

**REPORT ON EXAMINATION**  
**OF**  
**AZTEC INSURANCE COMPANY**  
**MIAMI, FLORIDA**

**AS OF**  
**DECEMBER 31, 2008**

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

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Tallahassee, Florida

September 17, 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 an examination as of December 31, 2008, of the financial condition and corporate affairs of:

**AZTEC INSURANCE COMPANY  
1 S.E. 3<sup>rd</sup> AVENUE  
25<sup>th</sup> FLOOR  
MIAMI, FL. 33131**

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, 2004 through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on June 21, 2009 and all fieldwork was performed at the Office and concluded on September 17, 2009. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

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, 2008. Transactions subsequent to year-end 2008 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 and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were 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, 2003, along with resulting action taken by the Company in connection therewith.

### **Custodial Agreement**

The Company did not have a custodial agreement that fulfilled all requirements of Rule 69O-143.042, Florida Administrative Code. **Resolution:** The Company's custodial agreement was amended to be in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Actuarial Opinion**

The Company's actuary did not include the broad statement that "Reserves are computed according to generally accepted actuarial principles" in accordance with a directive from the Office of Insurance Regulation. **Resolution:** Due to low production levels the Company filed an actuarial opinion exception affidavit for each year of this examination period and was given exception approval by the Office.

## HISTORY

### General

The Company was incorporated in Florida on May 9, 1984, under the laws of the state of Florida, as a stock property and casualty insurer and commenced business on December 6, 1984 as Aztec Insurance Company.

The Company was in runoff status and no longer writing or assuming new mortgage guaranty business. The Company agreed in Consent Order No. 18839-96-C to suspend writing new business, effective July 1, 1997, but to continue to honor and renew all outstanding certificates until maturity of the underlying loan. The suspension of writings was still in effect as of the date of this examination.

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

### Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	2,500
Number of shares issued and outstanding	2,500
Total common capital stock	\$250,000
Par value per share	\$100.00
Number of authorized preferred capital shares	2,500
Number of shares issued and outstanding	2,500
Total preferred capital stock	\$250,000
Par value per share	\$100.00

The Company was a member of an Insurance Holding Company. Control of the Company was maintained by Joseph Falk, Judith Richard, and Rosemary Orlin, who jointly owned 100% of the

common stock issued by the Company. Joseph Falk and Judith Richard each own 50% of the authorized shares of the preferred capital stock.

### **Profitability of Company**

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Premiums Earned	8,005	40,312	48,381	80,099	139,491
Net Underwriting Gain/(Loss)	581,600	923,086	766,162	-129,221	-196,492
Net Income	768,467	1,006,639	901,297	17,160	-57,531
Total Assets	8,629,909	9,412,780	9,428,246	9,368,860	9,424,644
Total Liabilities	1,565,900	2,274,980	3,278,076	4,090,851	4,100,119
Surplus As Regards Policyholders	7,064,009	7,137,801	6,150,170	5,278,010	5,324,525

### **Dividends to Stockholders**

In accordance with Section 628.371, Florida Statutes, the Company had not declared or paid dividends to its stockholders during the period of 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, 2008, were:

## **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Joseph L. Falk Miami, Florida	President of Company
Judith S. Richard Miami Beach, Florida	Secretary/ Treasurer of Company
Meritt Tollefson Miami, Florida	Investor
Suzanne Richard Miami Beach, Florida	Director of Company
Rosemary Orlin Petak Tikva, Israel	Investor

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

## **Senior Officers**

<b>Name</b>	<b>Title</b>
Joseph L. Falk	President
Judith Richard	Secretary, Treasurer

The Company's board appointed one internal committee in accordance with Section 607.0825, Florida Statutes. The following is the principal internal board committee and the members as of December 31, 2008:

## **Audit Committee**

Joseph Falk<sup>1</sup>  
Judith S. Richard  
Suzanne R. Meltzer

<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.

### **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, or purchase or sales through reinsurance during the period of this examination.

### **Surplus Debentures**

At December 31, 2008, the Company had outstanding surplus debentures the amounts of \$500,000, \$400,000 and \$1,500,000, totaling \$2,400,000. The Company only paid interest on the notes after receiving approval from the Office.

## AFFILIATED COMPANIES

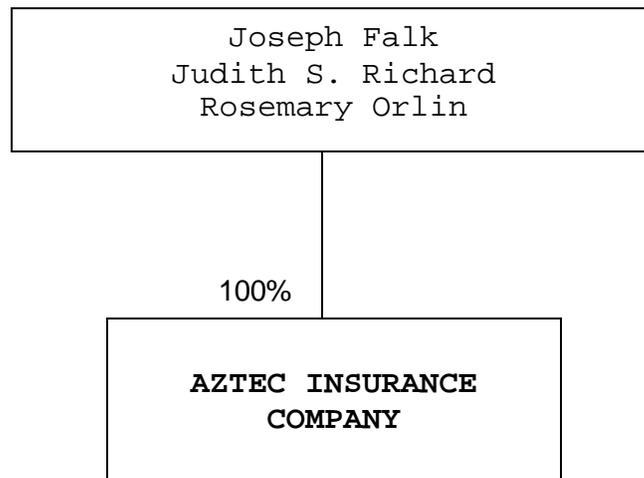
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The Company filed an updated holding company registration statement on February 19, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

There were no agreements in force between the Company and its affiliates.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

### AZTEC INSURANCE COMPANY ORGANIZATIONAL CHART

**DECEMBER 31, 2008**



## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$100,000 with a deductible of \$5,000, which covered the suggested minimum amount suggested by the NAIC.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

## STATUTORY DEPOSITS

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

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	Treasury Cash	<u>\$300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$300,000</u>	<u>\$ 300,000</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operation

The Company was previously authorized to transact mortgage guaranty insurance in the state of Florida, in accordance with Section 624.401(2), Florida Statutes, through July 31, 1997. The Company voluntarily agreed, via consent order number 18839-96-C with the Office, to suspend

writing new business, but all outstanding certificates were to be renewed and honored until the maturity of the underlying loan. The Company also continued to assume on a renewal basis from Triton Insurance Company. **Subsequent Event:** The Company provided a letter dated November 26, 2008 verifying the trust account with Triton Insurance Company at U.S. Bank was closed and all funds were released to the Company. There were no longer any active policies.

### **Treatment of Policyholders**

The Company had 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 626.9541(2)(i)3a, Florida Statutes.

## **REINSURANCE**

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

### **Assumed**

The Company assumed 100% risk from Voyager Guaranty Insurance Company (Voyager). Voyager paid 100% of its premiums on the renewal business to the Company, less a commission equal to 2½% of premium.

The Company had a trust agreement with Voyager dated November 29, 1993, which required that assets equal to the reserves required by the reinsuring company be deposited at First Union National Bank as custodian for Voyager Guaranty Insurance Company/Aztec Insurance Company. Withdrawals could not be made without consent of both parties. **Subsequent Event:** The Company provided evidence of no remaining assumed business pursuant to the Voyager agreement as of the examination date. In addition the agreement has been closed and all reserves have been released to the Company.

### **Ceded**

The Company did not cede any risk.

## **ACCOUNTS AND RECORDS**

The Company was not audited annually by an independent certified public accountant (CPA) for the years 2004 through 2008. The Company completed and submitted an Audited Financial Statement Exemption Affidavit.

The Company's accounting records were maintained both manually and 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 Miami, Florida, however this examination was conducted at the Office due to the run-off status of the Company.

The Company and non-affiliates had the following agreements:

## **Custodial Agreement**

The Company utilized the services of Merrill Lynch Trust in the capacity as investment custodian. The agreement with Merrill Lynch Trust met all of the requirements of Rule 69O-143.042, Florida Administrative Code.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."

**AZTEC INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$6,626,277		\$6,626,277
Stocks:			
Preferred	1,103,798		1,103,798
Common	201,832		201,832
Mortgage loans on real estate (Sch B):			
First liens	20,652		20,652
Cash	384,027		384,027
Investment income due and accrued	105,888		105,888
Agents' Balances:			
Deferred premium	2,229		2,229
Funds held by or deposited with reinsured companies	183,081		183,081
Amounts receivable related to uninsured plans	2,125		\$2,125
	<hr/>		
Totals	\$8,629,909	\$0	\$8,629,909
	<hr/>		

**AZTEC INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Loss adjustment expenses	\$ 40,649.00		\$40,649
Other expenses	7,784		7,784
Unearned premium	2,229		2,229
Aggregate write-ins for liabilities	<u>1,515,238</u>		<u>1,515,238</u>
Total Liabilities	\$1,565,900	\$0	\$1,565,900
Common capital stock	\$250,000		\$250,000
Preferred capital stock	250,000		250,000
Gross paid in and contributed surplus	2,400,000		2,400,000
Unassigned funds (surplus)	<u>4,164,009</u>		<u>4,164,009</u>
Surplus as regards policyholders	<u>\$7,064,009</u>		<u>\$7,064,009</u>
Total liabilities, surplus and other funds	<u>\$8,629,909</u>	\$0	<u>\$8,629,909</u>

**AZTEC INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2008**

**Underwriting Income**

Premiums earned		\$8,005
	<b>Deductions:</b>	
Losses incurred		1,590
Loss expenses incurred		0
Other underwriting expenses incurred		123,675
Aggregate write-ins for underwriting deductions		(698,860)
Total underwriting deductions		(\$573,595)
Net underwriting gain or (loss)		\$581,600

**Investment Income**

Net investment income earned		\$173,731
Net realized capital gains or (losses)		13,136
Net investment gain or (loss)		\$186,867

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		\$0

Net income before dividends to policyholders and before federal & foreign income taxes		\$768,467
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$768,467
Federal & foreign income taxes		0
Net Income		\$768,467

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$7,137,800
Net Income		\$768,467
Net unrealized capital gains or losses		(804,331)
Change in net deferred income tax		(922)
Change in non-admitted assets		(37,005)
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		(\$73,791)
Surplus as regards policyholders, December 31 current year		\$7,064,009

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

#### Bonds

\$6,626,277

Bonds reported as \$6,626,277 at year-end 2008, were a significant decrease of \$834,302 and eleven percent less than the 2007 reported bond amount. The Company decreased long-term securities and converted them to cash equivalents due to the current economic conditions.

#### Capital and Surplus

The amount reported by the Company of \$7,064,009, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**AZTEC INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2008**

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, 2008, per Annual Statement	\$7,064,009
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	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS:			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			0
No Adjustment			
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$7,064,009

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

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

There were no exceptions or findings in the examination as of December 31, 2008.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Aztec Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,064,009, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Mark Brown, Reinsurance/Financial Specialist and Herold Casseus, Reinsurance/Financial Specialist, participated in the examination.

Respectfully submitted,

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Mary James, CFE, CPM  
Chief Examiner  
Florida Office of Insurance Regulation