REPORT ON EXAMINATION

OF

UNIVERSAL SPECIALTY INSURANCE COMPANY

SARASOTA, FLORIDA

AS OF

DECEMBER 31, 2009

BY THE

OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

November 10, 2010

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, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2009, of the financial condition and corporate affairs of:

UNIVERSAL SPECIALTY INSURANCE COMPANY
101 ARTHUR ANDERSEN PARKWAY, SUITE 220
SARASOTA, FLORIDA 34232

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on June 14, 2010, to June 18, 2010. The fieldwork commenced on June 21, 2010, and concluded as of November 10, 2010.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2008.

SUBSEQUENT EVENTS

On February 10, 2010, pursuant to Consent Order 108448-10, the Company was granted the following lines of business to the Certificate of Authority: Fire, Homeowner's Multi-Peril, Commercial Multi-Peril, and Other Liability.

On February 17, 2010, the Company was granted the authorization by the Office to change their name from ICAT Specialty Insurance Company to Universal Specialty Insurance Company. The Company filed amended Articles and By-laws with the Office in August 2009 which reflected the acquisition of the Company by Universal Insurance Holdings of North America, Inc. (UIHNA) and the name change.

Effective March 31, 2010, UIHNA transferred ownership of the Company to Universal Insurance Company of North America (UICNA), a wholly-owned subsidiary of UIHNA.

HISTORY

General

The Company was incorporated in Florida on May 24, 2006, and commenced business on July 1, 2006, as ICAT Specialty Insurance Company.

The Company was party to Consent Order 85523-06-CO, filed April 14, 2006, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with all of the provisions of this consent order.

The Company was authorized to transact Allied Lines coverage in Florida on December 31, 2009.

On March 20, 2009, pursuant to Consent Order 102818-09, the Company agreed to discontinue issuing new and renewal Differences in Conditions coverage in Florida, effective July 1, 2009.

On June 2, 2009, the Company was acquired by UIHNA as approved by Consent Order 104591-09-CO issued by the Office.

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid a dividend to the Parent in 2009 of $5,700,000.

Capital Stock and Capital Contributions

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	15,000,000
Number of shares issued and outstanding	3,000,000
Total common capital stock	$3,000,000
Par value per share	$1.00

Control of the Company was maintained by its Parent, UIHNA, who owned 100% of the stock issued by the Company.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

Directors

Name and Location	Principal Occupation
Luis Miranda Casanas San Juan, Puerto Rico	Chairman & CEO, Universal Group, Inc.
Jorge Padilla San Juan, Puerto Rico	CFO, Universal Group, Inc.
Monique Miranda Merle San Juan, Puerto Rico	President, Universal Group, Inc.
Josely Vega San Juan, Puerto Rico	General Counsel, Universal Group, Inc.
Jose Medina San Juan, Puerto Rico	VP of Marketing, Universal Group, Inc.
Ricardo A. Espino Sarasota, FL	President, UIHNA
Luis Berrios Monge San Juan, Puerto Rico	President, Universal Insurance Company
Dr. Jorge Freyre San Juan, Puerto Rico	Economist
Jorge Amadeo San Juan, Puerto Rico	Executive VP, Eastern American Insurance Agency

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

Senior Officers

Name	**Title**
Luis Miranda Casanas	Chief Executive Officer
Ricardo A. Espino	President
Monique Miranda Merle	Secretary
Jorge Padilla	Treasurer
John Burns	Chief Financial Officer
Lora Rees	Senior Vice President
Ramsey Campbell	Vice President
David Valenzano	Vice President
Petra Charbonneau	Vice President
Suzanne Morrow	Vice President
Katherine Moore	Vice President

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2009:

Compensation Committee	**Audit Committee**	**Investment Committee**
Luis Miranda Casanas[1]	Donald Kevane [1]	Luis Miranda Casanas[1]
Monique Miranda Merle	Luis Miranda Casanas	Monique Miranda Merle
Josely Vega	Dr. Jorge Freyre	Jorge Padilla
	Plinio Perez	
	Monique Miranda Merle	

[1] Chairman

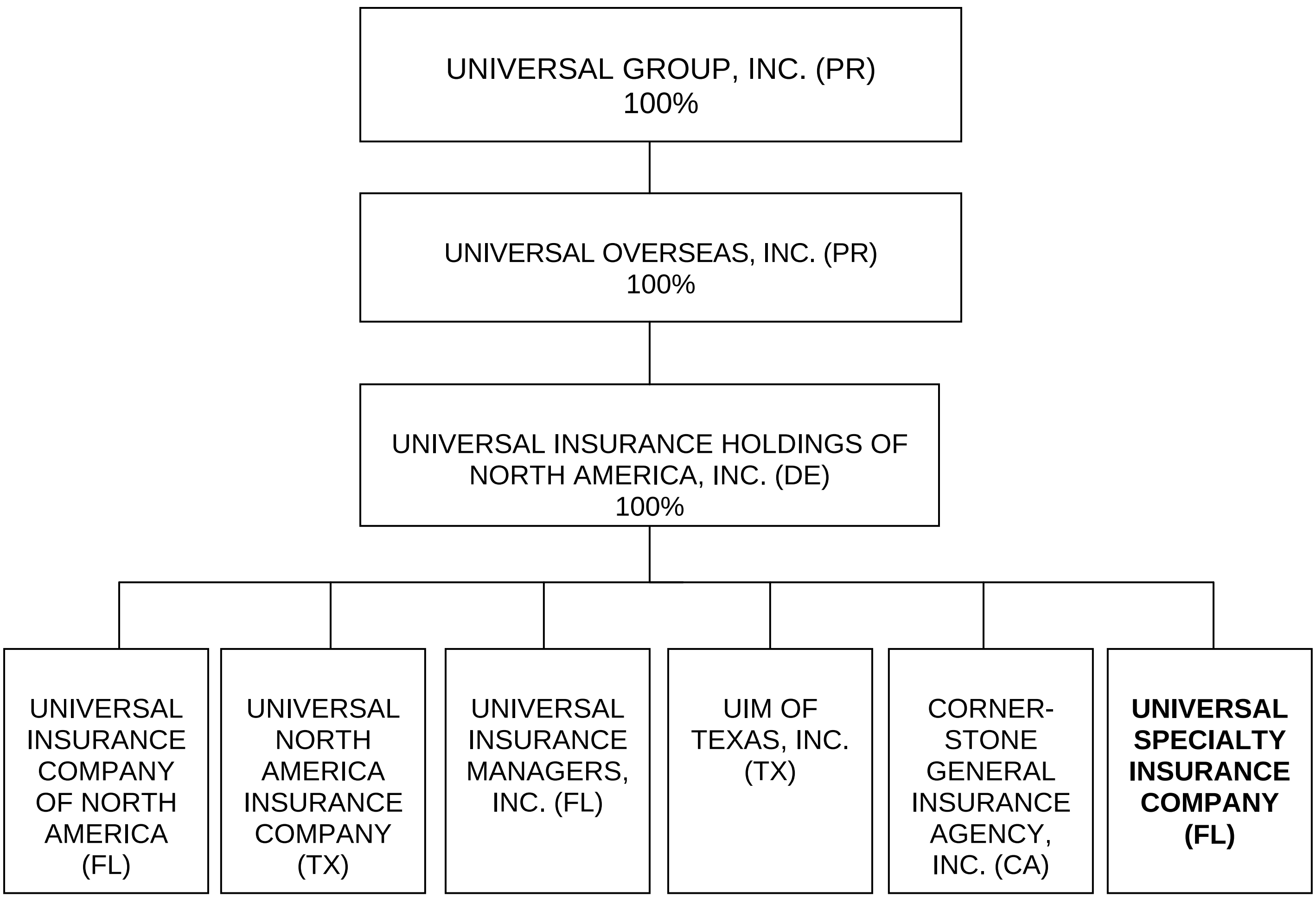
Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on September 10, 2009 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

UNIVERSAL SPECIALTY INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2009



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

Tax Allocation Agreement

The Company filed a consolidated federal income tax return with the following entities:

- Universal Insurance Holdings of North America, Inc.
- Universal Insurance Company of North America
- Universal North America Insurance Company
- Universal Insurance Managers, Inc.
- UIM of Texas, Inc.
- Cornerstone General Insurance Agency, Inc.

On December 31, 2009, the method of allocation was subject to a written agreement, approved by the Board, whereby allocations are made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $2,500,000 with a deductible of $250,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance with a limit of $20,000,000 and a deductible of $350,000, and the Company maintained professional liability coverage with a limit of $10,000,000 and a deductible of $500,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension liabilities.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in Florida and Hawaii. Per the terms of Consent Order 102818-09, the Company discontinued issuing new and renewal FL policies. The Company had been reporting Difference in Conditions (DIC) policies and recorded the policies as commercial Inland Marine. Because the commercial Inland Marine line was exempt from the rate filing requirements of Section 627.0645, Florida Statutes, the Company had not filed approved rates or forms for FL DIC business. The Office was of the opinion that policies issued by FL insurers covering DIC business be recorded as Allied Lines and subject to form and rate approval. In order to resolve the dispute, the Office and the Company agreed that the Company would discontinue issuing new and renewal FL DIC business effective July 1, 2009.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company's Program Manager, Boulder Claims LLC (Boulder), maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2009	2008	2007	2006
Premiums Earned	1,248,233	738,505	4,086,287	803,925
Net Underwriting Gain/(Loss)	(4,100)	(2,940)	(2,314,534)	(700,803)
Net Income	189,175	566,747	(1,488,853)	(279,058)
Total Assets	12,670,912	19,608,216	19,771,894	19,233,084
Total Liabilities	3,883,278	5,858,919	6,212,334	4,672,753
Surplus As Regards Policyholders	8,787,634	13,749,297	13,559,560	14,560,331

LOSS EXPERIENCE

There have not been any significant changes to the Company's loss experience.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume any business during the examination period.

Ceded

The Company's reinsurance program consisted of quota share and excess of loss reinsurance agreements. At December 31, 2009, the Company maintained quota share agreements which provided coverage for 97.5 percent of all FL DIC policies and for 97.5 percent of all losses on Hawaii policies covering named hurricanes. The reinsurers' liability was limited to 15 to 25 times the amount of direct written premiums in force at the end of the month in which the loss occurrence commenced, subject to a maximum of $300 million per occurrence and $500 million in the aggregate.

The 2009 FL quota share agreement allowed the Company a 30 percent commission on ceded premiums for direct business. The 2009 HI quota share agreement allowed the Company a 34.5 percent commission on ceded premiums for direct business. This commission provided a provision for all commissions, taxes, and other expenses of the Company, with the exception of LAE.

For policies in force from June 1, 2009, through June 1, 2010, the excess liability under the above quota share treaties was covered by a property catastrophe excess of loss reinsurance contract. For FL DIC business, the contract had a retention of $19,300,000 and a per loss limit of $4,300,000 with one reinstatement. For the HI named hurricane business, there was a retention of $100,000,000 and a per loss limit of 2.5 percent of $98,000,000, with one reinstatement.

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

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006, 2007, 2008 and 2009 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company had the following agreements with non-affiliates:

Program Manager Agreement

The Company adopted all Program Manager Agreements with ICAT Managers, LLC (Managers) that had been in effect prior to the acquisition by UIHNA. At December 31, 2009, Florida-only business had a base commission rate of 23.00 percent for policies with policy effective dates from June 1, 2006 through May 31, 2007. For policies with effective dates on or after June 1, 2007, the base commission rate shall equal 26.50 percent. The agreement was amended on June 1, 2008, which terminated Managers authority to issue new and renewal policies in FL on June 1, 2009. In addition, for all in-force, new and renewal policies issued in FL on or after June 1, 2008, the

Company assigned its right to receive a contingent commission from the Company's reinsurers for policies issued under this agreement.

The Company had another Program Manager Agreement with Managers, at December 31, 2009, which had a base commission rate of 25.25 for policies with effective dates from June 1, 2006 through December 31, 2007. For policies with effective dates on or after January 1, 2008 through March 31, 2009, the base commission rate was 26.75 percent. For policies with effective dates on or after April 1, 2009, the base commission rate was 25.00 percent.

Both agreements were effective on June 1, 2006, and stipulated that Managers was authorized to market, produce, underwrite, quote, issue, and administer insurance policies, binders, and endorsements subject to the terms, limitations, and conditions set forth in the agreements. Under the terms of the agreements, Managers could bind coverage, issue, endorse, cancel, and nonrenew policies as well as bill and collect premiums. Subject to the limitations contained in these agreements, Managers was required to take any actions necessary to administer the policies as well as to issue the policies in compliance with the Company's guidelines.

Claims Administration Agreement

The Company entered into a claims administration agreement with Boulder effective June 1, 2006. Effective April 1, 2009, the agreement was terminated and a new agreement was formed after the acquisition by UIHNA of the Company, noting all terms remained the same. The agreement stipulated that Boulder would examine all reported claims, maintain a claim file for each reported claim, and investigate all reported claims as necessary using a vendor from a list approved in writing by the Company. Boulder was required to provide information to the Company upon request and would determine and evaluate any insurance coverage issues arising out of or in connection with such claims. Boulder would also make timely payment of claims and allocated loss adjusting expenses from the Claim Trust Account in accordance with payment procedures established by the Company. The agreement stipulated that Boulder had no authority to deny coverage unless and until it had received authorization from the Company. Boulder was required to report suspected fraud as required by any applicable law or regulation and would coordinate with Managers as requested or required by the Company. Boulder was also required to respond directly to any State Insurance Department complaint or inquiry regarding a claim or policy after preparing a response and obtaining the Company's authorization for such response.

Effective June 1, 2007, the Company's Claims Administrative Agreement with Boulder for FL policies was amended to increase the commissions paid to Boulder from 0.75 percent of net written premium to 1.00 percent. Effective April 1, 2009, for issued or renewed HI policies, 2.5 percent of gross premium written by Managers for the Company is paid to Boulder as a claims administration fee, a decrease from 2.75 percent, which was effective June 1, 2006 through March 31, 2009.

Reimbursement Contract

On June 1, 2007, the Company entered into a reimbursement contract with the State Board of Administration of the State of Florida (SBA) which administers the Florida Hurricane Catastrophe Fund (FHCF). This contract provides reimbursement to the Company under certain circumstances, and did not provide or extend insurance or reinsurance coverage to any person, firm, or corporation or other entity. Under the terms of the contract, the SBA was required to reimburse the Company for its ultimate net loss on covered policies in excess of the Company's retention as a result of each loss occurrence commencing during the contract year, to the extent funds were available.

Custodial Agreement

The Company had a standard custodial agreement in place with Salem Trust Company to perform investment custodian duties. An analysis of this agreement was performed and it was determined to be in compliance with Rule 69O-143.042, Florida Administrative Code.

Reinsurance Brokerage Agreement

The Company was party to a reinsurance brokerage agreement with AonBenfield. Under the terms of the agreement, AonBenfield facilitated the placement of reinsurance contracts that provided coverage to business underwritten by the Company.

Independent Auditor Agreement

The Company entered into an independent auditor agreement with Deloitte & Touche LLP for annual statutory audit services for the year ending December 31, 2009.

Information Technology Report

Eide Bailly LLP performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411 and 625.51(2), Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cash	$ 1,450,000	$ 1,450,000
FL	Cash	300,000	300,000
TOTAL FLORIDA DEPOSITS		$ 1,750,000	$ 1,750,000

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

UNIVERSAL SPECIALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	$7,610,677		$7,610,677
Cash	4,374,653		4,374,653
Investment income due & accrued	55,393		55,393
Premiums and considerations:			
Uncollected premium	119,249		119,249
Reinsurance: Amounts recoverable from reinsurers	4,569		4,569
Net Deferred tax asset	506,371		506,371
Totals	$12,670,912	$0	$12,670,912

UNIVERSAL SPECIALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	$25		$25
Loss adjustment expenses	69,104		69,104
Other expenses	48,391		48,391
Taxes, licenses and fees	194,398		194,398
Unearned premium	489,008		489,008
Advance premium	66,708		66,708
Commissions payable	11,657		11,657
Current federal income taxes	207,048		207,048
Payable to parent, subsidiaries and affiliates	20,495		20,495
Ceded reinsurance premiums payable	2,776,444		2,776,444
Total Liabilities	$3,883,278	$0	$3,883,278
Common capital stock	$3,000,000		$3,000,000
Aggregate write-in for special surplus funds	9,343		$9,343
Gross paid in and contributed surplus	6,300,000		6,300,000
Unassigned funds (surplus)	(521,709)		(521,709)
Surplus as regards policyholders	$8,787,634	$0	$8,787,634
Total liabilities, surplus and other funds	$12,670,912	$0	$12,670,912

UNIVERSAL SPECIALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income	
Premiums earned	$1,248,233
Deductions:	
Losses incurred	25
Loss expenses incurred	464,528
Other underwriting expenses incurred	787,780
Total underwriting deductions	$1,252,333
Net underwriting gain or (loss)	($4,100)
Investment Income	
Net investment income earned	$362,695
Net realized capital gains or (losses)	(16,054)
Net investment gain or (loss)	$346,641
Other Income	
Finance and service charges not included in premiums	44,758
Aggregate write-ins for miscellaneous income	17,569
Total other income	$62,327
Net income before dividends to policyholders and before federal & foreign income taxes	$404,868
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$404,868
Federal & foreign income taxes	215,693
Net Income	$189,175
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$13,749,297
Net Income	$189,175
Net unrealized capital gains or losses	7,291
Change in non-admitted assets	590,247
Change in net deferred taxes	(48,376)
Surplus adjustments: Paid in	(5,700,000)
Change in surplus as regards policyholders for the year	($4,961,663)
Surplus as regards policyholders, December 31 current year	$8,787,634

A comparative analysis of changes in surplus is shown below.

UNIVERSAL SPECIALTY INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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 December 31, 2009, per Annual Statement				$8,787,634
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No Adjustments			$0	
LIABILITIES:				
No Adjustments			$0	
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2009, Per Examination				$8,787,634

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $69,129

An outside actuarial firm appointed by the Board rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, made a reasonable provision for all unpaid loss obligations of the Company under the terms of its policies and agreements.

The Company writes business under policies requiring named events as defined losses. During the examination period, there were no events which met these conditions resulting in no required loss reserves. The Company's reserve balances were reviewed and agreed to by the Company's outside actuary as well as the external auditors; accordingly, no additional independent evaluation was warranted.

Capital and Surplus

The amount reported by the Company of $8,787,634 exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Universal Specialty Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $8,787,634, which exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Patrick Chaffee, CPA, Eide Bailly Senior Manager; Ryan Donahue, CPA, CISA, Eide Bailly Manager; and Tim Klemz, CPA, Eide Bailly Senior Associate participated in the examination.

Respectfully submitted,

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Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation