

**REPORT ON LIMITED SCOPE EXAMINATION**  
**OF**  
**ASI PREFERRED INSURANCE CORP.**  
**ST. PETERSBURG, FLORIDA**

**OF THE**  
**As of December 31, 2010**

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

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Tallahassee, Florida

December 23, 2011

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, 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 a limited scope examination of the Corporate Governance Structure, Information Technology Environment, Reinsurance and Loss and Loss Adjustment Expense Reserves as of December 31, 2010 of:

**ASI PREFERRED INSURANCE CORP.  
805 EXECUTIVE CENTER DR 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 was a limited scope examination of the Company to the extent and in the manner directed by the Florida Office of Insurance Regulation (Office). The Company was last examined by representatives of the Office as of December 31, 2009. 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.

The field work commenced on October 5, 2011 and concluded as of December 23, 2011. The limited scope examination included material events occurring subsequent to December 31, 2010 and noted during the course of the examination as they related to the foregoing areas within the limited scope of the examination.

This examination covered the Corporate Governance process, Information Technology environment, Reinsurance portfolio and Loss and Loss Adjustment Expense (LAE) reserves as of December 31, 2010 in accordance with the risk-focused examination.

## **HISTORY**

### **General**

The Company was incorporated in Florida on February 13, 2008, and commenced business on March 15, 2008, as ASI Preferred Insurance Corp.

The Company was party to Consent Order 93962-08-CO, filed January 31, 2008, regarding application for the issuance of a Certificate of Authority. The Company was in compliance with the provisions of this consent order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Homeowners multi peril  
Allied Lines  
Inland Marine

Fire  
Other liability

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

## **CORPORATE GOVERNANCE**

We conducted examination procedures that included inquiry and interviews of selected senior management personnel and the Audit Committee Chairman. The Company had a Board of Directors (Board) that consisted of five (5) members, of which, three (3) were independent of Company management. The Company's Board established Audit and Investment committees for the review and/or approval of select processes and transactions. All members of the Company's Audit Committee were independent of management. The Board and, its appointed committees, consisted of individuals with experience in the insurance and/or financial services industry.

There were no examination findings as of December 31, 2010 related to the corporate governance review at the Company.

The annual shareholder meeting for the election of directors was held in accordance with Sections 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
John Franklin Auer St. Petersburg, Florida	ASI Preferred Insurance Corp President, Director and CEO
Marc Fasteau New York, New York	Fulcrum Partners, LLC Managing Director
Gregory Scott Hendrick Hamilton, Bermuda	XL Re, Ltd Senior Vice President
Kevin Robert Milkey St. Petersburg, Florida	ASI Preferred Insurance Corp Executive Vice President
Susan L. Cross Hamilton, Bermuda	XL Re, Ltd Executive Vice President

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

### **Senior Officers**

<b>Name</b>	<b>Title</b>
John Franklin Auer	President and Treasurer
Kevin Robert Milkey	Exec. Vice President and Assistant Secretary
Marc Fasteau	Secretary
Mary Frances Fournet	Vice President
Antonio Scognamiglio	Vice President
Angel Bostick	Vice President – General Counsel

The Company's Board appointed two (2) internal committees. Following were the internal board committees and their members as of December 31, 2010:

#### **Audit Committee**

Marc Fasteau <sup>1</sup>  
Gregory Scott Hendrick  
Susan Lee Cross

#### **Investment Committee**

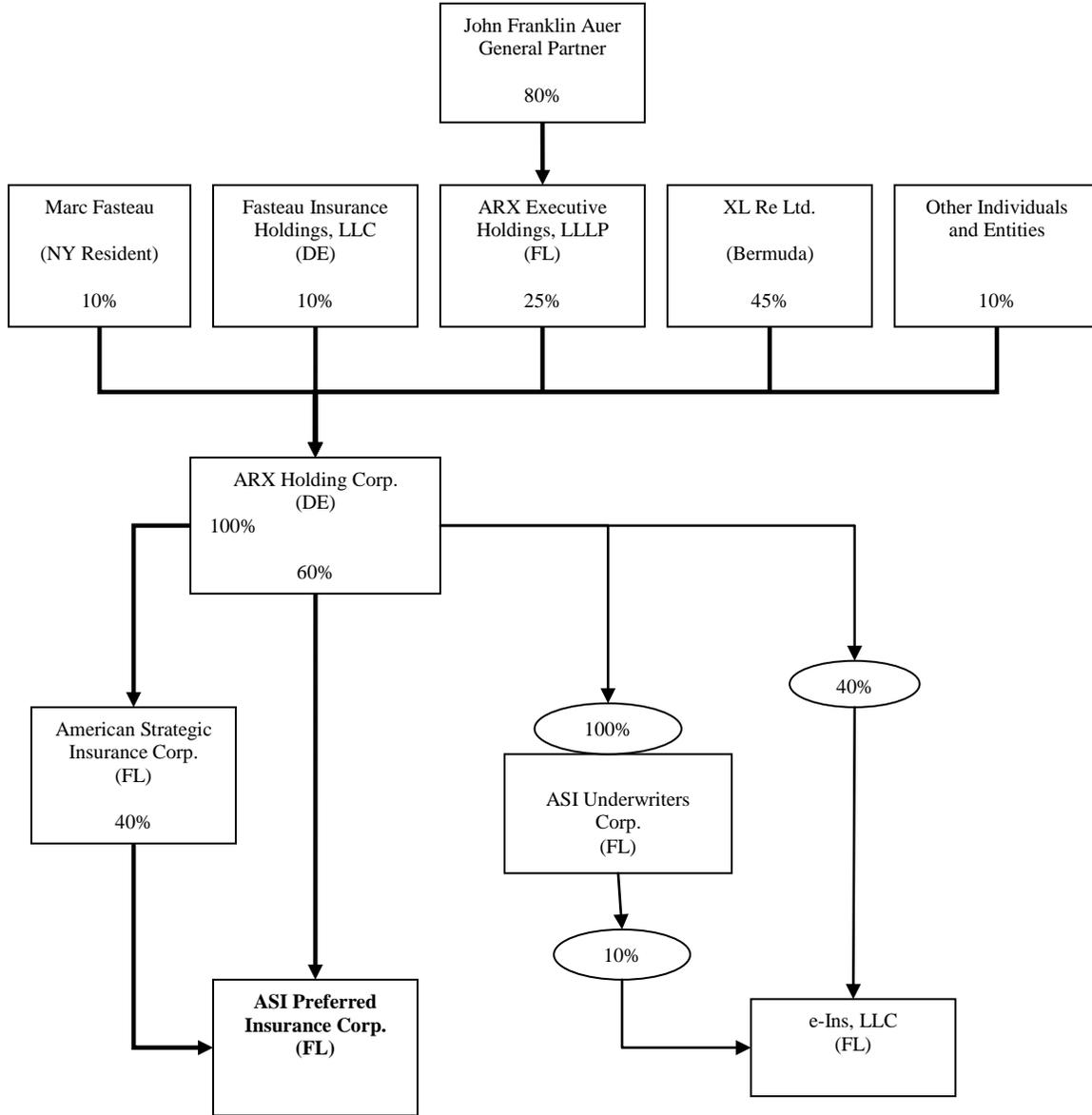
Marc Fasteau <sup>1</sup>  
John Franklin Auer  
Gregory Scott Hendrick

<sup>1</sup> Chairman

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

# ASI PREFERRED INSURANCE CORP. ORGANIZATIONAL CHART

**December 31, 2010**



## **INFORMATION TECHNOLOGY**

The Company's information technology (IT) systems were supported and maintained by e-Ins, LLC (e-Ins); an affiliated company. e-Ins was responsible for the maintenance and functionality related to all key IT systems utilized by the Company. Leon Pressman, CISA 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.

## **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.

The Company ceded risk on a quota share and an excess of loss basis to a variety of authorized and unauthorized affiliate and non-affiliate reinsurers. The Company's reinsurance program consisted of a mixture of quota share coverage in conjunction with multiple layers of excess catastrophe coverage, multiple layers of multi-line excess per risk coverage and ultimately, an excess catastrophe coverage (hurricane only – Florida Hurricane CAT Fund).

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

The examination identified and considered risks inherent in the reinsurance operations for the Company. In the initial phase of the exam, interviews were conducted with key members of management regarding reinsurance. We then identified areas warranting additional attention as

described in our inherent risk identification such as evaluation of the company's reinsurance portfolio, and ensuring the Company's compliance with reinsurance contract terms and risk transfer. In addition, we identified the examination assertions correlating with the inherent risks such as the existence and accuracy of reinsurance recoverable balances and the completeness, obligations, and accuracy of the reinsurance premium payable and provision for reinsurance balances. Key controls were identified and tested, where applicable. We performed additional detail procedures to address the inherent risks and key financial examination assertions.

We conducted an evaluation and review of the reinsurance portfolio by conducting procedures that included review of PML calculations, AM Best Capital Adequacy Ratio (BCAR), and the verification of placement of coverage as well as review of the AM Best Report and the Company's Letters of Credit. There were no findings noted upon our review and evaluation of the reinsurance portfolio. We reviewed compliance with reinsurance contract terms and risk transfer by obtaining and reviewing significant Reinsurance Contracts utilizing the Exhibit N- Reinsurance Contract Review template from the NAIC Financial Condition Examiners Handbook. In addition we reviewed the risk transfer analysis performed by the Company to ensure the contracts met transfer of risk requirements and qualified for reinsurance accounting. There were no findings noted upon our review of reinsurance contracts and risk transfer.

We performed procedures that included review of the independent auditor workpapers and conducted examination procedures to address the existence, completeness and accuracy of the amounts recoverable from reinsurers in the amount of \$678,427 reported by the Company as of December 31, 2010, by reviewing the NAIC Jumpstart reports and verified the amount reinsurance recoverable per company was not materially different from the amount assumed/payable per

assuming company. We performed additional procedures placing reliance on the workpapers of the independent auditors. No evidence of misstated reinsurance recoverable balances were noted.

We performed procedures to address the completeness and accuracy of the recording of the provision of reinsurance and ensured the existence of collateral for credit taken with unauthorized reinsurers. We reviewed the letter of credits and verified they were clean, irrevocable and issued by a qualified U.S. financial institution, as defined in Appendix A-785 of the NAIC Accounting Practices and Procedures Manual. We performed additional procedures placing reliance on the workpapers of the independent auditors. No evidence of misstated provision for reinsurance were noted.

We performed procedures to address the completeness and accuracy of the ceded reinsurance premium payable balances in the amount of \$4,150,378 reported by the Company as of December 31, 2010. We obtained and reviewed the work performed by the external auditors to ensure premiums remitted and losses and LAE payments billed as part of the reinsurance agreements were accurately recorded and reported. No evidence of misstated ceded reinsurance premium payable balances were noted.

There were no exceptions or findings as of December 31, 2010 related to reinsurance.

## **LOSS AND LAE RESERVES**

The Board appointed and the Company contracted with an outside actuarial firm, who rendered an opinion that the amounts carried in the balance sheet as of December 31, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, Huggins Actuarial Services, Inc., to review the Loss and LAE Reserves carried in the Company's balance sheet as of December 31, 2010, and they were in concurrence with this opinion.

## **Data**

The Company provided the following data and information in addition to data and information provided for past reports to perform the actuarial analysis:

- Paid and incurred loss and LAE data and open and reported count data by state and coverage as of December 31, 2010.
- Details of the 2010 reinsurance agreements and updated data for the 2008 and 2009 agreements.
- Paid and incurred loss and LAE data and open and reported data used in the Ernst and Young reserve study at December 31, 2010.
- Miscellaneous information obtained from a number of discussions with the Company.

There were no exceptions or findings as of December 31, 2010, related to loss and LAE reserves.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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 PREFERRED INSURANCE CORP.**  
**Assets**

**December 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$22,132,689		\$22,132,689
Cash and Short-term Investments	8,907,710		8,907,710
Investment income due and accrued	182,851		182,851
Uncollected premiums and agents' balances	383,669		383,669
Deferred premiums, agents' balances and installments	3,024,370		3,024,370
Amounts recoverable from reinsurers	678,427		678,427
Net tax deferred asset	314,013		314,013
EDP equipment and software	16,874		16,874
Receivables from parent, subs, and affiliates	661,832		661,832
Total Assets	<u>\$36,302,435</u>	<u>\$0</u>	<u>\$36,302,435</u>

**ASI PREFERRED INSURANCE CORP.  
Liabilities, Surplus and Other Funds**

**December 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,606,365		\$2,606,365
Loss adjustment expenses	286,346		286,346
Commissions payable, contingent commission	1,762,748		1,762,748
Other expenses	468,460		468,460
Taxes, licenses, and fees	928,554		928,554
Current federal and foreign income taxes	282,240		282,240
Unearned premium	8,286,492		8,286,492
Advance premium	1,918,607		1,918,607
Ceded reinsurance premiums payable	4,150,378		4,150,378
Payable to parent, subs, and affiliates	1,195,237		1,195,237
Aggregate write-ins for liabilities	8,513		8,513
Total Liabilities	\$21,893,940	\$0	\$21,893,940
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	14,000,000		14,000,000
Unassigned funds (surplus)	(591,505)		(591,505)
Surplus as regards policyholders	\$14,408,495	\$0	\$14,408,495
Total liabilities, surplus and other funds	\$36,302,435	\$0	\$36,302,435

**ASI PREFERRED INSURANCE CORP.  
Statement of Income**

**December 31, 2010**

<b>Underwriting Income</b>		
Premiums earned		\$12,425,477
	<b>Deductions:</b>	
Losses incurred		\$4,212,113
Loss adjustment expenses incurred		440,658
Other underwriting expenses incurred		7,563,947
Total underwriting deductions		<u>\$12,216,718</u>
Net underwriting gain or (loss)		\$208,759
<b>Investment Income</b>		
Net investment income earned		\$645,802
Net realized capital gains or (losses)		42,337
Net investment gain or (loss)		<u>\$688,139</u>
<b>Other Income</b>		
Net gain or (loss) from agents' or premium balances charged off		(\$7,249)
Finance and service charges not included in premiums		169,155
Total other income		<u>\$161,906</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes		\$1,058,804
Net Income, after dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes		\$1,058,804
Federal & foreign income taxes		380,344
Net Income		<u><u>\$678,460</u></u>
<b>Capital and Surplus Account</b>		
Surplus as regards policyholders, December 31 prior year		\$13,515,835
Net Income		\$678,460
Change in net deferred income tax		72,593
Change in nonadmitted assets		138,607
Change in provision for reinsurance		3,000
Change in surplus as regards policyholders for the year		<u>\$892,660</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$14,408,495</u></u>

A comparative analysis of changes in surplus is shown below.

**ASI PREFERRED INSURANCE CORP.  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2010**

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, 2010, per Annual Statement	\$14,408,495
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
LIABILITIES:			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$14,408,495</u></u>

**No Adjustment**

## **SUMMARY OF FINDINGS**

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

There were no exceptions or findings in the limited scope examination as of December 31, 2010.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **ASI Preferred Insurance Corp.** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$14,408,495 which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, AFE, Examiner-In-Charge, Phil Schmoyer, Participating Examiner, and Leon Pressman CISA, IT Manager of ParenteBeard LLC participated in the examination. In addition, Ronald T Kuehn, FCAS, MAAA, CPCU, ARM, FCA, consulting actuary of Huggins Actuarial Services, Inc. and Syntia King, APIR, Financial Examiner/Analyst II of the Office also participated in the examination.

Respectfully submitted,

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