REPORT ON LIMITED SCOPE EXAMINATION

OF

UNIVERSAL PROPERTY & CASUALTY INSURANCE COMPANY

FT. LAUDERDALE, FLORIDA

Of the Reinsurance Program
Effective June 1, 2007
As Of June 30, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

October 16, 2008

Kevin M. McCarty
Commissioner Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a limited scope reinsurance examination as of June 30, 2008 reinsurance program of:

UNIVERSAL PROPERTY & CASUALTY INSURANCE COMPANY
1100 WEST COMMERCIAL BOULEVARD
FORT LAUDERDALE, FLORIDA 33309-3749

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

SCOPE OF EXAMINATION

This was a limited scope examination of Universal Property & Casualty Insurance Company (Company) to the extent and in the manner directed by the Florida Office of Insurance Regulation (Office). To the extent applicable, the limited scope examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiner's Handbook, the NAIC Accounting Practices and Procedures Manual and the Florida Administrative Code. The scope of the examination was limited and differed in many respects from that of a full-scope examination or an audit performed in accordance with generally accepted auditing standards.

This examination focused on the reinsurance program in place for the 2008 – 2009 hurricane season. The field work commenced on October 6, 2008 and concluded on September 11, 2009.

HISTORY

General

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

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to write the following lines of business:

- Homeowners Multi-Peril
- Fire
- Allied Lines
- Inland Marine
- Other Liability

Capital and Surplus

As of June 30, 2008, the Company's capitalization was as follows:

•	Common Stock	$ 3,000,000
•	Gross Paid in and Contributed	$35,106,834
•	Surplus Notes	$25,000,000
•	Unassigned Funds	$24,775,778

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

In 2006, the Company received a capital contribution of $25,000,000. The contribution was pursuant to an Insurance Capital Build-Up Incentive program offered by the State of Florida.

Additionally, the Company received $25,000,000 as proceeds of a surplus note from the SBA pursuant to the aforementioned Insurance Capital Build-Up Incentive Program. All principal and interest payments had to be approved by the Florida Commissioner of Insurance.

In accordance with Section 628.371 Florida Statutes, the Company declared a $23,000,000 shareholder dividend in 2008; $15,000,000 was paid as of June 30, 2008, and the balance was paid on July 8, 2008.

Operations

Underwriting activity began in 1998, when the Company acquired homeowner's policies issued by the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA). Shortly thereafter, the Company began writing policies in the voluntary market through independent agents. Currently, approximately 3,000 independent agents produce premium on behalf of the Company.

Pursuant to terms of a Managing General Agent agreement and a Management agreement, all rating, policy issuance, reinsurance negotiations and administrative functions were performed by Universal Risk Advisors, Inc, (URA), an affiliated entity. URA had an exclusive contract to serve as MGA for the Company and generate revenue through commissions, administrative fees, and policy fees. Blue Atlantic was an affiliated reinsurance intermediary company licensed in January, 2008, by the state of Florida to allow sharing of brokerage fees with Benfield, Inc.

Comparative premium writings for the period ending June 30, 2008, and the period ending December 31, 2007, respectively were as detailed below:

Line of Business	June 30, 2008	December 31, 2007
Fire	$8,349,850	$21,613,160
Allied Line	$20,832,498	$25,907,955
Homeowners Multi-Peril	$239,290,974	$449,795,430
Inland Marine	$38,287	$89,640
Other Liability	$1,074,291	$1,342,593
Total	$269,585,900	$498,748,788

Universal Adjusting Corporation, an affiliated entity was incorporated to perform claims adjusting for the Company and had claims authority for the Company's claims.

Universal Inspection Corporation was an affiliated entity incorporated to perform property inspections for underwriting purposes for the Company.

Management

The Members of the Board of Directors as of June 30, 2008 were as follows:

Sean Downes Delray Beach, FL	Bradley Meier Golden Beach, FL
Joel Wilentz Ft. Lauderdale, FL	Norman M. Meier Hollywood, FL
Reed Slogoff Miami, FL	Ozzie Schindler Hollywood, FL

Senior Officers as of June 30, 2008 were:

- Bradley Meier — President
- James Lynch — Treasurer
- Sean Downes — Chief Operating Officer
- Norman Meier — Secretary

SCOPE OF ASSIGNMENT

The examination's specific areas were as follows:

1. Review all current reinsurance contracts.

   We reviewed all reinsurance contracts effective during the 2008 Hurricane season to obtain a general understanding of the reinsurance program. While reviewing the contracts, we verified that they were in compliance with state regulations and SSAPs, there was transfer of risk, the accounting records agreed with the contract terms and related transactions, and all transactions were properly and accurately recorded. The team also determined the maximum retained liability of the Company, looked for any unusual contract terms or conditions and looked at the financial stability of the reinsurers.

2. Review any computer modeling the Company used to determine their exposure to probable maximum loss (PML):

   The examination team reviewed the Company's Hurricane Modeling, which was prepared in detail with an executive summary on a quarterly basis.

3. Review correspondence and other information regarding reinsurers to determine that their understanding of the book of business was clear and consistent with what the Company was actually writing in terms of type of risk, location of risk and amount of business written:

   The examination team reviewed correspondence between the Company and the intermediary to ensure that the book of business reinsured by the Company was in fact the business the reinsurers expected to be covering in the reinsurance agreements.

4. Interview management to obtain a full understanding of their philosophy, short and long-term goals and strategies outlined to achieve those goals:

The examination team interviewed management, including the Chief Financial Officer, Vice President – Underwriting, Vice President – IT, Claims Manager and the Reinsurance Manager to determine the plan of operation, the business philosophy and the goals/strategies to achieve those goals.

5. Perform any other examination procedures as requested by the Office. Perform substitute or modified procedures for items 1 through 5 if directed to do so by the Office:

   The examination team was not instructed to perform any other items by the Office.

WORK PERFORMED

During the course of this assignment, we obtained and analyzed various documents and other information provided by the Company. Such documents included copies of all reinsurance contracts, correspondence with reinsurers and intermediaries, accounting records, computer modeling, business plan, work flows, transfer of risk review and internal letter of control. In addition, we interviewed the management of the Company.

Reinsurance Program

Reinsurance premiums and losses were accounted for and consistent with those used in accounting for the original policies and terms of the reinsurance contracts.

The Company entered into a number of reinsurance contracts protecting policyholders as of June 30, 2008, and each complied with SSAP No. 62.

Quota Share

Effective June 1, 2008, the Company entered into a 50% Quota Share treaty for policies with coverage for wind risks. The treaty established a 31% ceding commission and had a limitation for any one occurrence of 55% of gross written premium, not to exceed $150,000,000 and 164 % of gross written premium, not to exceed $450,000,000 for losses arising out of events that were assigned a catastrophe serial number by the Property Claims Services.

Excess per Risk

Effective June 1, 2008, the Company entered into multiple line excess per risk agreements. Coverage was $1,300,000 in excess of $500,000 ultimate net loss for each risk and each property loss, and $1,000,000 in excess of $300,000 for each casualty loss. An aggregate limit of $5,200,000 applied to this treaty.

Excess Catastrophe and Reinstatement Premium Protection

Effective June 1, 2008, the Company's excess catastrophe reinsurance agreements provided four (4) layers of excess catastrophe coverage of $499.0M in excess of $150.0M as follows which provided one full reinstatement of coverage on each layer:

1st Layer	2nd Layer	3rd Layer	4th Layer *
$140.0M xs $150.0M each occurrence	$134.0M xs $290.0M each occurrence	$125.0M xs $424.0M each occurrence	90% of 100.0M xs 549.0M each occurrence

*Note – The 4th layer had an effective date of July 1, 2008.

Effective June 1, 2008, the Company obtained a reinstatement premium protection treaty reimbursing the Company for its costs to reinstate the catastrophe coverage of $399M in excess of $150M.

Effective June 1, 2008, the Company obtained subsequent catastrophe event excess of loss reinsurance to cover levels of net retention through three (3) catastrophe events as follows:

2nd Event	3rd Event	Additional 3rd Event Effective July 1, 2008
$110.4M xs $39.6M each loss occurrence	$120.0 xs $30.0M each loss occurrence	$100.0M xs $150.0M each loss occurrence

Florida Hurricane Catastrophe Fund

The Company also obtained coverage from the Florida Hurricane Catastrophe Fund (FHCF) which was administered by the Florida State Board of Administration. Under the contract, FHCF reimbursed the Company with respect to each loss occurring during the contract year an amount equal to 90% of ultimate loss paid in excess of the Company's retention, plus 5% of the reimbursed losses to cover loss adjustment expenses. Effective June 1, 2008, the Company was required to purchase 90% of $776.4M in excess of $290.0M. Additionally, they also purchased optional coverage of Temporary Increase in Coverage Limit (TICL) from FHCF for 90% of $563.6M. This brought the total of FHCF to an estimated 90% of $1,340.0M xs $290.0M.

