REPORT OF EXAMINATION

OF THE

AMERICAN SECURITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

AMERICAN SECURITY INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: ______________________

DATE: 29 JUNE 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 29TH DAY OF JUNE 2007.

____

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

AMERICAN SECURITY INSURANCE COMPANY

AS OF

December 31, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 29TH Day of JUNE 2007.

TABLE OF CONTENTS

May 30, 2007

Honorable Alfred Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
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Honorable Thomas E. Hampton
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Honorable Julie Mix McPeak
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Office of Insurance
Commonwealth of Kentucky
PO Box 517
Frankfort, Kentucky 40602-0517

Honorable Matthew Denn
Insurance Commissioner
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06.021, dated October 5, 2006 an Association examination has been made of the affairs, financial condition and management of the

AMERICAN SECURITY INSURANCE COMPANY

hereinafter referred to as “Company,” incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware. The examination was conducted at the principal office of the Company, located at 11222 Quail Roost Drive, Miami, Florida.

The Report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2002. This examination covered the period from January 1, 2003 through December 31, 2005, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This Report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, a limited information systems review was performed by the consulting firm of INS Services, Inc.

The 2005 examination was conducted by the Delaware Insurance Department in accordance with the Association Plan of Examination guidelines established by the NAIC. The Company's subsidiary, Standard Guaranty Insurance Company, a Delaware domestic insurance Company, was examined concurrently with this examination.

In addition to items hereinafter incorporated as a part of the written report, the following areas were checked and made part of the files of this examination.

Fidelity Bonds and Other Insurance
Statutory Deposits
Employees' Welfare
All Asset and Liability Items not mentioned

HISTORY

The Company was incorporated on August 12, 1938 under the laws of Georgia, and commenced business September 1, 1938. On January 1, 1984 the Company merged with American Security Insurance Company of Delaware, a Delaware corporation, incorporated on September 16, 1983. At the date of the merger, the domicile was changed from the State of Georgia to the State of Delaware.

Interfinancial, Inc., a Georgia corporation, has owned all outstanding stock of the Company since June 13, 1969. Fortis Inc., a Nevada corporation, has had financial control of Interfinancial, Inc., since June 30, 1980. Fortis SA/NV (Belgium) and Fortis N.V. (The Netherlands) own Fortis, Inc. in equal parts. Effective August 18, 1999, the Company's ultimate parent purchased 100% of the American Bankers Insurance Group.

On January 1, 2004, the Company was an indirect wholly owned subsidiary of Fortis, Inc., domiciled in the United States, which itself was an indirect, wholly owned subsidiary of Fortis N.V. of the Netherlands and Fortis SA/NV of Belgium (collectively, "Fortis"), through their affiliates, including their wholly owned subsidiary, Fortis Insurance N.V.

On February 5, 2004, Fortis sold approximately 64% of its ownership in Fortis, Inc., via an Initial Public Offering ("IPO") and retained approximately 36% of its ownership. In connection with the IPO, Fortis, Inc., was merged into Assurant, Inc., a Delaware corporation, which was formed solely for the re-domestication of Fortis, Inc. After the merger, Assurant, Inc., became the successor to the business, operations and obligations of Fortis, Inc. Further, Fortis, N.V. and Fortis SA/NV transferred their ownership of Assurant, Inc.'s stock into their wholly owned subsidiary, Fortis Insurance N.V.

On January 21, 2005, Fortis owned approximately 36% (50,199,130 shares) of Assurant, Inc., based on the number of shares outstanding that day, and sold 20% (27,200,000 shares) in a secondary offering to the public. Fortis received all net proceeds from the sale. Fortis concurrently sold exchangeable bonds, due January 26, 2008, that are mandatorily exchangeable for the remaining 17.6% (22,999,130 shares) of Assurant, Inc.

At December 31, 2005, the Company had two wholly owned subsidiaries: Standard Guaranty Insurance Company (SGIC), and Union Security Life Insurance Company. SGIC, a Delaware domestic insurance company, is being examined concurrently with this examination. For details related to Union Security Life Insurance Company, please see the Subsequent Event section of this Report.

CAPITALIZATION

Common Capital Stock

As of December 31, 2005, the Company's common capital stock is represented by 4,000 shares authorized, with 1,075 shares issued and outstanding at $4,700 par value, for total common capital stock of $5,052,500. Assurant, Inc., a Delaware corporation, owns 100% of the outstanding stock. As indicated in the Accounts and Records section of this report, the Company reflected an incorrect number of capital stock shares authorized, and issued and outstanding in the Notes to Financial Statements of its 2005, 2004, and 2003 Annual Statements.

Dividends to Stockholder

The following dividends were paid to the stockholder:

2003	$36,500,000
2004	-0-
2005	$15,000,000

The dividends were approved in the board minutes and proper filings were made to the Delaware Department of Insurance.

Gross Paid In and Contributed Surplus

At the prior examination as of December 31, 2002, gross paid in and contributed surplus amounted to $44,975,300. Gross paid in and contributed surplus did not change during the three year period of examination.

Stock Ledger

The Company appears to be in compliance with the provisions of Delaware General Corporation Law Title 8, Chapter 1, Sections 220 and 224.

Changes in Surplus

Common capital stock	$5,052,500	
Gross paid-in and contributed surplus	44,975,300	
Unassigned funds	126,864,448	
Surplus at December 31, 2002		$176,892,248
Net income	$179,112,442	
Change in net unrealized capital gains or (losses)	(24,787,025)	
Change in net unrealized foreign exchange capital gains	(13,875)	
Change in net deferred income tax	4,665,785	
Change in non-admitted assets	3,151,570	
Change in provision for reinsurance	(23,977,500)	
Dividends to stockholders	(51,500,000)	
Dissolution of subsidiaries	441,923	
Prior period unearned ceding fees, net of taxes	(4,291,203)	
Change in surplus during the examination period		82,802,117
Surplus at December 31, 2005		$259,694,365

MANAGEMENT AND CONTROL

Directors

A review of the minutes of the sole shareholder of the Company for the three-year period of examination reflects that the Board of Directors was duly elected for each of the respective years. Names of directors were compared to the respective Annual Statement jurat pages without exception. Those directors serving at December 31, 2005 were as follows:

Robert Brian Pollock, Chairman
Philip Bruce Camacho, Vice Chairman
Jerome Adolphus Atkinson
Jon Kerry Clayton
Adam David Lamnin
Steven Craig Lemasters
John Buster Owen

Officers

Corporate minutes were obtained and reviewed for each of the three years of examination. Names of officers were compared to the respective Annual Statement jurat pages. Those officers serving at December 31, 2005 were as follows:

Philip Bruce Camacho	President
Arthur William Heggen	Secretary
Kenneth Edward Lacy*	Treasurer
Adam David Lamnin	Group Senior Vice President
Steven Craig Lemasters	Group Senior Vice President
Michael David Anderson	Senior Vice President
Manual Jose Becerra	Senior Vice President
Gary (nmn) Bursevich	Senior Vice President
Joseph Edward Erdeman	Senior Vice President
Russell Gary Kirsch	Senior Vice President
Katharine Ann McDonald	Senior Vice President
John Buster Owen	Senior Vice President
Terri Lynette Prestage-White	Senior Vice President
Allen Floyd Tuthill	Senior Vice President
Jeffrey (nmn) Unterreiner	Senior Vice President
Karen Porter Wolf	Senior Vice President
Gary James Novak	Assistant Treasurer

*Subsequent to the date of examination, Kenneth Edward Lacy resigned as Treasurer. On April 24, 2006, Amelia Toural was elected Treasurer of the Company.

Conflict of Interest

The Company appears to have an adequate policy and statement concerning conflicts of interest; each year the directors, officers and key employees sign the conflict of interest statements. These statements were reviewed for the three-year period of examination with no exceptions noted.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The Company is a directly owned subsidiary of Interfinancial, Inc., a Georgia corporation. In turn, Interfinancial, Inc. is a wholly owned subsidiary of Assurant, Inc., a Delaware corporation. The ultimate parent of the system is Fortis (SA/NV) and Fortis N.V.

Assurant Inc., was the subject of an initial public offering in February 2004 when its former parent Fortis (SA/NV) / Fortis N.V. sold approximate 65% of its interest and, then later, in January 2005, in a secondary offering sold another approximate 19%. Fortis currently retains approximately 16% ownership of Assurant, Inc. common stock, which is committed to satisfy mandatorily exchangeable bonds that it has issued.

The following is an organizational chart that reflects the identities and interrelationships between the Company, parent, affiliated insurers, and other members of the system as of December 31, 2005, as presented in Schedule Y:

Fortis (SA/NV) and Fortis N.V.
- Assurant, Inc.
  - Interfinancial Inc.
    - **American Security Insurance Company**
      - Standard Guaranty Insurance Company
      - Union Security Life Insurance Company

Other related and controlled entities include Insureco, Inc., and American Bankers Insurance Company of Florida.

Copies of the Form B Holding Registration Statements filed with the Delaware Department of Insurance during the period under examination were reviewed in conjunction with the review of the management, service, and tax agreements in place during the period of examination. This review indicated that the Company complied with the provisions of Regulation 13 of the Delaware Insurance Statutes.

MANAGEMENT AND SERVICE AGREEMENTS

Agreements with Affiliates

The Company participated in a variety of agreements, as summarized below, with its affiliates. The agreements were submitted and subsequently approved by the Delaware Department of Insurance. The agreements were filed in compliance with requirements of 18 Del. C. § 50 (Insurance Holding Company System Registration Act) and 18 Del. Admin. Code § 13 Section 1304 (Holding Company System Forms and Instructions).

Lease Agreement

This lease agreement, effective January 1, 2002, provides for Fortis, Inc., (Fortis) to lease the building at 260 Interstate North Circle, Atlanta, Georgia, to the Company for use as a home office for the Company and its subsidiaries. In return, the Company pays Fortis a monthly rental fee and is responsible for all expenses related to the upkeep of the building. The term of the lease is ten years, with a provision for another ten year extension at the Company's option.

Management Agreements

A management agreement, effective January 1, 1994 between Fortis and the Company, provides for Fortis to perform various management support services including financial reporting, systems development and other information technology functions. In return, the Company pays Fortis an annual management fee based on its pro-rata allocation share of Fortis' allocable operating expenses. Either party may terminate this agreement upon 30 days written notice.

An agreement, between the Company and its subsidiary, Union Security Life Insurance Company (USLIC), effective January 1, 2002, provides for the Company to perform various management support functions including risk management, administration, executive compensation, staffing, marketing and others, on behalf of USLIC, in return for an annual management fee equal to the pro rata share of costs incurred by the Company on behalf of all of its subsidiaries. This agreement continues in force until terminated by either party upon 30 days written notice.

A second agreement, also effective January 1, 2002 between the Company and its subsidiary Standard Guaranty Insurance Company (SGIC), is identical to the one entered into with USLIC.

Administrative Services Agreement

An administrative services agreement, effective January 1, 1996, between the Company, Standard Guaranty Insurance Company, and Fortis Benefits Insurance Company (FBIC), provides for FBIC to perform administrative services relating to policy issuance, product pricing, data and premium collection and other services. This agreement continues in force until terminated by either party with 90 days written notice of its intent to terminate.

Federal Tax Allocation Agreement

This agreement, effective August 9, 2004 between Assurant, Inc., and several of its subsidiaries, including the Company, provides for the combined group to file a consolidated income tax return and for the allocation of their consolidated tax liability. The method of allocation is in accordance with Treasury Regulations 1.1552-1 and 1.1502-33. All settlements under the agreement are to be made within 30 days of filing the federal corporate income tax return or receipt of a refund.

