

**REPORT ON EXAMINATION**  
**OF**  
**ASI ASSURANCE CORP.**  
**ST. PETERSBURG, FLORIDA**  
**AS OF**  
**DECEMBER 31, 2006**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL .....</b>	<b>-</b>
<b>SCOPE OF EXAMINATION .....</b>	<b>1</b>
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION .....	2
<b>HISTORY .....</b>	<b>3</b>
GENERAL .....	3
PROFITABILITY OF COMPANY .....	3
DIVIDENDS TO STOCKHOLDERS .....	4
MANAGEMENT .....	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS .....	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES .....	6
<b>AFFILIATED COMPANIES .....</b>	<b>6</b>
<b>ORGANIZATIONAL CHART .....</b>	<b>7</b>
TAX ALLOCATION AGREEMENT .....	7
MANAGING GENERAL AGENT AGREEMENT .....	7
<b>FIDELITY BOND AND OTHER INSURANCE.....</b>	<b>8</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....</b>	<b>8</b>
<b>STATUTORY DEPOSITS.....</b>	<b>8</b>
<b>INSURANCE PRODUCTS.....</b>	<b>9</b>
TERRITORY .....	9
TREATMENT OF POLICYHOLDERS.....	9
<b>REINSURANCE .....</b>	<b>9</b>
ASSUMED.....	9
CEDED .....	9
<b>ACCOUNTS AND RECORDS.....</b>	<b>10</b>
CUSTODIAL AGREEMENT .....	10
INDEPENDENT AUDITOR AGREEMENT.....	11
<b>FINANCIAL STATEMENTS PER EXAMINATION.....</b>	<b>11</b>
ASSETS .....	12
LIABILITIES, SURPLUS AND OTHER FUNDS .....	13
STATEMENT OF INCOME.....	14
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>15</b>
LIABILITIES .....	15

CAPITAL AND SURPLUS .....	15
<b>COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....</b>	<b>16</b>
<b>SUMMARY OF FINDINGS .....</b>	<b>17</b>
<b>CONCLUSION .....</b>	<b>18</b>

Tallahassee, Florida

March 11, 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 an examination as of December 31, 2006, of the financial condition and corporate affairs of:

**ASI ASSURANCE CORP.  
805 EXECUTIVE CENTER DRIVE WEST, SUITE 300  
ST. PETERSBURG, FLORIDA 33702**

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, 2006 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced, with planning at the Office, on June 4, 2007, to June 13, 2007. The fieldwork commenced on June 14, 2007 and was concluded as of March 11, 2008.

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.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

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 reports, 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) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

- Cash
- Bonds
- Reinsurance
- Taxes

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, 2005, along with resulting action taken by the Company in connection therewith.

### **Management**

The Company did not maintain an aging report on a policy by policy basis for premiums receivables. Rule 69O-138.024, Florida Administrative Code, requires that uncollected premiums and agents balances shall be aged on a policy by policy basis. **Resolution:** The Company performed an aging on a policy by policy basis for premiums receivables for the year 2006.

## HISTORY

### General

The Company was incorporated in Florida on August 9, 2004 and commenced business on October 21, 2004 as ASI Assurance Corporation. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Fire	Allied lines
Homeowners Multi peril	Commercial multi peril
Inland Marine	Other liability

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

### Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

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

### Profitability of Company

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

	<b>2006</b>	<b>2005</b>
Premiums Earned	17,568,495	5,995,000
Net Underwriting Gain/(Loss)	6,083,283	(260,315)
Net Income	4,684,681	(747,182)
Total Assets	42,444,216	37,254,392
Total Liabilities	25,625,008	25,614,649
Surplus As Regards Policyholders	16,819,208	11,639,743

### **Dividends to Stockholders**

The Company did not declare or pay dividends to its stockholder during the period covered by this examination.

### **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, 2006, were:

#### **Directors**

##### **Name and Location**

##### **Principal Occupation**

John F. Auer  
St. Petersburg, Florida

President of the Company, ARX Holding Corp., and various affiliates

Kevin R. Milkey  
St. Petersburg, Florida

Executive Vice President of the Company & several affiliates

Marc Fasteau  
Great Barrington, MA

Chairman & Secretary of the Company & affiliate, ASI Lloyds, Inc.

Robert L. Nason  
Stamford, Connecticut

Executive Vice President, XL Global Services & Director of ARX Holding Corp.

Greg Hendrick  
Hamilton HM EX Bermuda

Senior Vice President, XL Re Ltd. & Director of ARX Holding Corp.

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

### Senior Officers

<b>Name</b>	<b>Title</b>
John F. Auer	President & Treasurer
Kevin R. Milkey	Executive Vice President
Marc Fasteau	Chairman & Secretary
Mary F. Fournet	Vice President, Marketing
Antonio Scognamiglio	Vice President, Claims
Gregory E. Stewart	Vice President, Finance
Robert K. Munns	Vice President

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

#### **Audit Committee**

Marc Fasteau<sup>1</sup>  
Robert L. Nason  
Greg Hendrick

#### **Investment Committee**

Marc Fasteau<sup>1</sup>  
John F. Auer  
Kevin Milkey

<sup>1</sup> Chairman

### **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

## **Corporate Records**

The recorded minutes of the shareholder, Board of Directors, 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.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the period under examination.

## **Surplus Debentures**

There were no surplus debentures during the period under examination.

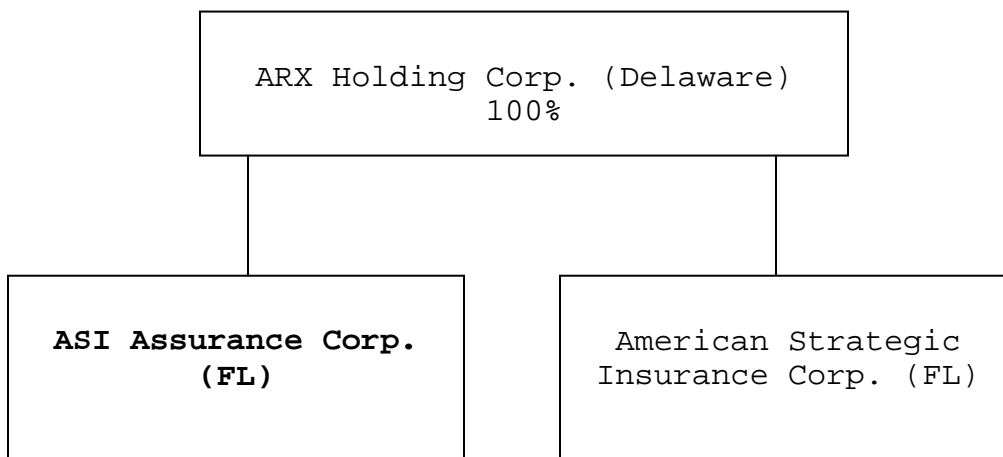
## **AFFILIATED COMPANIES**

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 December 5, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**ASI ASSURANCE CORP.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2006**



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

**Tax Allocation Agreement**

The Company, along with its parent and affiliates, filed a consolidated federal income tax return. On December 31, 2006, the method of tax allocation between the companies was based upon calculations on a separate return basis.

**Managing General Agent Agreement**

The Company entered into a managing general agent (MGA) agreement with ASI Underwriters Inc., an affiliate, to provide claims & underwriting services, on April 4, 2005. For the services rendered, the MGA received 8% commissions of the gross written premiums less cancellations &

recorded uncollectibles for policy processing plus 5% of incurred losses for claims service. The MGA also charged a \$25 per policy fee. The agreement was amended on January 1, 2006 to reduce the commission paid by the Company to 5% of non-catastrophe losses plus 1% of incurred catastrophe losses for claim services provided. In addition to the commission, the Company paid a \$25 fee per policy to the MGA.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$1,200,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$2,000,000 and a deductible of \$150,000.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees. Therefore, there were no pension or retirement plans or other benefits.

### **STATUTORY DEPOSITS**

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	FL DIV BD FIN DEPT GEN, 5.25%, 06/01/21	<u>\$ 325,000</u>	<u>\$ 341,855</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 325,000</u>	<u>\$ 341,855</u>

## **INSURANCE PRODUCTS**

### **Territory**

The Company was authorized to transact insurance in the State of Florida.

### **Treatment of Policyholders**

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

The Company 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.

## **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 risk during 2006.

### **Ceded**

The Company ceded risk on a quota share, property catastrophe excess of loss, and multiple line excess of loss basis to both authorized and unauthorized reinsurers through a reinsurance intermediary. One of the ceded risks was with American Strategic Insurance Corp., an affiliate, with a quota share agreement ceding 20% of the net base written premium.