As a participant in the Insurance Capital Build-Up Incentive Program, the Company obtained $10.0M of additional catastrophe excess of loss coverage, with one free reinstatement of coverage.

In 2007, the Company obtained FHCF Recovery Shortfall Reinsurance in the event the FHCF could not fulfill its obligations under the 2007 contract. Such coverage was not purchased in 2008, because it was not available in 2008 to the extent needed by the Company.

Our review of the reinsurance contracts indicated that all contracts were in compliance with state regulations and SSAPs, there were no unusual contract terms or conditions, all contracts effected transfer of risk, all accounting records agreed with the contract terms, all related transactions were properly and accurately recorded, and all reinsurers were financially stable.

The examination included a review of current reinsurance contracts and documentation, financial regulatory filings, and other corporate and accounting records deemed pertinent to the Company's operations and practices. During the examination, reinsurance premium and claims activity for selected months were tested. The reporting was consistent with prior years and in accordance with prescribed accounting practices.

Computer Modeling

The Company conducted Hurricane Modeling on a monthly basis providing an executive summary to management of pertinent information to ensure activity was in line with the business model and projections.

Catastrophe modeling was a risk management tool used to access potential losses caused by natural disasters as well as underwriting and pricing strategies. These models helped identify and quantify the likelihood of occurrence of natural disasters within a region and estimate the extent of incurred losses. As with any financial model, there were no guarantees.

The Company recalculated a 100 year probable maximum loss on a quarterly basis taking into consideration policy limits, policy counts, territory and type of structure. The probable maximum loss as calculated by the Company as of June 1, 2008 was $100,508,451. An extensive reinsurance program was in place to safeguard the Company from severe storms. There were no reportable findings.

Correspondence Between Company and Intermediary/Reinsurers

The examination team reviewed correspondence between the Company and the intermediary and reinsurers. At the time of placement, the Company provided to the intermediary information about the types of risks written by the Company, the location of those risks and the maximum amount written on any one policy as well as the total book of business written.

The reinsurers were aware that this was a book of business covering Homeowners policies, including wind coverage. The Company wrote policies throughout the state of Florida, but with a heavy concentration in the southeast section of Florida, which covered Miami-Dade and Broward counties. These counties were heavily populated and were prone to damage by hurricanes. The Company only wrote policies with a limit up to $1,000,000, but very few of their policies exceeded $700,000 in coverage. The Company provided the intermediary and reinsurers with detailed quarterly reports of their book of business.

Management Interviews

The examination team interviewed various Company officials to obtain an understanding of the business of the Company. The purpose of these interviews was to find out about the Company in general, to learn about the individual and their experience and ability to perform the functions of their current position within the Company, and understand the goals and business plans of the Company for the future.

We interviewed the Chief Financial Officer, Vice President – Underwriting, Vice President – IT, Claims Manager and the Reinsurance Manager.

Based upon these interviews, the management of the Company is qualified and competent and they have developed procedures for an effective reinsurance department that fulfills the goals of the company. When the Company was first formed they outsourced all functions. It was a virtual Company with only three employees when they acquired 30,000 polices from the Florida residual market. Over the next several years, they brought the various functions such as IT, Underwriting, Claims and Accounting in-house. The Company was fully integrated at the time of the examination and all major functions were in-house and complemented by independent services as needed.

The Company wrote Homeowners (HO3, HO4, HO6 and HO8), Dwelling Fire (on non-owner occupied dwellings), Other Structures, and Inland Marine only in the state of Florida, but the Company was approved in South Caroline and Hawaii with applications pending in Texas, Georgia and North Carolina.

SUMMARY OF FINDINGS

There were no findings in the examination as of June 30, 2008. Based upon the review of reinsurance contracts, review of computer modeling, review of correspondence with reinsurers and intermediaries and interviews with management, the Company was in compliance with all state regulations and SSAPs and all transactions were correctly recorded.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Universal Property & Casualty Insurance Company as of June 30, 2008, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, the following individuals participated in the examination: Stephen Szubert, CPA and Paula Keyes, CPCU, ARe, AIR, from Integra Management Group.

Respectfully submitted,

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Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor