REPORT ON LIMITED SCOPE EXAMINATION

OF

UNITED AUTOMOBILE INSURANCE COMPANY

MIAMI GARDENS, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee

May 7, 2009

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 examination of Risk-Based Capital (RBC), Schedule P data, Loss Reserves and related matters as of December 31, 2008 of:

United Automobile Insurance Company
1313 North West 167th Street
Miami Gardens, Florida 33169-5739

Hereinafter referred to as the "Company". The examination was conducted at the Company's office located in Miami Gardens, Florida and in our offices using materials provided by the Florida Office of Insurance Regulation (Office) and by the Company.

The following Limited Scope Examination, reflecting the status of the Company's RBC, Schedule P data, Loss Reserves and related matters as of December 31, 2008, is hereby respectfully submitted.

SCOPE OF EXAMINATION

This was a limited scope examination of United Automobile 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 guidance of 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 limited scope examination differed in many respects from that of a full-scope examination or an audit performed in accordance with generally accepted auditing standards.

This examination was conducted of the Company's Risk-Based Capital (RBC), Schedule P data, Loss Reserves and related matters as of December 31, 2008. The significant focus of the examination was on Private Passenger Personal Injury Protection (PIP), which was the Company's largest line of business and primary source of material losses over the past several years. The PIP losses had material effects on surplus and Risk-Based Capital. Along with PIP losses were several other financial challenges. We have reviewed the other lines of business written by the company as well. In addition, a review of subsequent events that might impact the Company was performed as needed.

The field work commenced on April 1, 2009 and concluded as of May 7, 2009. The examination was conducted by Smith-Little, LLC.

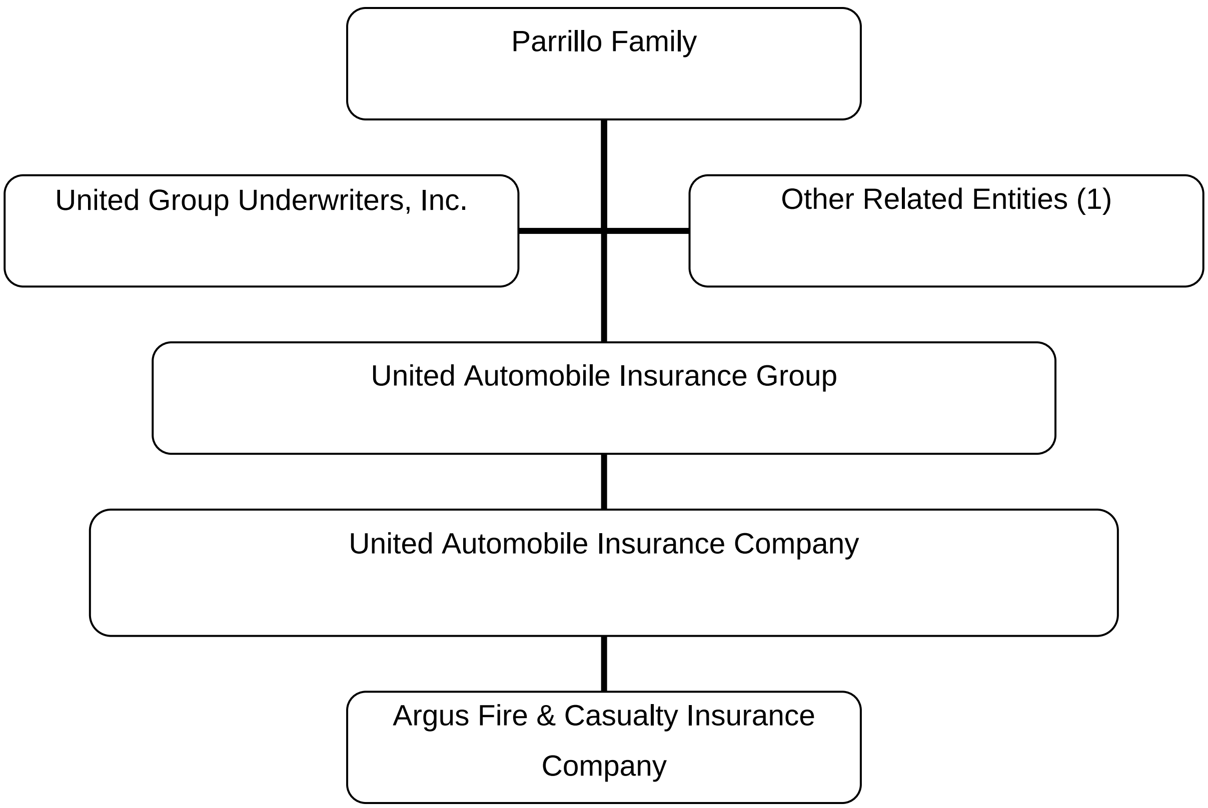
COMPANY BACKGROUND

The Company was incorporated in Florida on March 2, 1989 and commenced business on July 1, 1990. The Company was wholly owned by the Parrillo Family. The Company wholly owned Argus Fire & Casualty Insurance Company. The Parrillo family also owned United Group Underwriters, which provided all policyholder services, other than claim paying, to the Company.

The Company wrote minimum limits non-standard automobile coverage. Most of its business was in the State of Florida. It also wrote significant business in Georgia, Illinois, Arizona, and approximately 7 other states.

AFFILIATED COMPANIES AND ORGANIZATIONAL CHART

The following summarizes the Company's corporate structure:



(1) Includes:
National Insurance Management Corp.
United Premium Finance Co. Inc.
3IComp Inc.
Southwest Underwriters, Inc.
NIMC Services Texas
Par Family LTD. Partnership

EXAMINATION APPROACH AND SOURCES OF INFORMATION

The examination team interviewed Company executives regarding Risk-Based Capital, reserves, claims processes, underwriting policy and pricing and target markets. Other procedures performed consisted of:

- Testing the accuracy of the 2008 RBC calculation
- Evaluating changes in RBC Risk Requirements from 2007 to 2008
- Conferring with Office analysts
- Reviewing the Office analysis and documentation provided, including, but not limited to:
  - RBC Reports, annual statements, actuarial opinions and documentation
  - Recent examination reports
  - Reports available from the NAIC via the Office
- Reviewing the 2007 and 2008 reports supporting the Company's Statements of Actuarial Opinion and conversations with the Company's appointed actuary
- Reviewing documentation provided by the Company, which was limited to high level summaries of claims closures and a preliminary RBC Plan that did not include forecasts.

Review of Risk-Based Capital

Results of the evaluation were provided to the Company.

Loss Reserves and Other Risks

Loss and Loss Adjustment Expense reserves together increased from $265 million in 2007 to $276 million in 2008.

The Company invested in a new home office property and shifted its investment portfolio to virtually all bonds (which were investment grade).

Review of Reserves

The Company does not have an actuary on staff. As noted previously, its Statements of Actuarial Opinion were provided by a consulting actuary from Oliver Wyman. As also noted, this actuary also performed an actuarial examination for the Office as of June 30, 2007.

Our review was based on the actuary's reports supporting his opinions for 2007 and 2008, conversations with the actuary and his staff, conversations with the Company, and additional material provided by Oliver Wyman concerning first quarter 2009 experience.

Based on our conversations with the Company and our observations of the reports, we determined that it is the Company's policy to record a reserve at 95% of the actuary's estimate. In 2008, this difference amounted to $14.4 million.

Based on our review, as noted below, we believe that the actuary's estimate, taken as an actuarial central estimate, was reasonable for the PIP coverages and approximately $5 million below what we would consider a reasonable central estimate for non PIP coverages.

Subsequent Event:

The Company reported an overall reserve redundancy for 1-year development and reserve deficiency for 2-year development in the filed 2009 annual statement.

As noted below, the variability of these estimates was significant. Due both to the environment in which the Company operates and to its own operations, the uncertainty in the actuarial estimates was considerably greater than would usually be the case for minimum limits private passenger auto writers.

Given the lack of stable data and the unusual number of assumptions that need to be made as to what the claims environment will be on a go forward basis, there was a material chance that the actuary's estimate will be too high and that the Company's recorded reserves may, in fact, contain some margin. There was also a material possibility that the actuary's estimates will prove too low and the Company's reserves will prove deficient by more than the $14.4 million amount.

We believe it was essential that actuaries at the Office monitor the reserve run off of both the PIP and non PIP reserves on a quarterly basis so as to be able to take appropriate and timely action, should the reserve situation become more adverse.

PIP Reserves

Operational and Environmental Changes

The Company had gone through a number of operational and environmental changes in the last four (4) years, the primary of which being:

- The loss of defenses against claims where fraud was suspected, beginning in 2005. These defenses included obtaining a physician peer review of claimed medical expenses, requiring an independent medical examination, requiring that a claimant answer questions under oath. The loss of these defenses resulted in a large volume of reopened claims with payments. These payments often resulted from directed verdicts or summary judgments. Claimant's attorney fees were often also awarded, in amounts significantly higher than the loss payments. The claimant's attorney fees were recorded as loss (not as DCC).

- The recovery of these defenses, beginning in 2007. A series of favorable appellant court decisions, reversing lower courts, resulted in a number of pending claims settling for less than similar claims that had been settled in 2005 and 2006 and reduced the flow of reopened claims.

- The significant use of outside attorneys to defend suits, particularly during the 2006-2007 period. The subsequent reduction of the use of outside attorney's beginning in 2008.

- The decision by the Company to be more selective in the claims it litigates, beginning in 2007, rather than risk suits which would require legal expenses on their part and risk the assignment of large claimant legal expenses in addition to claim amounts.

These items taken together mean that data from calendar year 2008 may be the only relevant data to estimating the 2008 reserves. Relying primarily on only one year of data is not typical and adds significantly to the uncertainty to any assessment.

The coverage written by the Company and its own processing procedures also mean that care is required in evaluating its loss information. Specifically:

- The Company establishes case reserves based <u>only</u> on a set of factors relating to the claim and the status of the claim for example, what the coverage is and whether the claim is in suit. Claim adjusters do not modify this "factor reserve" based on their research and experience on the particular claim. If the status of a claim changes, for example, goes into suit, its factor reserve will change to a new factor reserve. The new reserve reflects no judgment on the part of the adjuster. Claim reserves are not "seasoned" by the information gathered by the adjuster as is the case with most companies.

- The Company has a very high volume of reopened claims, partly due to its own processes and partly due to the legal changes noted above.

- The Company has a high volume of partial payments. Based on data from the Company, approximately half of payments on claims older than two years are made before the year of closure. This means there is more of a mismatch between dollars paid during a year and claims closed during a year than there is for most coverages and companies.

It will be important to track quarterly payments and the level of open, closed, and reopened claims and the average loss and DCC payments to gauge the appropriateness of the 2008 reserves and consider any needed adjustment.

The appointed actuary indicates he is doing monthly monitoring of PIP claim settlement data and reviewing reserves on a quarterly basis in 2009. The Company has indicated that there will be quarterly reviews going forward, and we believe this will be important in monitoring the Company's progress in their RBC recovery.

Non PIP Reserves

The Company also writes non standard automobile Personal Auto Bodily Injury, Property Damage, Uninsured Motorist coverage, primarily outside of Florida. In addition, the Company writes some lesser amounts of Commercial Auto Liability and Automobile Physical Damage coverage.

Data for these coverages are also significantly impacted by the Company's operational changes, including:

- Based on information from the Company and its actuary, the Company's operations were adversely affected by a new claims manager in Texas who litigated an unreasonable number of cases, delayed settling others causing payments to increase, inefficiently handled DCC expenses and in some cases paid losses for excessive amounts. During 2008 the Company replaced this manager, closed a large number of cases, and reorganized the use of outside attorneys.

- As in Florida, the Company establishes case reserves based <u>only</u> on a set of factors relating to the claim and the status of the claim. These “factor reserves” vary by coverage and state. Claim adjusters do not modify this “factor reserve” based on their research and experience on the particular claim.
- The Company changed almost all BI factor reserves as of September 1, 2008.
- The Company appears to have dramatically sped up its claim payments on these coverages during 2008. The ratio of claims closed to claim reported was materially higher in 2008 than in the prior year.

Given the disruption in these claim operations and the questions regarding reserve adequacy, it will be important to track quarterly loss and DCC payments and the level of open, closed, and reported claims for these coverages as well.

GROWTH OF THE COMPANY & SIGNIFICANT PERFORMANCE BENCHMARKS

The following exhibit depicts the growth and significant performance measures of the Company over the past five years. The Company's operational results not only led to a Regulatory Action Level RBC Ratio but also to unfavorable results for other regulatory benchmarks, such as net premiums written to surplus, combined ratio and reserve development.

Year	Admitted Assets	Liabilities	Surplus	Net Premiums Written to Surplus
2004	401,890,976	304,508,374	97,382,602	250.5%
2005	498,443,609	387,020,021	111,423,588	291.6%
2006	570,095,802	467,016,034	103,079,768	307.9%
2007	537,823,382	437,620,229	100,203,153	299.4%
2008	503,787,241	448,239,879	55,547,362	609.3%

Year	Net Premiums Written	Net Income (Loss)	Combined Ratio	One-Year Reserve Development to Surplus	Two-Year Reserve Development to Surplus
2004	243,965,125	27,024,405	86.8%	8.0%	77.5%
2005	324,958,267	12,464,040	91.8%	27.0%	62.0%
2006	317,405,771	(25,371,967)	113.2%	72.4%	96.4%
2007	299,989,163	(13,108,197)	118.3%	54.2%	115.7%
2008	338,449,945	(35,438,670)	115.5%	38.2%	100.1%

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, surplus and other funds, and statement of income and other selected supporting exhibits reflect the financial condition of the Company at December 31, 2008 according to the Company's annual statements. They are presented here for informational purposes only and were not examined as part of this limited scope examination.

UNITED AUTOMOBILE INSURANCE COMPANY

Assets

DECEMBER 31, 2008

	2008	2007
Assets:		
Bonds	$ 302,857,518	$ 388,340,957
Preferred stocks	580,780	617,395
Common stocks	30,463,256	44,444,686
Mortgage loans on real estate	116,981	118,893
Real estate:		
Properties occupied by the company (-0- encumbrances)	31,872,512	17,516,492
Properties held for sale (-0- encumbrances)	4,473,396	4,473,396
Cash, cash equivalents and short-term investments	37,031,214	20,591,838
Other invested assets and aggregate write-ins	3,104,002	1,618,576
Subtotals, Cash and Invested Assets	$ 410,499,659	$ 477,722,233
Investment income due and accrued	$ 3,604,884	$ 4,628,797
Uncollected premiums and agents' balances in course of collection	33,199,355	14,282,628
Deferred premiums, agents balances and installments	34,090,381	8,197,001
Amounts recoverable from reinsurers	0	3,102
Federal income tax recoverable	10,748,369	16,237,309
Net deferred tax asset	8,641,177	10,881,017
Receivables from parent, subsidiaries and affiliates	1,863,656	4,610,325
Aggregate write-ins	1,139,760	1,260,970
Total Assets	$ 503,787,241	$ 537,823,382

UNITED AUTOMOBILE INSURANCE COMPANY

Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	2008	2007
Losses	$ 201,910,880	$ 198,842,787
Reinsurance payable on paid losses and loss adjustment expenses	559	0
Loss adjustment expenses	74,085,020	65,670,002
Commissions payable and contingent commissions	3,060,483	3,152,983
Other expenses	4,504,558	4,258,600
Taxes, licenses and fees	1,125,502	(501,343)
Federal and foreign income taxes	0	0
Unearned premiums	104,768,475	91,504,152
Advanced premiums	194,426	209,558
Ceded reinsurance premiums payable	0	0
Funds held by company under reinsurance treaties	31,154,482	50,028,589
Amounts withheld for account of others	948,648	809,548
Provision for reinsurance	0	215,793
Drafts outstanding	25,815,073	21,845,336
Payable to parent, subsidiaries and affiliates	159,659	1,584,224
Payable for securities	512,114	0
Total Liabilities	$ 448,239,879	$ 437,620,229
Common capital stock	$ 2,750,000	$ 2,750,000
Gross paid in and contributed surplus	75,500,000	75,500,000
Unassigned Funds	(22,702,638)	21,953,153
Surplus as regards policyholders	$ 55,547,362	$ 100,203,153
Total Liabilities, Capital and Surplus	$ 503,787,241	$ 537,823,382

UNITED AUTOMOBILE INSURANCE COMPANY

Statement of Income, Including Capital and Surplus Account

DECEMBER 31, 2008

	2008	2007
Underwriting Income:		
Premiums Earned	$ 325,185,621	$ 315,716,116
Deductions:		
Losses Incurred	172,778,536	205,727,244
Loss Expenses Incurred	82,970,323	68,714,297
Other Underwriting Expenses	124,697,870	94,108,375
Total Underwriting Deductions	$ 380,446,729	$ 368,549,916
Net Underwriting Gain (Loss)	$ (55,261,108)	$ (52,833,800)
Investment Income:		
Net Investment Income Earned	17,928,525	20,283,161
Net Realized Capital Gains or (Losses)	(5,663,881)	2,183,135
Net Investment Gain or (Loss)	$ 12,264,644	$ 22,466,296
Other Income:		
Net Gain (Loss) From Premium Balances Charged Off	(503,971)	(130,454)
Finance Charges Not Included in Premiums	5,705,456	1,606,717
Aggregate Write-ins for Miscellaneous Income (described as “Other Income”)	2,431,081	0
Total Other Income	$ 7,632,566	$ 1,476,263
Net Income Before FIT and Dividends	$ (35,363,898)	$ (28,891,241)
Dividends to Policyholders	0	0
Federal Income Taxes Incurred	74,773	(15,783,043)
Net Income or (Loss)	$ (35,438,671)	$ (13,108,198)
Capital and Surplus Account:		
Surplus, December 31, Previous Year	$ 100,203,153	$ 103,079,768
Net Income	(35,438,670)	(13,108,197)
Change in Unrealized Capital Gains or (Losses)	(7,374,677)	(1,004,671)
Change in Net Deferred Income Tax	19,682,469	(6,528,515)
Change in non-admitted assets	(21,740,706)	(1,586,687)
Change in provision for reinsurance	215,793	(215,793)
Surplus adjustments - Paid in Capital		17,500,000
Aggregate write-in (BA Assets Audit Adjustment)	0	2,067,248
Net Change in Surplus for the Year Ended	$ (44,655,791)	$ (2,876,615)
Surplus, December 31, Current Year	$ 55,547,362	$ 100,203,153

UNITED AUTOMOBILE INSURANCE COMPANY

Reconciliation of Examination Changes to Surplus

December 31, 2008

There were no adjustments to surplus made as a result of the examination.

SUMMARY OF FINDINGS

During the course of this examination we observed that the unique nature of the source of the Company's losses, largely the result of adverse court decisions, precluded arraigning data in traditional reporting formats. Further, much of the in-depth understanding of the ramifications of the adverse court decisions and the recovery from favorable appellant court reversals were not documented other than what one can read in reports such as the annual statement Management Discussion and Analysis ("MD&A").

Subsequent Event:

Discussion regarding the litigation was included in the notes to the financial statements beginning 3rd Quarter 2007.

Reasonability of reserves was difficult to ascertain. The Company indicated that it undergoes quarterly actuarial reviews and will continue to do so. We observed that in 2008 and 2007, despite quarterly actuarial reviews, there were no material reserve adjustments made until year-end. We recommend that the Office:

> Require the Company to provide quarterly financial statements that reflect an ongoing management of reserves as well as data on loss and DCC payments, open claims, claims closed, net and gross of reopened claims.

We discussed reinsurance with the Company's executives, but did not have the opportunity to review it in depth, particularly with regard for the accounting for various transactions. As noted earlier in this report, the Company's reinsurance program had a material impact on operations. We have some concerns and recommend that the Office:

1. Conduct an in-depth review, as part of a full scope examination, of the reinsurance program for the past several years to gain an in-depth understanding of the impact of the treaties loss corridor, cash transfer scheme and to verify transfer of risk.
2. Review the treaty language and reasoning for the planned commutations of the treaties. At the close of field work the Company noted that the commutation of the 2007 treaty would come out financially "neutral" but were not in a position to provide documentation.

Subsequent Event:

The Company described the results of the commutation in note 22E of the Quarterly Financial statements as of March 31, 2009.

RBC Analysis

The RBC plan and analysis recommendations were discussed with the Company.

SUBSEQUENT EVENTS

Subsequent to examination fieldwork, the Company commuted the 2007 reinsurance treaty, but the results were not available for review by the examination team.

CONCLUSION

The examination was performed pursuant to agreed upon procedures in accordance with those procedures authorized by the NAIC Financial Condition Examiner's Handbook and other procedures appropriate for this limited-scope target examination of United Automobile Insurance Company as of December 31, 2008. The attached report of examination is a true and complete report of the findings as determined by this examination.

In addition to the undersigned, we recognize the participation of Les Hatley, CPA, FLMI, Examiner-in-Charge, Andrea M. Sweeny, FCAS, MAAA, FCA, and E. Joy Little, CPA, CFE, representing the firm of Smith-Little, LLC.

Respectfully submitted,

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Mary M. James, CFE, CPM

Chief Examiner

Florida Office of Insurance Regulation