florida	State Bonds	1,965,840	1,965,882
Florida	State Bonds	1,230,000	1,230,026
Georgia	U.S. Treasury Notes	1,100,000	1,578,841
Georgia	U.S. Treasury Notes	825,000	913,943
Kansas	Political Subdivision Bonds	2,800,000	2,751,321
Kansas	Political Subdivision Bonds	1,905,000	1,907,691
Kansas	U.S. Treasury Notes	390,000	559,771
Kansas	FHLMC Bonds	60,000	65,963
Louisiana	U.S. Treasury Notes	50,000	71,766
Massachusetts	Political Subdivision Bonds	600,000	600,848
New Hampshire	Political Subdivision Bonds	280,000	275,132
New Mexico	U.S. Treasury Notes	200,000	201,188
New Mexico	U.S. Treasury Notes	165,000	164,898
North Carolina	State Bonds	500,000	500,765
North Carolina	U.S. Treasury Notes	105,000	150,708
Oregon	State Bonds	281,000	281,430
South Carolina	U.S. Treasury Notes	250,000	358,828
Virginia	Political Subdivision Bonds	230,000	226,001
Puerto Rico	Puerto Rican Bonds	500,000	546,783
U.S. Virgin Islands	Political Subdivision Bonds	500,000	500,706
Canada	Canadian Industry Bonds	2,170,000	2,170,000
Canada	Canadian Industry Bonds	<u>1,050,000</u>	<u>1,103,193</u>
TOTAL DEPOSITS		<u>\$17,631,000</u>	<u>\$18,591,673</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company's principal products and services were as follows:

1. Creditor placed homeowners insurance

2. Manufactured housing homeowners insurance
3. Debt protection administration
4. Warranties and extended service contracts on appliances, automobiles, consumer electronics and wireless devices.

The above products were distributed through mortgage lenders, manufactured housing lenders, builders, financial institutions and retailers, consumer electronics and appliance retailers, and vehicle dealerships.

The Company's operations also included reinsurance of the above products, primarily to producer owned or controlled reinsurers. Under this reinsurance program, ABIC or an affiliate issued the insurance products, and ceded all or portions of the risks to the reinsurance companies, many of which were domiciled outside the United States.

Territory and Plan of Operation

The Company was authorized to transact insurance in all 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and all provinces and territories of Canada. The Company also maintained continuous certificate of authority with the United States Department of the Treasury, authorizing it to qualify as an acceptable surety on recognizance, stipulations, bonds and undertakings permitted or required by the laws of the United States. The Company's certificate of authority in the State of Minnesota had been suspended for a period of 5 years, resulting from a February 24, 2003, consent agreement with the Minnesota Department of Insurance regarding marketing activities. Under the terms of the agreement, the Company may apply for reinstatement after 20 months.

Treatment of Policyholders

As of December 31, 2003, the Company had established procedures for handling written complaints in accordance with Section 626.954(1)(j), FS.

The Company maintained a claims procedure manual that included detailed procedures for each type of claim and copies of applicable statutes relating to claims adjusters or procedures for claim handling.

REINSURANCE

Assumed

During 2003, the Company assumed reinsurance primarily on a coinsurance basis from approximately 75 companies, both affiliates and non-affiliates. Total premium volume from assumed business in 2003 amounted to \$373,761,000, with \$315,998,000 coming from 5 affiliated entities. The majority of the business assumed from affiliates, representing approximately \$285,000,000 in premiums, related to certain cellular telephone property damage risks written through wireless carriers by an unaffiliated third party administrator. This business was retroceded 50% to a non affiliated, non-US entity.

Ceded

The Company primarily ceded risk on a coinsurance basis. However, the Company did have catastrophic and excess of loss reinsurance on those lines where such coverage was prudent.

The Company ceded business to approximately 415 companies, with reported ceded premiums of \$924,866,000 for the year ending December 31, 2003. Of this amount, only \$35,292,000 was ceded to affiliates. Of the premiums ceded, approximately \$699,180,000 were ceded to unauthorized reinsurers, with over \$600 million to non-U.S. insurance companies. The majority of these non-U.S. reinsurers were reportedly owned or affiliated with the producers of the policies written by the Company or one of its affiliates. For this business, the Company's retention was

generally limited to a small percentage of the overall risk, and it received a small percentage of premiums to administer the policies ceded.

As of December 31, 2003, total recoveries from reinsurance treaties were \$574,867,000. Of this amount, \$153,065,000 was from authorized companies and \$421,802,000 was from unauthorized companies. To ensure collectibility from amounts recoverable from unauthorized companies, the Company held \$386,319,000 in various forms of collateral, which included funds deposited with the Company, letters of credit, trust accounts for its benefit and other various forms of collateral. The remaining amount of recoveries from unauthorized companies, \$33,483, had been established by the Company as a provision for reinsurance liability as of December 31, 2003.

This examination tested the contract provisions and financial transactions of the Company's reinsurance operations by sampling. The sample was chosen in order to evaluate the contracts in effect during the examination period for appropriate provisions, and to provide a basis for verification of the December 31, 2003 financial effects of its reinsurance program. The Company had difficulty providing complete contracts and financial items in support of year-end 2003 balances. In addition, the Company was unable to provide any financial statements or other documentation supporting the company's monitoring of the financial condition of the insurance companies to which it has ceded reinsurance.

An initial sample of 25 reinsurance contracts were selected for review of contract language and required criteria for transfer of risk. Of the initial sample, two contracts, or 8% of the contracts could not be provided by the Company. An additional two contracts lacked periodic claim and/or premium reporting provisions, as required by Statement of Statutory Accounting Principle (SSAP) No. 62. According to SSAP No. 62, paragraph 8(d), reinsurance contracts are required to include

provisions to “provide for reports of premiums and losses, and payment of losses, no less frequently than on a quarterly basis, unless there is no activity during the period. The report of premiums and losses shall set forth the ceding entity’s total loss and loss expense reserves on the policy obligations subject to the agreement, so that the respective obligations of the ceding entity and reinsurer will be recorded and reported on a basis consistent with this statement.”

The examination of reinsurance related balances included selecting a sample of reinsurance agreements, obtaining ceding statements issued by the ceding companies and reconciling to amounts reported in Schedule F in the December 31, 2003 annual statement. Balance sheet line items tested included, but were not limited to, Amounts recoverable from reinsurers, Ceded unearned premium, Ceded reinsurance premiums, Payable funds held by Company under reinsurance treaties and Provision for reinsurance. This testing resulted in the overall observation that the Company lacked adequate controls over the process of reconciling ceding statements to amounts reported by the Company. Based on the initial sample of contracts and corresponding balances selected for testing, significant misstatements of reinsurance balances were noted. An expanded sample was subsequently selected to expand the overall coverage to approximately 70% of balance sheet amounts and all significant reinsurance agreements. The reconciliation and reporting errors were consistent with the conclusions drawn by the Company’s independent CPA during their December 31, 2003 audit. The overall conclusion drawn from the accounts tested by the examiners was that the Company had potentially understated surplus because of the lack of reconciliation controls. No adjustment was made to the annual statement balances as reported by the Company.

As of December 31, 2003, the Company had numerous ceding reinsurance agreements in effect, including many unauthorized companies located in the United States but outside the State of

Florida or outside the United States. Based on the lack of information provided on the financial condition of these reinsurers, i.e. financial statements, internal financial analysis, etc., the examiners concluded that the Company did not adequately monitor the ongoing financial condition of its reinsurers.

During 2001, the Company entered into reinsurance agreements with one unaffiliated entity, Ranchers and Farmers Insurance Mutual Insurance Company (Ranchers), and two affiliated insurers, Voyager Property and Casualty Insurance Company (Voyager) and American Reliable Insurance Company (ARIC), whereby it assumed 100% of certain cellular telephone property damage risks written by these entities. In accordance with an Administrative and Marketing Agreement to which Ranchers, Voyager and ARIC were party to, the coverage originated through wireless carriers by an unaffiliated third party administrator named The Signal, utilizing the policy forms of Ranchers, Voyager and ARIC. The Company retroceded 50% of the assumed cellular telephone business to Telecom Re Limited, an offshore insurance company affiliated with The Signal. The Signal was compensated by the three originating insurers through a contingent commission equal to 40% of the net profit or loss on the entire business. An advance commission was paid to The Signal on a monthly basis. The results of this compensation method as currently written effectively transferred 40% of the net risk of this business from the three insurers to The Signal, a non-insurer. Based on discussions with the Company, the contingent commission agreement in the Administrative and Marketing Agreement was missing a clause that The Signal's losses on this business were limited to the advance commissions already paid to it. In addition, a Claims Services Agreement between the Signal and the three originating companies provided for The Signal to perform claims payment functions for this business. Although accounting entries for these transactions were properly recorded on the respective companies' books, much of the cash settlements to The Signal were processed directly by the Company. Finally, included in the

Administrative and Marketing Agreement, the Company was listed as a parent guarantor of Voyager, ARIC and Ranchers regarding their responsibilities surrounding this business. However, the Company was not the parent corporation of any of these entities. According to the Company, the incorrect name of the guarantor was included in the agreement.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years during the examination period in accordance with Section 624.424(8), FS, and Rule 690-137.002, FAC. PriceWaterhouse Coopers, LLC had been the audit firm for more than 10 years. Due to the timing of this examination taking place prior to the completion of the audit workpapers, very limited use of CPA work was incorporated into the examination scope.

The Company's accounting records were maintained on a computerized system. During the course of this examination, the Company's trial balance was traced to the filed annual statement for the year ending December 31, 2003. Amounts were also traced to all annual statements filed since the prior examination.

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

The Company did not normally maintain detailed policy level records of all of its policies issued or assumed from affiliates. Only upon request during this examination were such records obtained for the MGA's or administrators for testing. The test of such policies indicated that the Company did not exercise policy issue control at least through the Credit Disability operation. During sampling of

this line of business, several policies issued were in fact that of American Bankers Life Assurance Company of Florida (ABLAC), a life insurance company not allowed to issue such property and casualty policies or coverage.

Numerous instances were noted that the Company could not provide copies of original documentation supporting its records. In testing gross unearned premiums, 4 out of 60 premiums files selected could not be provided. In selecting claims files for testing, 3 out of 176 files selected could not be provided. In addition, significant difficulties and delays were encountered in obtaining many of the files that were provided. According to the Company, the difficulty in finding certain Company files was in part due to difficulty incurred in converting the claim identification used by the actuarial department to the claim number used by the claims department. Another explanation to explain the delay for both the premium and claim files was that the Company had to obtain certain files from Third Party Administrators.

Numerous errors were noted in the Company's preparation of its December 31, 2003 annual statement. If considered individually, each error would be deemed immaterial to the reader of the annual statement. However, taken as a whole, significant weaknesses existed in the Company's process designed to ensure accurate annual statement preparation. Examples of errors in completing the December 31, 2003 annual statement included incorrect appraisal and acquisition dates for mortgage loans, an incorrect name for a limited partnership investment, inaccurate completion of schedule BA – Verification Between Years, and a reinsurer incorrectly listed as authorized in the State of Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

As of December 31, 2003, the Company had two custodial service agreements in which the Company maintained the majority of its security investments. Each of the agreements were found to contain the safeguard and control language required by the NAIC and Rule 690-143.042 (k), FAC.

Managing General Agent (MGA) Agreement

The Company had several MGA agreements under which producers administer ABIC policies. Generally these producers also own or were affiliated with non-U.S. domiciled reinsurers. The agreements called for the MGA to perform many of the administrative functions for the business written and reinsured on the Company's behalf.

Risk-Based Capital

Pursuant to Section 624.4085, FS, 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."

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA
Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$694,058,947	(\$784,500)	\$693,274,447
Stocks:			
Preferred	51,490,127		51,490,127
Common	5,356,332		5,356,332
Mortgage Loans:			
First Liens	21,593,952		21,593,952
Real Estate:			
Properties occupied by Company	5,784,005		5,784,005
Cash	53,322,089	(4,138,909)	49,183,180
Other invested assets	30,264,618	(912,088)	29,352,530
Investment income due and accrued	13,280,272		13,280,272
Premiums and considerations:			
Uncollected premium	47,190,958		47,190,958
Deferred premium	37,896,782	(1,249,619)	36,647,163
Reinsurance:			
Amounts recoverable	61,018,507	(1,168,400)	59,850,107
Funds held or deposited	22,000		22,000
Current federal and foreign income tax recoverable	2,127,497	(404,032)	1,723,465
Net deferred tax asset	20,655,518	1,563,909	22,219,427
EDP Equipment	6,786,419		6,786,419
Receivable from PSA	26,381,372	10,656,774	37,038,146
Aggregate write-in for other than invested assets	3,225,000	(57,000)	3,168,000
Totals	<u>\$1,080,454,394</u>	<u>\$3,506,135</u>	<u>\$1,083,960,529</u>

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$143,631,277	\$2,050,000	\$145,681,277
Reinsurance payable of paid losses and LAE	1,503,722		1,503,722
Loss adjustment expenses	9,924,757		9,924,757
Commissions payable	92,134,328	(4,220,756)	87,913,572
Other expenses	12,447,584		12,447,584
Taxes, licenses and fees	8,042,973		8,042,973
Federal and foreign income taxes	0	3,403,911	3,403,911
Unearned premium	295,489,373		295,489,373
Ceded reinsurance premiums payable	64,040,771	3,083,817	67,124,588
Funds held under reinsurance treaties	41,209,755		41,209,755
Amounts withheld	15,618,084		15,618,084
Remittances and items not allocated	4,279,626		4,279,626
Provision for reinsurance	34,255,276	2,400,000	36,655,276
Net adjustments due to foreign exchange rates	13,357,035		13,357,035
Payable to parent, subsidiaries and affiliates	61,687,310	10,656,774	72,344,084
Payable for securities	3,138,548		3,138,548
Aggregate write-ins for liabilities	12,572,474	1,774,000	14,346,474
Total Liabilities	\$813,332,893	19,147,746	832,480,639
Common capital stock	5,083,164		5,083,164
Gross paid in and contributed surplus	103,436,014		103,436,014
Unassigned funds (surplus)	158,602,323	(15,641,611)	142,960,712
Surplus as regards policyholders	267,121,501	(15,641,611)	251,479,890
Total liabilities, capital and surplus	\$1,080,454,394	\$3,506,135	\$1,083,960,529

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA
Statement of Income

DECEMBER 31, 2003

Underwriting Income

Premiums earned	\$546,306,936
DEDUCTIONS:	
Losses incurred	225,228,532
Loss expenses incurred	23,305,640
Other underwriting expenses incurred	277,781,940
Total underwriting deductions	<u>\$526,316,112</u>
Net underwriting gain or (loss)	\$19,990,825

Investment Income

Net investment income earned	\$43,502,462
Net realized capital gains or (losses)	2,259,773
Net investment gain or (loss)	<u>\$45,762,235</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$1,729,609
Finance and service charges not included in premiums	859,761
Aggregate write-ins for miscellaneous income	3,854,750
Total other income	<u>\$6,444,121</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$72,197,181
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$72,197,181
Federal & foreign income taxes	<u>21,281,424</u>
Net Income	\$50,915,757

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$212,877,140
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Gains and (Losses) in Surplus

Net Income	\$50,915,757
Net unrealized capital gains or losses	1,041,076
Change in unrealized foreign exchange capital gain or loss	5,566,527
Change in net deferred income tax	(11,830,512)
Change in non-admitted assets	17,890,776
Change in provision for reinsurance	(207,091)
Dividends to stockholders	(10,500,000)
Aggregate write-ins for gains and losses in surplus	1,367,828
Examination Adjustments	(15,641,611)
Change in surplus as regards policyholders for the year	<u>38,602,750</u>
Surplus as regards policyholders, December 31 current year	<u><u>251,479,890</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Cash **\$49,183,180**

As of December 31, 2003, the Company reported \$53,322,089 in Cash and cash equivalents. Through standard examination procedures, it was noted that the Company's internal controls needed strengthening to govern the reconciliation of its cash accounts and records. The Company's reported cash and cash equivalent balance was overstated by \$4,138,909. The Company claimed that the overstated amounts were offset by offsetting suspense accounts; however, the Company could not provide the supporting documentation.

The Company maintained several cash accounts in their name totaling \$4,671,869, representing "Build Up Funds" held in trust for bail bond agents. The Company did not report these cash balances as part of its December 31, 2003 annual statement, but may be reimbursed from the funds if a particular bail bond agent did not abide by contractual obligations. As a result, the Company was required to pay a contractually specified bail bond related loss. According to the SSAP No.1, paragraph 17, "For each year that a balance sheet is presented, reporting entities shall disclose...amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets".

Bonds **\$693,274,447**

As of December 31, 2003, the Company reported total bonds of \$694,058,947. Included in its bond portfolio was a private placement bond issued by a trust limited partnership, with a reported carrying value of \$784,500 and a NAIC Securities Valuation Office (SVO) classification of "4". However, it was noted that the SVO classified this particular security with "6" rating, indicating a high risk of default. According to the NAIC Purposes and Procedures Manual of the SVO,

securities with a "6" classification shall be carried at the market value of the security. Upon request for market value information of the security, the Company failed to respond with supporting documentation. Therefore, for purposes of the examination, we considered this security to be a non-admitted asset.

Other Invested Assets **\$29,352,530**

As of December 31, 2003, the Company reported Other invested assets totaling \$30,264,618, consisting of investments in joint ventures, partnerships, and limited liability corporations. According to SSAP No. 46, Paragraph 8, "joint ventures, partnerships, and limited liability companies in which the entity has a minor ownership interest (i.e., less than 10%) shall be recorded based on the underlying audited GAAP equity of the investee." Upon review of the audited financial statements for the most material investments, the Company overstated its investments in four of its limited partnerships by a combined amount of \$912,088. For three of the investments, the Company's reported value in its annual statement exceeded by \$658,977 of its percent ownership multiplied by the total audited equity in the partnership. Therefore, for purposes of this examination, an adjustment has been made to reduce the carrying value of these investments. The remaining investment, reported at a value of \$253,111, was supported by audited financial statements with a reported partner's deficit equity. Therefore, we non-admitted the entire balance for this investment.

One of the Company's investments required a continued commitment by the Company to make additional capital contributions totaling \$14,000,000 through the end of 2007. However, the Company failed to disclose this in the Notes to its December 31, 2003 annual statement. According to SSAP No. 48, paragraph 13, "Any commitment or contingent commitment (e.g.,

guarantees or commitments to provide additional capital contributions) to a joint venture, partnership or limited liability company shall be disclosed”.

Uncollected Premiums and Agents’ Balances in Course of Collection **\$47,190,958**

As of December 31, 2003, the Company reported Uncollected premiums and agents’ balances in course of collection of \$47,190,958. Of this balance, it was noted that two accounts selected for testing were not collected either in part or whole, in the amount of \$785,727, as of the examination fieldwork. Therefore, this balance was considered a non admitted asset for purposes of the examination.

Deferred Premiums, Agents’ Balances and Installments Booked but Deferred and Not Yet Due **\$36,647,163**

As of December 31, 2003, the Company reported Deferred premiums, agents’ balances and installments booked but deferred and not yet due of \$37,896,782. Of this amount, \$32,692,966 represented receivables due to the Company in periods subsequent to December 31, 2003 for certain mobile home business processed by a third party administrator (TPA). The TPA managed the billing of premiums and settlement of claims on behalf of the Company and also was responsible for collecting premium payments from the insured. During the examination of this item, the amount of the receivable due from policyholders on the December 31, 2003 books of the TPA was \$14,796,715 higher than the balance on the books of the Company. While the Company attributed this difference to various timing differences, it did not obtain or attempt to create support or a detailed breakdown of the difference from the TPA. Additionally, the Company indicated that while it has the contractual ability to audit the detailed transactions of the business processed by the TPA, it has not done so. The Company indicated that it also has the contractual right to assume the collections responsibility, should it deem necessary due to poor performance at the

TPA. It should be noted that the examiners performed standard subsequent collection and recalculation procedures related to the receivable reported by the Company, with no exceptions being noted.

During 2004, the Company undertook a project whereby it identified and adjusted thousands of uncollectible or incorrectly recognized receivable amounts totaling \$1,358,282 from this account, some being more than 10 years old. Of this amount, \$1,249,619 was determined to be related to December 31, 2003 and prior. According to the Company, the major causes of the errors include checks returned for Non-Sufficient Funds as well as other direct bill transactions that were either incorrectly posted to this account or not properly canceled and reversed. Therefore, for purpose of the examination, the amount of uncollectible receivables as of December 31, 2003 are considered non-admitted assets. As a result of the project, the Company implemented additional control procedures in the direct billing process which identified and adjusted these types of errors on a monthly basis.

Amounts Recoverable from Reinsurers

\$59,850,107

As of December 31, 2003, the Company reported Amounts recoverable from reinsurers of \$61,018,507, Aggregate write-ins for other than invested assets of \$3,225,000 and Aggregate write-ins for liabilities of \$12,572,474. During the audit of its December 31, 2003 financial statements, the independent CPA firm noted that the Company had failed to record the financial impact of the termination of a reinsurance agreement between itself and several unaffiliated insurers. The termination of the agreement resulted in the Company reducing Amounts recoverable from reinsurers by \$329,000, reducing Aggregate write-ins for other than invested assets by \$57,000 and increasing Aggregate write-ins for liabilities by \$1,774,000. The Company's

CPA firm passed on booking the adjustment. However, the entry is included as an adjustment in this report.

During the examination, subsequent collections of Amounts recoverable from reinsurers were tested to verify the valuation of these balances as of the examination date. It was noted during these procedures that the Company had subsequently written off as uncollectible \$839,400 in amounts reported as recoverable as of December 31, 2003. Therefore, for purposes of the examination, an identical entry has been made.

Intercompany transactions

In the normal course of its business, the Company entered into transactions between itself and its parent, subsidiaries and affiliates. Based on review of major intercompany agreements, transactions included, but were not limited to, shared expenses, claims processing and reimbursement, investment advice and premium collection reimbursement. According to SSAP No. 25, Paragraph 17, "The financial statements shall include disclosures of all material related party transactions." The Company disclosed in the Notes to its December 31, 2003 annual statement the amount of total balances due from and to its affiliated entities. However, it did not disclose the intercompany agreements or the nature of the intercompany transactions giving rise to such balances.

Several intercompany transactions were noted during the examination that were not covered by intercompany agreements, including a management fee and payment for its share of deferred compensation, both paid to the Company's direct parent, ABIG. Total management fees and deferred compensation reimbursements paid for ABIG during 2003 amounted to \$1,883,750 and \$172,141, respectively. The Company also periodically received advances of cash from its direct

parent, ABIG, to meet its temporary cash needs. Advances from ABIG to the Company during 2003 amounted to approximately \$200,000,000, and the balance due from the Company as of December 31, 2003 totaled \$21,500,000. The accounting for such transactions were booked through the intercompany receivable/payable with ABIG and were reimbursed within ninety days of the advance being made. However, no intercompany agreement existed to cover the specifics surrounding this transaction. According to Rule 690-143.046, FAC and Section 628.801, FS, these transactions should have been disclosed in the Company's holding company registration form.

Included in its Receivable from parents, subsidiaries and affiliates account balance, the Company reported a liability of \$10,656,774 due to its affiliate, ABLAC on December 31, 2003. The balance was netted against various intercompany receivables from other affiliated entities, effectively reducing the net reported receivable balance. According to SSAP 54, Paragraph 2, a valid right of offset must exist before assets and liabilities may be netted. This guidance does not allow offsetting between different affiliated entities. Therefore, the liability due to ABLAC has been reclassified from the Receivable from parents, subsidiaries and affiliates to Payable to parents subsidiaries and affiliates. There was no impact on surplus.

Current Federal and Foreign Income Tax Recoverable **\$1,723,465**

As of December 31, 2003, the Company reported a current Federal and foreign income tax recoverable in the amount of \$2,127,497. Of this amount, the Company provided adequate support for the subsequent collection of \$1,723,465 of this balance. However, it did not provide supporting information for the remaining \$404,032 balance and indicated that it would most likely be adjusted back to tax expense upon the calculation to be completed at the time the 2003 tax return was filed. As of the date of this examination report, the Company's anticipated filing date of its 2003 Federal Income Tax Return is December 31, 2004. Therefore, because the balance was

not supported by the Company during this examination, we have considered \$404,032 of the balance to be a non-admitted asset.

During the examination, the Company was currently appealing the results of an IRS audit for the tax years 1997 through 1999. In this audit cycle, the IRS had proposed an adjustment for the disallowance for commission expenses in the approximate amount of \$38,000,000, resulting in an additional tax liability of approximately \$13,000,000. The audit adjustment was the result of the IRS disallowing certain commission expense tax deductions because they were paid later than the date the respective tax returns were filed. However, the Company's position is that the IRS should only disallow actual commissions that were not paid as of the filing of each tax return, not all commissions related to this particular business. According to documents provided by the Company, the majority of the commissions disallowed by the IRS were within the required time frame, and therefore should be allowed as deductions. Management believes that it will be successful in its appeal of this issue with the IRS and that in future tax years subsequent settlement of this issue, the Company will properly exclude commissions that are not paid at the time the respective tax return is filed. Management's best estimate for its ultimate liability to the IRS related to commissions that it has deducted in tax returns from 1997 through 2003 is \$3,403,911. However, \$1,563,909 of this amount would be admissible as a deferred tax asset, resulting in a net impact to surplus of \$1,840,003. Therefore, we have made these adjustments.

Losses

\$145,681,277

As of December 31, 2003, the Company reported Losses net of reinsurance ceded totaling \$143,631,277. Included in this amount was \$34,600,000 in net reserves related to asbestos, pollution and other mass torts (APMT). The examination actuary was unable to determine the adequacy of these reserves due to what was deemed to be inadequate reserving methodologies and the Company's exclusion of these reserves from its own internal actuarial opinion as of

December 31, 2003. At the request of the Office, the Company contracted with an independent actuary to prepare an independent analysis of these reserves. In a report issued directly to the Company, the independent actuary indicated that they believed that the net reserves for this business were within a reasonable range. However, the actuary indicated that they believed prior to the application of ceded reinsurance, the Company had underreported its gross reserves for this business in the approximate amount of \$17,100,000. The gross reserves were inadequate as a direct result of the Company's failure to include any reserve for claims Incurred But Not Reported (IBNR). The Company agreed with this conclusion and agreed to increase gross reserves for this business beginning as of December 31, 2004. For purposes of the December 31, 2003 examination, the Company provided a detailed breakdown of the reinsurers to whom these additional reserves would be ceded. Since certain reinsurers for this business were unauthorized in the State of Florida, the Company was required to establish a provision for reinsurance to offset the reserve credits taken for reserves ceded to these entities. Therefore, \$2,400,000 in additional ceded reserves was established as a provision for reinsurance liability.

Paid Losses

For the year ended December 31, 2003, the Company reported paid claims in the amount of \$473,859,784, gross of the effects of reinsurance on portions of certain business. The amount of \$43,221,559, or 9.1% of the total gross paid claims, represented certain warranty business written and administered by a TPA, that were not maintained on the Company's in-house claims processing system. The TPA provided the Company with monthly details pertaining to the specific policies and claims activity. However, the Company did not receive date of loss information pertaining to the claims paid by the TPA for this business. In light of this, the Company artificially allocated these particular claims to loss development ratio categories based on the loss frequency ratios experience by the Company in other similar warranty business written directly by itself.

During the review by the examination actuary, the loss reserves established for this business were deemed to be adequate. No historical supporting information was provided by the Company linking the loss frequency ratios between the two businesses.

Testing of the underlying data supporting the paid loss transactions reported by the Company consisted of 180 transactions selected randomly from the entire population of claims paid during 2003 and tracing specific attributes from its transaction level detail to the original claim files. Of the claims selected, the Company could not provide 4 files, or 2% of the total sample selection. For 2 additional claims, the Company could not provide supporting documentation for proof of the payment amount, i.e. canceled check, etc. Significant delay was also encountered while obtaining an additional 22 claim files, or 12% of the total sample selection. The Company responded that the delays and missing files were caused by multiple claim identification number sequences being used for each claim. Difficulties were encountered by the Company in translating the claim identification numbers provided in the paid claims transaction population provided to the examiners to the claim identification numbers used by the department handling the claims and maintaining the specific files. No exceptions were detected during review of the specific claim files provided by the Company.

The Company reported claims paid during 2003 of \$117,670,673 from certain non-standard private passenger business written and serviced by Thaxton, a TPA. This TPA also processed and managed claims related to this business, including printing, processing and mailing claim checks to the Company's policyholders. The TPA provided monthly downloads to the Company detailing the claims that it had processed in the preceding 30-day period. The Company did not record on its books any transactions for these claim payments until the monthly data was received from the TPA. The examination testing noted that this process has resulted in numerous errors and misclassifications. First, claim checks have been issued and mailed, and at times even cashed by

the bank before they were recorded on the Company's books. This resulted in cash overstated and claims expense understated by as much as one month's worth of claims activity. Secondly, under the current system, a lag existed between the actual date the claim was paid and the date that it was entered into the Company's claims system. It was noted in the testing that this lag can be from 1 to 30 days long. The Company acknowledged the problems that this process created on the accuracy of its books and records and indicated that it was currently in the process of terminating the relationship with this producer. During the review by the examination actuary, it was noted that the loss reserves the Company established for this business were deemed to be adequate.

Commissions Payable, Contingent Commissions and Other Similar Charges \$87,913,572

As of December 31, 2003, the Company reported Commissions Payable, Contingent Commissions and Other Similar Charges totaling \$92,134,328. Testing of this balance during the examination indicated that the Company had paid commissions amounts during 2004 which exceeded the amount of expense accrued as of December 31, 2003 by \$913,061. In addition, the Company improperly classified \$5,133,817 as commissions payable to two separate parties. Of this amount, \$3,083,817 should have been recorded as reinsurance payable and \$2,050,000 should have been reported as a Losses liability. We have increased the Company's accrual by \$913,061 and reclassified the incorrect amounts to their proper accounts.

Unearned Premium \$295,489,373

As of December 31, 2003, the Company reported a total Unearned Premiums liability of \$295,489,373. As a part of the normal testing of the underlying data used in the calculation of this liability, the examiners judgmentally selected fifteen policies that were traced to original policy files. Upon the review of such files, it was noted that two of the credit unemployment insurance policies,

representing 13% of the total sampled files, were written on policy forms of the Company's affiliate, American Bankers Life Insurance Company (ABLIC). The Company agreed that the policies should have been on American Bankers Insurance Company policy forms. The Company explained that the error was the result of the bulk selling of insurance policies by the Company or its affiliates, in which numerous coverages are sold at a single point of sale. However, often the various coverages were actually underwritten by more than one affiliated entity. In the case of these policies, the intent was to write the policies on the Company's forms, as the line of business is casualty related; and a line that ABLIC was not licensed to write. However, the wrong form was used at the point of sale. In addition, one of the fifteen files, representing 7% of the total sample could not be located by the Company.

Testing of the underlying data supporting the calculation of unearned premiums consisted of selecting sixty policies randomly from the entire population of unearned premiums and tracing specific attributes from the Company's calculations to the original policy files. The Company could not provide four of the selected files, or 7% of the entire sample population. By using alternative test procedures, correct information was included in the unearned premium calculations for these policies.

Remittances and Items Not Allocated

\$4,279,626

As of December 31, 2003, the Company reported Remittances and items not allocated totaling \$4,279,626, representing over 50 suspense accounts and sub accounts for premiums and other remittances received by the Company that have not been allocated to their corresponding general ledger accounts. Based on information provided by the Company and subsequent conversations, reconciliations of these accounts were not always performed in a timely manner. Also, responsibility was not assigned for ensuring that the numerous accounts were reconciled properly

and in a timely manner. Based on limited analytical procedures, the account balances were deemed to be reasonable. However, the Company did not provide adequate information on a detailed enough basis for the examiners to substantively test the balances.

Provision for Reinsurance **\$36,655,276**

As of December 31, 2003, the Company reported a Provision for Reinsurance in the amount of \$34,255,276. Numerous instances were noted where letters of credit, trust documents or other types of collateral for business ceded to unauthorized reinsurance were found to be inadequate. Several instances included documents which named affiliated entities as the beneficiary of such collateral, not the Company itself. Collateral incorrectly applied in Schedule F, Part 5 totaled more than \$10,000,000, which has been corrected once brought to the attention of the Company. One company had securities of an unacceptable type in the trust account.

Net Adjustments in Assets and Liabilities Due to Foreign Exchange Rates **\$13,357,035**

As of December 31, 2003, the Company reported a \$13,357,035 liability for the net effect of foreign exchange rates on its assets and liability denominated in Canadian Dollars. The Company adhered to SSAP No. 23, paragraph 5 a, which allowed a net adjustment for all assets and liabilities if an entity's Canadian insurance operations resulted in less than 10% of its admitted assets, 10% of its liabilities and 10% of its net premium. As a result, the Company reported U.S. and Canadian currencies for certain balance sheet items, i.e. bonds, cash and certain liabilities, as if the entire balance were denominated in U.S. Dollars. The resulting net calculation of converting all the Canadian denominated balances to U.S. Dollars amounted to \$13,357,035. However, based on the Company's Canadian insurance operations as of December 31, 2003 and during 2003, it did not meet the requirement for the net adjustment. There was no net surplus effect difference between the two methodologies, but merely one of classification. Therefore, no

adjustment was made as part of the examination. If the test was met, all adjustments were reported as a single line item in the balance sheet. However, if the requirements are not met, each balance sheet line item must include a conversion of Canadian Dollars to U.S. Dollars.

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA
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

\$267,121,501

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Bonds	\$694,058,947	\$693,274,447	(\$784,500)
Cash	53,322,089	49,183,180	(4,138,909)
Other invested assets	30,264,618	29,352,530	(912,088)
Deferred premiums booked but deferred and not yet due	37,896,782	36,647,163	(1,249,619)
Amounts recoverable from reinsurers	61,018,507	59,850,107	(1,168,400)
Current Federal Income Tax recoverable	2,127,497	1,723,465	(404,032)
Net deferred tax asset	20,655,518	22,219,427	1,563,909
Aggregate write-in for other than invested assets	3,225,000	3,168,000	(57,000)
	902,568,958	895,418,319	(7,150,639)
LIABILITIES:			
Losses	\$143,631,277	\$145,681,277	(\$2,050,000)
Commissions payable	92,134,328	87,913,572	4,220,756
Federal & foreign income taxes	0	3,403,911	(3,403,911)
Ceded reinsurance premiums payable	64,040,771	67,124,588	(3,083,817)
Provision for reinsurance	34,255,276	36,655,276	(2,400,000)
Aggregate write-ins for liabilities	12,572,474	14,346,474	(1,774,000)
	346,634,126	355,125,098	(8,490,972)
Net Change in Surplus:			<u>(15,641,611)</u>
Surplus as Regards Policyholders December 31, 2003, Per Examination			<u><u>\$251,479,890</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 1999 examination report issued by the Office.

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, 2003.

Accounts and Records

Numerous instances were noted that the Company could not provide copies of original documentation supporting its records. In addition, significant difficulties and delays were encountered in obtaining many of the files that were provided. **It is recommended that the Company implement procedures to improve its file maintenance program, including physical access to its premium and claim files as well as maintaining functional referencing for claims; and that a copy of these procedures be provided to the Office within 90 days of the issuance of this report.**

Annual Statement Preparation

Numerous errors were noted in the Company's preparation of its December 31, 2003 annual statement. **It is recommended that the Company implement procedures to ensure that its annual and quarterly statements are accurately prepared, prior to filing regulatory reports; and that a copy of these procedures be provided to the Office within 90 days of the issuance of this report.**

Reinsurance

Of the initial sample, two contracts, or 8% of the contracts could not be provided by the Company. An additional two contracts lacked periodic claim and/or premium reporting provisions, as required by Statement of Statutory Accounting Principle (SSAP) No. 62. **It is recommended that the Company implement control procedures to ensure copies are maintained for all of its reinsurance agreements, as well as to ensure that agreements meet all requirements of SSAP No. 62. Specifically, the Company should obtain copies of the missing agreements and amend agreements that do not meet the requirements of SSAP No. 62. Copies of the procedures must be provided to the Office within 90 days of the issuance of this report.**

Testing resulted in the overall observation that the Company lacked adequate controls over the process of reconciling ceding statements to amounts reported by the Company. Significant misstatements of reinsurance balances were noted. The reconciliation and reporting errors were consistent with the conclusions drawn by the Company's independent CPA during their December 31, 2003 audit. **It is recommended that the Company immediately implement controls over the completion of its reconciliation of ceding statements from reinsurers, reporting of amounts in Schedule F of its annual statement and also ensuring the proper reinsurance balances are reported in the Company's balance sheet. A copy of the implemented controls must be provided to the Office within 90 days of the issuance of this report.**

Based on the lack of information provided on the financial condition of the Company's unauthorized reinsurers, i.e. financial statements, internal financial analysis, etc., the examiners concluded that the Company did not adequately monitor the ongoing financial condition of its reinsurers. **It is recommended that the Company immediately implement procedures for ongoing**

monitoring of the financial condition of its reinsurers; and provide a copy of the procedures to the Office within 90 days of the issuance of this report.

The Company retroceded 50% of the assumed cellular telephone business to Telecom Re Limited, an offshore insurance company affiliated with The Signal. The Signal was compensated by the three originating insurers through a contingent commission equal to 40% of the net profit or loss on the entire business. The results of this compensation method as currently written effectively transferred 40% of the net risk of this business from the three insurers to The Signal, a non-insurer. The contingent commission agreement in the Administrative and Marketing Agreement was missing a clause that The Signal's losses on this business were limited to the advance commissions already paid to it. In addition, a Claims Services Agreement between the Signal and the three originating companies provided for The Signal to perform claims payment functions for this business. Additionally, included in the Administrative and Marketing Agreement, the Company was listed as a parent guarantor of Voyager, ARIC and Ranchers regarding their responsibilities surrounding this business. However, the Company was not the parent corporation of any of these entities. **It is recommended that the Company ensure that the Administrative and Marketing Agreement is amended to limit any risk transfer language to the non-insurer, The Signal. It is also recommended that the Company amend the agreement to properly reflect the guarantor of the originating companies. A copy of the amended agreement must be provided to the Office within 90 days of the issuance of this report.**

Cash

The Company's internal controls needed strengthening to govern the reconciliation of its cash accounts and records. **It is recommended that the Company strengthen internal controls regarding the reconciliation and reporting of its cash and cash equivalent balances,**

including timely recording of all cash transactions into its general ledger in a timely manner.

The Company maintained several cash accounts in their name totaling \$4,671,869, representing “Build Up Funds” held in trust for bail bond agents. According to the SSAP No.1, paragraph 17, “For each year that a balance sheet is presented, reporting entities shall disclose...amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets”. **It is recommended that the Company disclose in its future annual statements all information regarding its bail bond funds held as required by the aforementioned SSAP.**

Bonds

Included in its bond portfolio was a private placement bond issued by a trust limited partnership, with a reported carrying value of \$784,500 and a NAIC Securities Valuation Office (SVO) classification of “4”. However, it was noted that the SVO classified this particular security with “6” rating, indicating a high risk of default, and should be carried at the market value of the security. **It is recommended that the Company adjust its carrying value of this security in any future annual or quarterly filings to the verifiable market value of the investment. In addition, it is recommended that the Company comply with the Purposes and Procedures Manual of the NAIC SVO and carry all securities with a “6” classification at the current market value.**

Other Invested Assets

According to SSAP No. 46, Paragraph 8, “joint ventures, partnerships, and limited liability companies in which the entity has a minor ownership interest (i.e., less than 10%) shall be recorded based on the underlying audited GAAP equity of the investee.” Upon review of the

audited financial statements for the most material investments, the Company overstated its investments in four of its limited partnerships by a combined amount of \$912,088. **It is recommended that the Company value its limited partnership and similar investments, in which it owns a minority interest, in accordance with the aforementioned SSAP. If audited financial statements are not available at the time of the annual statement preparation, appropriate entries should be made in the quarter in which such audited reports are received.**

One of the Company's investments required a continued commitment by the Company to make additional capital contributions totaling \$14,000,000 through the end of 2007. However, the Company failed to disclose this in the Notes to its December 31, 2003 annual statement. **It is recommended that the Company disclose in the Notes to its future annual statements any commitments for future capital contributions to joint ventures, partnerships or limited liability corporations.**

Uncollected Premiums and Agents' Balances in Course of Collection

It was noted that two accounts selected for testing were not collected either in part or whole, in the amount of \$785,727, as of the examination fieldwork. **It is recommended that the Company take steps to ensure that its receivable balances are accurately reported and adjustments are made on a periodic basis for uncollectible amounts or errors.**

Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due

In this amount, \$32,692,966 represented receivables due to the Company in periods subsequent to December 31, 2003 for certain mobile home business processed by a third party administrator

(TPA). During the examination of this item, the amount of the receivable due from policyholders on the December 31, 2003 books of the TPA was \$14,796,715 higher than the balance on the books of the Company. **It is recommended that the Company immediately implement procedures to strengthen the monitoring of this particular TPA, including, but not limited to, requiring detailed monthly reconciliations between the TPA and Company records, plan and perform periodic audits of the original entries submitted by the TPA, and perform comprehensive analysis and monitoring of the financial condition of the TPA.**

During 2004, the Company undertook a project whereby it identified and adjusted thousands of uncollectible or incorrectly recognized receivable amounts totaling \$1,358,282 from this account, some being more than 10 years old. Of this amount, \$1,249,619 was determined to be related to December 31, 2003 and prior. As a result of the project, the Company implemented additional control procedures in the direct billing process which identified and adjusted these types of errors on a monthly basis. **It is recommended that the Company continue with its newly implemented policy of identifying relatively minor billing and receivable booking errors on an ongoing basis and ensure that all accounts are cleaned up no less than monthly.**

Amounts Recoverable from Reinsurers

During the audit of its December 31, 2003 financial statements, the independent CPA firm noted that the Company had failed to record the financial impact of the termination of a reinsurance agreement between itself and several unaffiliated insurers. **It is recommended that the Company ensure appropriate application of accrual methodologies when accounting for transactions at the end of any reporting period.**

During the examination, subsequent collections of amounts recoverable from reinsurers were tested to verify the valuation of these balances as of the examination date. It was noted during these procedures that the Company had subsequently written off as uncollectible \$839,400 in amounts reported as recoverable as of December 31, 2003. **It is recommended that the Company ensure it has adequate procedures in place to identify and write off uncollectible reinsurance recoverables.**

Inter-company transactions

According to SSAP No. 25, Paragraph 17, "The financial statements shall include disclosures of all material related party transactions." The Company disclosed in the Notes to its December 31, 2003 annual statement the amount of total balances due from and to its affiliated entities. However, it did not disclose the inter-company agreements or the nature of the inter-company transactions giving rise to such balances. **It is recommended that the Company comply with the aforementioned SSAP regarding the nature and extent of its material transactions between itself and its affiliates.**

Several inter-company transactions were noted during the examination that were not covered by inter-company agreements, including a management fee and payment for its share of deferred compensation, both paid to the Company's direct parent, ABIG. The Company also periodically received advances of cash from its direct parent, ABIG, to meet its temporary cash needs. The accounting for such transactions were booked through the inter-company receivable/payable with ABIG and were reimbursed within ninety days of the advance being made. However, no inter-company agreement existed to cover the specifics surrounding this transaction. According to Rule 690-143.046, FAC and Section 628.801, FS, these transactions should have been disclosed in the Company's holding company registration form. **It is recommended that the Company either**

enter into separate inter-company agreements, or amend existing agreements to cover the aforementioned transactions, including the basis for which the charges are calculated. In addition, it is recommended that the Company include such transactions in its next annual holding company registration.

Included in its Receivable from parents, subsidiaries and affiliates account balance, the Company reported a liability of \$10,656,774 due to its affiliate, ABLAC on December 31, 2003. The balance was netted against various inter-company receivables from other affiliated entities, effectively reducing the net reported receivable balance. According to SSAP 54, Paragraph 2, a valid right of offset must exist before assets and liabilities may be netted. This guidance does not allow offsetting between different affiliated entities. **It is recommended that the Company comply with the aforementioned SSAP and report inter-company receivables and payables on the appropriate side of the balance sheet.**

Current Federal and Foreign Income Tax Recoverable

The Company reported a current Federal and foreign income tax recoverable in the amount of \$2,127,497. Of this amount, the Company provided adequate support for the subsequent collection of \$1,723,465 of this balance. However, it did not provide supporting information for the remaining \$404,032 balance and indicated that it would most likely be adjusted back to tax expense upon the calculation to be completed at the time the 2003 tax return was filed. **It is recommended that the Company ensure that proper support exists for all of its annual and quarterly statement balances and that the statements filed with the Office provide only supportable balances.**

The Company was appealing the results of an IRS audit for the tax years 1997 through 1999. In this audit cycle, the IRS had proposed an adjustment for the disallowance for commission expenses in the approximate amount of \$38,000,000, resulting in an additional tax liability of approximately \$13,000,000. **It is recommended that the Company immediately implement procedures to exclude commission expenses deductions from its Federal Income Tax calculations for commissions not paid at the time the tax return is filed. This implementation should take effect with the next filed Federal Income Tax return, regardless of the status of the appeal with the IRS for tax years 1997 through 1999.**

Paid Losses

The amount of \$43,221,559, or 9.1% of the total gross paid claims, represented certain warranty business written and administered by a TPA, that were not maintained on the Company's in-house claims processing system. The TPA provided the Company with monthly details pertaining to the specific policies and claims activity. However, the Company did not receive date of loss information pertaining to the claims paid by the TPA for this business. **It is recommended that the Company take steps to acquire claim specific date of loss details from its TPA and utilize actual data in developing its claims paid lag triangles and ultimate claims reserve.**

Of the claims selected, the Company could not provide 4 files, or 2% of the total sample selection. For 2 additional claims, the Company could not provide supporting documentation for proof of the payment amount, i.e. canceled check, etc. Difficulties were encountered by the Company in translating the claim identification numbers provided in the paid claims transaction population provided to the examiners to the claim identification numbers used by the department handling the claims and maintaining the specific files. **It is recommended that the Company implement a consistent claims identification system for all of its business, regardless of whether**

processed directly by the Company or a TPA. If multiple identification systems are required, the Company must have in place easily understood and efficient methods of transacting between the multiple codes. It is recommended that the Company also implement procedures to ensure the secure and complete maintenance of all of its claims records.

The Company reported claims paid during 2003 of \$117,670,673 from certain non-standard private passenger business written and serviced by Thaxton, a TPA. This TPA also processed and managed claims related to this business, including printing, processing and mailing claim checks to the Company's policyholders. The TPA provided monthly downloads to the Company detailing the claims that it had processed in the preceding 30-day period. The Company did not record on its books any transactions for these claim payments until the monthly data was received from the TPA. The examination testing noted that this process has resulted in numerous errors and misclassifications. **It is recommended that the Company immediately implement procedures to offset the potential errors related to this business, including recording transactions on the actual date they are paid rather than the date the information was integrated into the Company's claims system.**

Commissions Payable, Contingent Commissions and Other Similar Charges

The Company paid commissions amounts during 2004 which exceeded the amount of expense accrued as of December 31, 2003 by \$913,061. In addition, the Company improperly classified \$5,133,817 as commissions payable to two separate parties. Of this amount, \$3,083,817 should have been recorded as reinsurance payable and \$2,050,000 should have been reported as a Losses liability. **It is recommended that the Company take steps to ensure its commission**

payable liabilities are recorded completely and accurately, and that all related amounts are properly classified in its balance sheet.

Unearned Premium

Upon the review of sampled files, it was noted that two of the credit unemployment insurance policies, representing 13% of the total sampled files, were written on policy forms of the Company's affiliate, American Bankers Life Insurance Company (ABLIC). In addition, one of the fifteen files, representing 7% of the total sample could not be located by the Company. **It is recommended that the Company immediately take steps to identify all unemployment policies which have been written on the forms of its affiliate, ABLIC and properly reissue correct certificates of insurance on the Company's forms. In addition, it is recommended that the Company immediately implement procedures to prevent policies from being written on incorrect policy forms in the future, as well as ensure the proper maintenance and security of original policy files.**

The Company could not provide four of the selected policy files, or 7% of the entire sample population. **It is recommended that the Company implement procedures to ensure proper maintenance and security of all of its policy files.**

Remittances and Items Not Allocated

The Company reported Remittances and items not allocated totaling \$4,279,626, representing over 50 suspense accounts and sub accounts for premiums and other remittances received by the Company that have not been allocated to their corresponding general ledger accounts. Reconciliations of these accounts were not always performed in a timely manner. Also,

responsibility was not assigned for ensuring that the numerous accounts were reconciled properly and in a timely manner. **It is recommended that the Company implement procedures to ensure that all suspense accounts and sub-accounts are reconciled and adjusting entries posted no less than on a monthly basis. It is recommended that the Company assign an individual at the Company to be responsible over all of the various suspense accounts to ensure accurate and timely reconciliations.**

Provision for Reinsurance

Numerous instances were noted where letters of credit, trust documents or other types of collateral for business ceded to unauthorized reinsurance were found to be inadequate. Several instances included documents which named affiliated entities as the beneficiary of such collateral, not the Company itself. Collateral incorrectly applied in Schedule F, Part 5 totaled more than \$10,000,000. One company had securities of an unacceptable type in the trust account. **It is recommended that the Company implement controls over the accuracy of reporting collateral held against ceded reinsurance to unauthorized reinsurers. All collateral reported in Schedule F, Part 5 shall clearly identify the Company as the beneficiary.**

Net Adjustments in Assets and Liabilities Due to Foreign Exchange Rates

The Company reported U.S. and Canadian currencies for certain balance sheet items, i.e. bonds, cash and certain liabilities, as if the entire balance were denominated in U.S. Dollars. **It is recommended that the Company report all of its Canadian Dollar balances as converted to U.S. Dollars in all future quarterly and annual statements, in accordance with the aforementioned SSAP.**

SUBSEQUENT EVENTS

On February 5, 2004 Fortis, NV and Fortis SA/NV sold 65% of their interest in Fortis, Inc. through an Initial Public Offering (IPO). In connection with this IPO, Fortis, Inc. was merged into Assurant, Inc., a Delaware corporation formed solely for the re-domestication of Fortis, Inc. After the merger, Assurant, Inc. became the successor to Fortis, Inc. and was publicly traded on the NYSE under the symbol AIZ.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed to ascertain the financial condition of **American Bankers Insurance Company of Florida** 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 \$251,479,890, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Craig A. Moore, CPA, CFE, Examiner in Charge; Joseph N. Pope, Jr, CFE, Examination Manager, Louise Booth; CPA, Examination Staff; Terry Corlett, AIE, FLMI, Examination Staff; Ann Saour, CPA, Examination Staff; Andrea Sweeney, SCAS, MAAA, SCA, Actuary; and Wesley Eustice, CPA, Examination Staff, participated in the examination.

Respectfully submitted,

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Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation