

REPORT ON EXAMINATION
OF
SECURITY FIRST INSURANCE
COMPANY

ORMOND BEACH, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 13, 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 of December 31, 2007, of the financial condition and corporate affairs of:

**SECURITY FIRST INSURANCE COMPANY
140 SOUTH ATLANTIC AVENUE
ORMOND BEACH, FLORIDA 32176**

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, 2007 through December 31, 2007. This examination commenced, with planning at the Office of Insurance Regulation (Office), on March 17, 2008, to March 20, 2008. The fieldwork commenced on March 31, 2008, and was concluded as of June 13, 2008. This was a second year examination performed by the Office. The last exam was completed as of December 31, 2006.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (NAIC 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 NAIC Handbook requires that we plan and perform the examination 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, management's compliance with Statutory Accounting Principles and NAIC annual statement instructions.

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, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

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

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 Company's independent audit reports, and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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.

No reliance was placed on work performed by the Company's certified public accountant (CPA) because the Company's audited financial statement was not issued until May 22, 2008 and therefore, the CPA work papers were not made available to the examiners during the period of the examination.

Status of Adverse Findings from Prior Examination

There were no items of interest and corrective action to be taken by the Company regarding findings in the Office's prior examination report as of December 31, 2006.

HISTORY

General

The Company was incorporated in Florida on February 8, 2005 and commenced business on May 25, 2005 as Security First Insurance Company.

The Company was party to Consent Order No. 81029-05-CO filed April 8, 2005 with the Office regarding the application for the issuance of a Certificate of Authority. The Company failed to comply with the provisions of the consent order which required the Company to maintain sufficient and adequate internal controls and supervision of any external contractor(s) providing services in connection with insurance transactions. The following control deficiencies were noted:

- There was no written long term mission statement or strategic plan or written corporate governance framework.
- The Company did not have an internal audit department or internal audit function.
- The Company had an audit committee; however, the Company did not maintain minutes of the meetings or provide information on the functions of the committee or when meetings were held. In addition, the Company did not provide evidence of minutes for any of its appointed committees.
- There were no executed conflict of interest statements.
- There were no formal written policies and procedures manuals.
- Processes were in place to review and approve reporting, however there was no documentation or evidence of review or approval signoffs.
- There was no policy for mandatory vacations.

The Company was authorized to transact insurance coverage in Florida on December 31, 2007.

Fire
Homeowners multiple peril

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

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	6,300
Number of shares issued and outstanding	6,300
Total common capital stock	\$6,300
Par value per share	\$1.00

Control of the Company was maintained by its owner, Security First Insurance Holdings, LLC, which owned 100% of the stock issued by the Company. Security First Insurance Holdings, LLC also owned the Company's affiliate, Security First Managers, LLC.

Profitability of Company

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

	2007	2006	2005
Premiums Earned	6,249,841	8,510,524	1,741,915
Net Underwriting Gain/(Loss)	1,229,670	(1,556,545)	(1,081,924)
Net Income	2,281,448	(1,135,565)	(914,779)
Total Assets	46,798,610	12,870,543	10,917,208
Total Liabilities	23,730,054	8,313,684	5,424,465
Surplus As Regards Policyholders	23,068,556	4,556,860	5,492,743

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders in 2007.

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, 2007, were:

Directors

Name and Location

Principal Occupation

Harry R. Bleiwise
Boca Raton, Florida

Director,
Rider Insurance Company

Charles D. Bleiwise
Boca Raton, Florida

Director,
Rider Insurance Company

Susan Bleiwise-Greenfield
Boca Raton, Florida

Director,
Rider Insurance Company

Donald G. Brocksmith
Daytona Beach, Florida

Director,
Security First Insurance Company

Wallace L. Burt
Ormond Beach, Florida

Director,
Security First Insurance Company

Anthony L. DiPardo
Ormond Beach, Florida

Director,
Security First Insurance Company

Charles E. Lally
Ormond Beach, Florida

Director,
Rider Insurance Company

Roseann M. Bradley
Palm Coast, Florida

Director
Security First Insurance Company

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

Senior Officers

Name	Title
Wallace L. Burt	President
Donald G. Brocksmith	Secretary/Treasurer
Beth S. Jones	Controller
Roseann M. Bradley	Vice President, Underwriting
Anthony L. DiPardo	Vice President, Claims
Walt Zehnder	Asst. Vice President, Claims

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, 2007:

Executive Committee

W. Lockwood Burt
Harry R. Bleiwise

Audit Committee

Charles E. Lally
Charles Bleiwise
Susan Bleiwise-Greenfield

Investment Committee

Harry R. Bleiwise
Charles E. Lally

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the NAIC Handbook.

Corporate Records

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

The Company did not record and maintain as a permanent record the minutes of the shareholders meetings as required in Section 607.1601, Florida Statutes. Subsequent event: On November 21, 2008, the Company provided a copy of the "Unanimous Consent of the shareholder of Security First Insurance Company "meeting executed on March 21, 2007, which provided record of the meeting for the election of the Directors. The Company was in compliance with Section 607.1601, Florida Statutes.

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

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

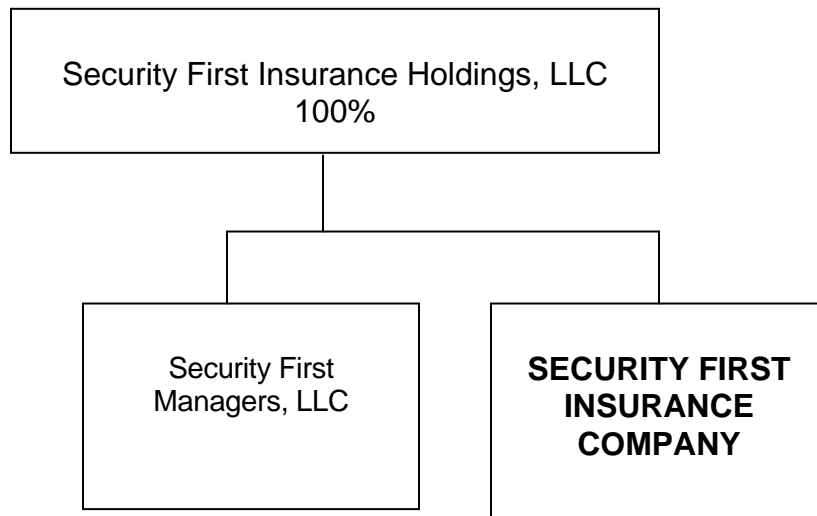
Affiliated Companies

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 March 3, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**SECURITY FIRST INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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

Managing General Agent and Claims Management Agreement

The Company entered into a managing general agent agreement with its affiliate Security First Managers, LLC, dated January 1, 2005. The agreement indicated that Security First Managers, LLC would act as the managing general agent for the insurance policies issued in the State of

Florida and further indicated that Security First Managers, LLC had the authority to produce, administer and manage the policies and to adjust claims and provide other services in connection with such policies, including but not limited to marketing, claims analysis, general ledger accounting, information services, product and underwriting development and management, and catastrophe risk management on behalf of the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$3,000,000 which adequately covered the suggested minimum amount of coverage of \$700,000 for the Company as recommended by the NAIC. The Company had other property and liability insurance coverage needed in the operation of the business.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, no pension plans, stock ownership or insurance plans.

STATUTORY DEPOSITS

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

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	Cash Deposit			\$ 300,000	\$ 300,000
TOTAL FL DEPOSITS				\$ 300,000	\$ 300,000

PLAN OF OPERATION

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

REINSURANCE

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

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

Ceded

The Company ceded risk under an 85% quota share agreement. The Company purchased various excess of loss and catastrophe coverage policies on its 15% retention. The Company ceded its written business to various authorized and unauthorized, US and non-US reinsurers. All unauthorized reinsurers utilized a trust agreement or letter of credit. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The Company utilized the reinsurance intermediary services of Guy Carpenter to assist in negotiating and preparing reinsurance treaties.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006 and 2007, 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 maintained its principal operational offices in Ormond Beach, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Morgan Stanley Trust in Jersey City, New Jersey. The Company was not in compliance with Rule 69O-143.042(2),(b)(e)(g)(h)(i)(j)(k)(l)(n) and (o), Florida Administrative Code, defined as follows:

- (b) Securities held in a fungible bulk by the custodian and securities in a clearing corporation or in the Federal Reserve book-entry system shall be separately identified on the custodian's official records as being owned by the insurance company. Said records shall identify which custodied securities are held by the custodian or by its agent and which securities are in a clearing corporation or in the Federal Reserve book-entry system. If the securities are in a clearing corporation or in the Federal Reserve book-entry system, said records shall also identify where the securities are and if in a clearing corporation, the name of the clearing corporation and if through an agent, the name of the agent.

- (e) The custodian shall arrange for execution of transactions in custodied securities in accordance with the insurance company's instructions and shall not exercise discretionary authority to effect transactions in custodied securities except in such limited or special circumstances as the insurance company may authorize.
- (g) During the course of the custodian's regular business hours, any representative of the Company or an appropriate regulatory body shall be entitled to examine the custodian records relating to the custodied securities.
- (h) Upon request, the custodian shall send to the Company all reports received from a clearing corporation or the Federal Reserve book-entry system.
- (i) The custodian shall maintain sufficient records to determine and verify information relating to the custody securities.
- (j) The custodian shall provide, upon written request from the Insurance Director or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms OIR-D0-341 (A), (B), or (C) or substantially similar forms with respect to custodied securities. Forms OIR-D0-341 (A), (B) and (C), entitled "Custodian Affidavit," are hereby incorporated by reference. These forms shall become effective on the effective date of these rules and may be obtained from the Office of Insurance Regulation, Larson Building, Tallahassee, Florida.
- (k) The custodian shall be obligated to indemnify the Company for any loss of custody securities.
- (l) In the event of (k) above, the custodian shall promptly replace the securities or the value thereof and the value of any loss of rights or privileges resulting from said loss of securities.
- (n) In the event that the custodian gains entry in a clearing corporation or in the Federal Reserve book-entry system through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian, provided, however, that, if the agent shall be subject to regulation under the laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the Director may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to the custodian.
- (o) The agreement must be terminable by the insurance company on not more than thirty (30) days' notice.

Subsequent event: The Company executed a new custodial agreement, dated December 29, 2008, with Morgan Stanley Trust that was in compliance with Rule 69O-143.042(2), Florida Administrative Code.

Investment Management Agreement

On July 9, 2007, the Company entered into an investment management agreement with Morgan Stanley & Company Incorporated (Morgan Stanley) to serve as investment advisor and was responsible for implementing investment management decisions. Morgan Stanley provided management services in accordance with investment policies and guidelines of the Company.

Investment Manager Agreement

On May 23, 2005, the Company entered into the investment manager agreement with Sage Advisory Services, Ltd. Co. (Sage). Sage acted as investment manager and advisor with respect to the Company's assets held by Morgan Stanley, pursuant to a custodial agreement. Sage supervised and directed investments on behalf of the Company subject to the terms of the written Investment policies and guidelines established by the Company.

Independent Auditor Agreement

The Company had an agreement with Amper, Politziner, & Mattia to perform an audit of its statutory financial statements for the years 2006 and 2007.

Program Management Agreement

The Company had a program management agreement between the Company, Security First Managers, LLC, its managing general agent and MacNeill Group, Inc., its program manager. The

agreement was dated January 1, 2005, and effective on May 1, 2005. The program manager was authorized to handle all general coverages and underwriting guidelines and risks for the Company; to receive and accept proposals for insurance coverage and issue contracts of insurance, cancel or non-renew Company policies and to maintain Company policies, notices, statements and other related documents. The program manager was also responsible for the billing and collection of all premiums. The managing general agent was responsible for compensating the program manager for the services provided.

Information Technology Report

INS Services, Inc. performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology (IT) report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, 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."

SECURITY FIRST INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$8,568,451		\$8,568,451
Stocks:			
Common	1,074,758		1,074,758
Cash and short-term investments	9,751,423	(7,000,000)	2,751,423
Investment income due & accrued	138,738		138,738
Premiums and considerations:			
Uncollected premium	946,834		946,834
Deferred premium	4,414,529		4,414,529
Reinsurance:			
Amounts recoverable from reinsurers	2,402,607		2,402,607
Other amounts receivable under reinsurance contracts	18,914,750		18,914,750
Net deferred tax asset	230,511		230,511
Guaranty funds receivable or on deposit	356,009		356,009
Totals:	\$46,798,610	(\$7,000,000)	\$39,798,610

SECURITY FIRST INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$867,450		\$867,450
Loss adjustment expenses	224,653		224,653
Other expenses	31,603		31,603
Taxes, licenses and fees	108,976		108,976
Current federal income taxes	675,124		675,124
Unearned premiums	2,480,315		2,480,315
Advance premiums	964,310		964,310
Ceded reinsurance premiums payable	17,503,718		17,503,718
Funds held by company under reinsurance treaties	51,383		51,383
Provision for reinsurance	26,713		26,713
Payable to parent and affiliate	795,810		795,810
Total Liabilities	\$23,730,055	\$0	\$23,730,055
Common capital stock	\$6,300		\$6,300
Gross paid in and contributed surplus	22,293,700	(7,000,000)	15,293,700
Unassigned funds (surplus)	768,556		768,556
Surplus as regards policyholders	\$23,068,556	(\$7,000,000)	\$16,068,556
Total Liabilities, Surplus and Other Funds	\$46,798,611	(\$7,000,000)	\$39,798,611

SECURITY FIRST INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income	
Premiums earned	\$6,249,841
Deductions:	
Losses incurred	2,202,159
Loss expenses incurred	1,983,141
Other underwriting expenses incurred	834,872
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$5,020,172</u>
Net underwriting gain or (loss)	\$1,229,669
Investment Income	
Net investment income earned	\$1,399,170
Net realized capital gains or (losses)	86,287
Net investment gain or (loss)	<u>\$1,485,457</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	\$5,108
Finance and service charges not included in premiums	236,080
Aggregate write-ins for miscellaneous income	258
Total other income	<u>\$241,446</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$2,956,572
Dividends to policyholders	
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$2,956,572</u>
Federal & foreign income taxes	675,124
Net Income	<u>\$2,281,448</u>
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$4,556,859
Net Income	\$2,281,448
Change in net unrealized capital gain	46,167
Change in net deferred income tax	(310,305)
Change in non-admitted assets	521,100
Change in provision for reinsurance	(26,713)
Surplus adjustments: Paid in	9,000,000
Change in surplus as regards policyholders for the year	\$11,511,697
Surplus as regards policyholders, December 31 current year	<u><u>\$16,068,556</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash and Short-term Investments **\$2,751,423**

Cash reported as \$9,751,423 was reduced by \$7,000,000 which represented a year end surplus contribution that was received on January 2, 2008.

Liabilities

Losses and Loss Adjustment Expenses **\$1,092,103**

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, 2007, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

INS Consultants, Inc. was retained by the Office to conduct an independent review of the Company's loss and loss adjustment expense reserves as of December 31, 2007. The overall analysis was made on a net and gross of reinsurance basis. INS Consultants, Inc. reviewed the Statement of Actuarial Opinion prepared by the Company's appointed actuary and the Company's work papers that balanced the data utilized in their actuarial report to Schedule P.

A specific audit to verify the accuracy or completeness of the data provided to INS Consultants, Inc. was performed during the process of examination.

The INS Consultants, Inc. estimates of both net and gross reserves compared with the Company's booked reserves are \$121,000 lower than the Company's loss and loss adjustment expense reserves of \$1,092,103. The amount does not meet the materiality threshold established for this examination, and no financial adjustment was made to the financial statement of this report.

Capital and Surplus

\$16,068,556

The amount reported by the Company in the amount of \$23,068,556 was reduced by \$7,000,000 which represented a year end surplus contribution that was received on January 2, 2008. The Company's Surplus exceeds the minimum amount of \$4,000,000 required by Section 624.408, Florida Statutes.

**SECURITY FIRST INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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, 2007, per Annual Statement			\$ 23,068,556
	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Cash and Short-term Investments	9,751,423	2,751,423	(7,000,000)
LIABILITIES:			
No adjustment needed			0
Net Change in Surplus:			<u>\$ (7,000,000)</u>
Surplus as Regards Policyholders December 31, 2007, per Examination			<u><u>\$ 16,068,556</u></u>

SUMMARY OF FINDINGS

Current examination comments and corrective action

The following is a brief summary of the items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

Consent Order

The Company was party to Consent Order No. 81029-05-CO filed April 8, 2005 with the Office regarding the application for the issuance of a certificate of authority. The Company failed to comply with the provision of the consent order which requires the Company to maintain sufficient and adequate internal controls and supervision of external contractors providing services and performance under service agreements. **We recommend that the Company comply with Consent Order No. 81029-05-CO, Section 19, and take corrective action on the Company's control deficiencies.**

Cash and Short-term Investments

\$2,751,423

Cash reported as \$9,751,423 was reduced by \$7,000,000 which represented a year end surplus contribution that was received on January 2, 2008. **We recommend that the Company accurately record and report deposits in transit in accordance with Section 625.012 (1), Florida Statutes.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Security First Insurance Company** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$16,068,556, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned; Don Gaskill, CFE, INS Regulatory Insurance Services (INSRIS), Barry Armstrong, Supervisor INSRIS, Brian Dunn, CFE, INSRIS, and Maurice Fuller, Financial Examiner, participated in the examination. Michael W. Morro, ACAS, MAAA, INS Consultants, Inc., completed the actuarial portion of this examination. We also recognize the participation of Paul Berkebile, CFSA, of INS Services, Inc. with the IT evaluation of the examination.

Respectfully submitted,

Mary James
Financial Administrator, CFE, CPM
Florida Office of Insurance Regulation