Letters of credit were properly established for all unauthorized reinsurers.

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 St. Petersburg, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005 and 2006, 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 and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with Investors Bank & Trust Company dated September 29, 2004. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code.

## **Independent Auditor Agreement**

The Company had an agreement with Gregory, Sharer & Stuart, P.A. to audit the Company's statutory basis financial statements annually for the years 2005 and 2006.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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."

**ASI ASSURANCE CORP.  
Assets**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$32,680,749		\$32,680,749
Cash	489,369		489,369
Investment income due or accrued	349,319		349,319
Agents' Balances:			
Uncollected premium	750,156		750,156
Deferred premium	3,038,888		3,038,888
Reinsurance recoverable	1,264,503		1,264,503
Current Federal & Foreign income tax recoverable	154,617		154,617
Net deferred tax asset	1,447,898		1,447,898
Guaranty funds receivable	1,534,502		1,534,502
Receivables from parent, subsidiaries and affiliates	734,215		734,215
Aggregate write-in for other than invested assets	0		0
Totals	\$42,444,216	\$0	\$42,444,216

**ASI ASSURANCE CORP.  
Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Losses	\$4,156,915		\$4,156,915
Loss adjustment expenses	470,133		470,133
Commissions payable	391,945		391,945
Other expenses	1,309,857		1,309,857
Taxes, licenses and fees	1,468,894		1,468,894
Unearned premiums	18,968,050		18,968,050
Advanced premium	1,847,754		1,847,754
Ceded reinsurance premiums payables	(3,254,918)		(3,254,918)
Funds held under reinsurance agreements	53,349		53,349
Payable to parent, subsidiaries and affiliates	213,029		213,029
Aggregate write-ins for liabilities	0		0
Total Liabilities	\$25,625,008	\$0	\$25,625,008
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	11,499,000		11,499,000
Unassigned funds (surplus)	5,319,208		5,319,208
Surplus as regards policyholders	\$16,819,208		\$16,819,208
Total liabilities, surplus and other funds	\$42,444,216	\$0	\$42,444,216

**ASI ASSURANCE CORP.**  
**Statement of Income**

**DECEMBER 31, 2006**

<b>Underwriting Income</b>		
Premiums earned		\$17,568,495
	<b>Deductions:</b>	
Losses incurred		6,769,782
Loss expenses incurred		549,477
Other underwriting expenses incurred		4,165,953
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$11,485,212</u>
Net underwriting gain or (loss)		\$6,083,283
<b>Investment Income</b>		
Net investment income earned		\$1,759,652
Net realized capital gains or (losses)		(7,675)
Net investment gain or (loss)		<u>\$1,751,977</u>
<b>Other Income</b>		
Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		158,037
Total other income		<u>\$158,037</u>
Net income before dividends to policyholders and before federal & foreign income taxes		<u>\$7,993,296</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$7,993,296</u>
Federal & foreign income taxes		3,308,615
Net Income		<u>\$4,684,681</u>
<b>Capital and Surplus Account</b>		
Surplus as regards policyholders, December 31 prior year		\$11,639,743
Net Income		\$4,684,681
Change in net deferred taxes		627,976
Change in non-admitted assets		(133,192)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$5,179,465</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$16,819,208</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$4,627,048

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The actuary contracted by the Office, Walter Haner, FCAS, reviewed work papers provided by the Company and was in concurrence with this opinion.

### Capital and Surplus

The amount reported by the Company of \$16,819,208 exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**ASI ASSURANCE CORP  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2006**

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, 2006, per annual statement	\$16,819,208
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustment needed.			
<b>LIABILITIES:</b>			
No adjustment needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, per examination			\$16,819,208

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2005 examination report issued by the Office.

### **Current examination comments and corrective action**

There were no examination comments or corrective action in the examination as of December 31, 2006.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **ASI Assurance Corp.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$16,819,208, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Stephen Feliu, CFE (Certified Fraud Examiner), Financial Examiner/Analyst II, and Donna Letterio, CFE, CPA, MS, Financial Specialist, participated in the examination. We also recognize the participation of Walter Haner, FCAS of Walter Haner and Associates, on this examination.

Respectfully submitted,

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