A new federal tax allocation agreement was executed effective February 27, 2006. The terms are the same on the 2006 Federal Tax Allocation Agreement as the 2004 Agreement; however, the participants have changed.

Service Agreements

This agreement, effective January 1, 2000 between the Company, American Bankers Insurance Company of Florida (ABIC), and American Bankers Life Assurance Company of Florida (ABLAC), provides for the Company to perform certain accounting, management, marketing and other services for ABIC and ABLAC which may require utilization of several of its own support areas. The Company receives a monthly fee equal to the cost of services provided and expenses incurred.

This agreement was written for an initial term of three years and is automatically renewed for successive two-year terms unless notification of termination is received from either party, in accordance with contract provisions.

A second agreement is an identical reciprocal agreement, effective on the same date wherein ABIC and ABLAC may provide similar services for the Company in return for fees computed in the same manner as the preceding agreement.

Investment Management Agreement

This agreement, effective January 1, 1995 between Fortis and the Company, provides for Fortis, through its affiliate Fortis Asset Management, to perform services to include investment advice, accounting services, and other services necessary to manage the Company's investment portfolio in return for an annual fee.

General Agency Agreement

This agreement, effective July 1, 1997 between the Company, Standard Guaranty Insurance Company, and Insureco Services, Inc., (Insureco), authorizes Insureco to sell policies, collect premiums and settle claims on behalf of ASIC and SGIC, for hazard insurance policies (forced-place coverage) to various banks and finance companies.

Agreements with Non-Affiliates

Custodial Agreement

Assurant, Inc., on behalf of its subsidiaries, has a "Master Custody Agreement" with an NAIC approved custodian, dated May 31, 1991, with respect to the custody and management of its investments. This agreement was amended and restated as of September 1, 2005.

In reviewing this agreement, it was noted that the agreement does not contain the following recommended clause, "In the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard liability."

Therefore,

It is recommended that the Company amend the custodial agreement to incorporate all safeguards as recommended in the *NAIC Financial Condition Examiners' Handbook*, Part 1, Section IV, Paragraph J.

Investment Management Agreements

In addition to the Investment Management Agreement with Fortis, discussed in this report under "Agreements with Affiliates," the Company has two asset management agreements with non-affiliates.

Discretionary Investment Management Agreement of 2000

On December 1, 2000, Fortis Advisers, Inc., entered into a Client Agreement and Trading Authorization under which an investment manager has discretionary authority to buy, sell and trade in preferred stocks and bonds. The investment manager agreed to act only in accordance with the Company's investment guidelines and all applicable regulatory guidelines, which were attached to the Agreement. The Agreement contains a clause indemnifying the Company for damages arising from the investment manager's breach or gross negligence or willful misconduct. This agreement was subsequently assigned to Fortis on March 31, 2001.

Discretionary Investment Management Agreement of 2004

On September 28, 2004, Assurant Asset Management entered into a Discretionary Investment Advisory Agreement providing for a discretionary investment manager. The investment manager does not have possession or custody of any assets and is not responsible for any custodial arrangements involving any assets in the investment account. The investment manager indemnifies the Company for errors in judgment or acts or omissions to act resulting from its negligence, willful misconduct, malfeasance, or material breach of the agreement. The investment manager supervises and directs the investments in accordance with the written investment objectives, policies and restrictions provided by the Company.

TERRITORY AND PLAN OF OPERATION

Territory

During the examination, the Company's certificates of authority were reviewed without exception. As of December 31, 2005, the Company was licensed in the following jurisdictions:

Alabama	Kentucky	Ohio
Alaska	Louisiana	Oklahoma
Arizona	Maine	Oregon
Arkansas	Maryland	Pennsylvania
California	Massachusetts	Rhode Island
Colorado	Michigan	South Carolina
Connecticut	Minnesota	South Dakota
Delaware	Mississippi	Tennessee
District of Columbia	Missouri	Texas
Florida	Montana	Utah
Georgia	Nebraska	Vermont
Hawaii	Nevada	Virginia
Idaho	New Jersey	Washington
Illinois	New Mexico	West Virginia
Indiana	New York	Wisconsin
Iowa	North Carolina	Wyoming
Kansas	North Dakota	

In addition, the Company has a certificate of authority from Puerto Rico and the US Virgin Islands.

Plan of Operation

The US operations are run by Assurant, Inc., in four operating business segments; Assurant Solutions, Assurant Health, Assurant Employee Benefits, and Assurant PreNeed. The Assurant Group has operations throughout the US and has established operations in Brazil and Canada.

The Company is authorized to write the following lines of business: marine, transportation, property and casualty, theft and burglary, fire and allied lines, leakage and fire extinguisher equipment, liability, fidelity, surety and guaranty bonds, all forms of motor vehicle and aircraft insurance, credit insurance, and accident and health coverage.

Banks and finance companies located throughout the US write business. The Company has no branch offices. The Company has one corporate agent that is an affiliate, Insureco. Insureco procures hazard insurance (forced-placed coverage) for various financial institutions on the Company's paper. Insureco collects premium payments, deducts Insureco commission and remits net to the Company.

Underwriting and Investment Exhibit, Part 1B of the 2005 Annual Statement indicates direct business written was as follows:

Fire	$370,338,820
Allied lines	139,868,071
Homeowners multiple peril	29,036,642
Inland marine	(180,370)
Group accident and health	3,458
Credit accident and health	131,998,597
Other accident and health	374,564
Other liability – occurrence	40,320,865
Private passenger auto liability	186,540
Auto physical damage	7,740,395
Credit IUI	982,093
Warranty / MBI	90,542
Miscellaneous casualty	222,888
Total	$720,983,106

The Company has a reinsurance intermediary agreement. The Company is in compliance with Chapter 16 of the Delaware Department of Insurance Statutes.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements:

Year	Admitted Assets	Surplus	Gross Written Premiums	Net Income
2005	$833,752,224	$267,039,365	$725,788,065	$87,754,971
2004	656,292,093	225,109,642	642,502,505	46,396,123
2003	612,599,238	172,207,037	678,673,949	44,961,348
2002	537,517,622	176,892,248	631,371,088	30,825,575

Assets of the Company increased 55% from 2002 to 2005; premiums increased 15%; and net income increased 184%. Surplus as Regards Policyholders increased 51% during this examination period. That increase is mainly attributable to increases of total net income of $179.1 million, and change in nonadmitted assets of $3.2 million, reduced by total dividends to parent of $51.5 million, net unrealized capital losses of $24.9 million, and change in provision for reinsurance of $16.6 million.

REINSURANCE

During 2005, the Company both ceded and assumed reinsurance. The 2005 Annual Statement indicates the following:

Direct business	$720,983,106
Assumed from affiliates	0
Assumed from non-affiliates	4,804,959
Ceded to affiliates	(0)
Ceded to non-affiliates	(239,266,372)
Net premiums written	$486,521,693

Assumed

Business was assumed from three different reinsurers. The premiums assumed mainly consisted of fire and allied lines.

Ceded

Business is ceded to about 46 different reinsurers. The following five reinsurers represent approximately 75% of premiums ceded during 2005:

Authorized Reinsurers	
Great Lakes Insurance Company	$18,594,000
Unauthorized Reinsurers	
Allinco, Inc.	$20,632,000
Banc One Insurance Company	22,685,000
Marion Insurance Company	47,668,000
Chase Reinsurance Ltd.	70,486,000

The treaties above were all quota share arrangements, with cession percentages ranging from 90% to 100%. Approximately 94% of the premiums ceded were for fire, allied lines, credit accident and health (group and individual) coverage. The balances due from the unauthorized reinsurers are secured by either Funds Held by Company, letters of credit, or by assets held in trust under a trust agreement.

In addition to the above, other major reinsurance agreements protecting the Company's exposure as of December 31, 2005 were as follows:

Treaty	Description	Company Retention	Limits
Property Catastrophe	1st layer per occurrence	$25,000,000	$25,000,000
	2nd layer	$50,000,000	$35,000,000
	3rd layer	$85,000,000	$45,000,000
	4th layer	$130,000,000	$55,000,000
	5th layer	$185,000,000	$15,000,000
	6th layer	$200,000,000	$10,000,000

FIDELITY BONDS AND OTHER INSURANCE

The Company is covered under a standard financial institution bond covering Assurant, Inc., with other subsidiaries and affiliated companies. Fidelity coverage under that bond met the minimum amount of fidelity insurance suggested by the NAIC. The Company is also the named insured on other policies that include:

- Directors' and officers' liability and company indemnification
- Commercial auto policy
- Workers' compensation and employers' liability policy
- Commercial excess liability policy
- Commercial umbrella
- Financial institutions policy
- Excess indemnity policy

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure.

During the examination the Company's books and records were reviewed and compared to reported items and values in the Annual Statements. A trial balance for the final year under review was obtained and traced to the Company's Annual Statement.

Examination Delays

During this examination, examiners experienced considerable delays in obtaining requested information, and received incorrect or incomplete information on a number of occasions. These circumstances contributed greatly toward expanding the amount of time necessary to complete this examination.

Therefore:

It is recommended that the Company take steps to ensure the timely and accurate delivery of supporting documentation to examiners for review.

Annual Statement Reporting of Capital Stock

It was noted the Company reflected incorrect capital stock shares authorized, and issued and outstanding in the Notes to Financial Statements of its 2005, 2004, and 2003 Annual Statements. This error was also noted in the 2002 examination and brought to the attention of management. The Notes to Financial Statements were not completed as required by the *NAIC Annual Statement Instructions for Property and Casualty Companies* and the *NAIC Accounting Practices and Procedures Manual.* 18 Del. C. § 526 (a) requires that annual statements be prepared in accordance with the *NAIC Annual Statement Instructions for Property and Casualty Companies* and the *NAIC Accounting Practices and Procedures Manual*.

Therefore:

It is recommended that the Company ensure that the reporting of capital stock in its Annual Statement *Notes to Financial Statements* is accurate and consistent with corporate records.

Aging of Agents' Balances

During the testing of premiums written, it was noted that for various programs the Company does not maintain policy level detail within its premiums system which would permit the reporting and aging of agents' balances on a policy level. This is not in compliance with SSAP 6, Paragraph 9c of the *NAIC Accounting Practices and Procedures Manual*, which requires policy level reporting and aging of agents' balances.

Therefore:

It is recommended that in the future the Company report and age agents' balances on a policy level basis in compliance with SSAP 6, Paragraph 9c of the *NAIC Accounting Practices and Procedures Manual.*

Collectibility of Premiums Receivable

Agent Balance receivables were sampled and tested for an ultimate receipt. The examination did not adequately complete the testing during the established fieldwork period because the Company could not provide evidence of the receipt of a specific agent's balance transaction in a timely manner.

It is recommended that requested information during the examination be provided in a timely manner. It is noted that the Company ultimately provided the requested information; however, it was after the completion of the field work.

Premium Data Verification

Test sampling to determine the accuracy of premium data determined that the Company's inability to produce supporting policy files need to test the data reached unacceptable levels.

A total of 126 policy files were selected from the two systems utilized by the Company to collect and process premium data (PMS and American P&C) with a total of 123 files being provided by the Company. Of the three files not provided, two were processed with the American P&C system and one was processed with the PMS system.

Therefore:

As recommended in the prior examination reports dated December 31, 1999 and December 31, 2002, it is again recommended that the Company improve its control over policy files and implement procedures for the retrieval of policy files so as to insure the availability of all policy files for the purpose of examination.

The 123 policy files received as part of the data verification testing were reviewed and tested for a total of 504 attributes. A total of nine errors were found in that testing, with all errors being on items processed with the PMS system.

Therefore:

> **As recommended in the prior examination reports dated December 31, 1999 and December 31, 2002, it is again recommended that the Company comply with Delaware Insurance Statutes, Sections 320 (c), 526 (a), 526A, and 5005 (a) (1) (d) and maintain properly documented policy files necessary for examination.**

Loss Data Verification

Test sampling to determine the accuracy of loss data determined that the Company's inability to produce supporting loss reserve and paid loss files need to test the data reached unacceptable levels.

A total of 40 loss reserve files were selected from the two systems utilized by the Company to collect and process data (PMS and American P&C) with a total of 37 files being provided by the Company. Of the 3 files not provided, all were processed with the American P&C system.

A total of 56 paid loss files were selected from the two systems utilized by the Company to collect and process data (PMS and American P&C) with a total of 41 files being provided by the Company. Of the 15 files not provided, all were processed with the American P&C system.

Therefore:

> **As recommended in the prior examination reports dated December 31, 1999 and December 31, 2002, it is again recommended that the Company improve its control over both loss reserve and paid loss files and implement procedures for the retrieval of those files so as to insure the availability of all loss reserve and paid loss files for the purpose of examination.**

The 37 loss reserve files received as part of the data verification testing were reviewed and tested for a total of 370 attributes. A total of 26 errors were found in that testing, with 12 errors being on items processed with the American P&C system and 14 errors on items processed with the PMS system.

The 41 paid loss files received as part of the data verification testing were reviewed and tested for a total of 451 attributes. A total of 24 errors were found in that testing, with one error on items processed with the PMS system and 23 errors being on items processed with the American P&C system.

Therefore:

> **As recommended in the prior examination reports dated December 31, 1999 and December 31, 2002, it is again recommended that the Company comply with Delaware Insurance Statutes, Sections 320 (c), 526 (a), 526A, and 5005 (a) (1) (d) and maintain properly documented loss reserve and paid loss files necessary for examination.**

The unreliability of this data resulted in a "Qualified Opinion" issued by the examining actuary. However, notwithstanding the unreliability of claims data, the opining actuary determined that indices imply a redundancy in the Company's reserves.

Provision for Reinsurance

The Provision for Reinsurance calculation as shown in Schedule F, Part 5, was incorrect in the 2005 Annual Statement. Schedule F, Part 5 was incorrectly completed using the values of an affiliated company, rather than the correct values for this Company.

Letters of credit shown on Schedule F totaled $35,597,000; the total should have been $18,296,000. Therefore, the Provision for Reinsurance was reported at $17,133,500; the total should have been $24,478,500. As shown in Note 5, these amounts are reported correctly in this Report.

Therefore:

It is recommended that the Company exercise greater care in the preparation of the Annual Statement and more thoroughly review the Annual Statement to prevent such errors from occurring in the future.

Guaranty Fund Assessments

The Company included the liability for guaranty fund assessments in the line item Other Expenses. This error was also noted in the 2002 examination and a financial adjustment was made.

As shown in Note 3, the liability for guaranty fund assessments was again re-classified to Taxes, Licenses and Fees as is appropriate under the provisions of the *NAIC Annual Statement Instructions for Property and Casualty Companies*, and the *NAIC Accounting Practices and Procedures Manual*, SSAP 35, Paragraph 4.

Therefore:

It is again recommended that the Company follow the NAIC Annual Statement Instructions for Property and Casualty Companies, and the NAIC Accounting Practices and Procedures Manual, SSAP 35, Paragraph 4, and properly classify guaranty fund assessments in its annual statement as required by 18 Del. C. §526(a).

Disclosure of Unsecured Reinsurance Recoverable

As noted in the prior examination report, SSAP 62, Paragraph 65 (a) requires disclosures as follows, "If the entity has with any individual reinsurers, authorized or unauthorized, an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium, that exceeds 3% of the entity's policyholder surplus, list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer." This error was also noted in the 2002 examination and brought to the attention of management.

The reinsurance amounts recoverable from the Florida Hurricane Catastrophe Fund and Marion Insurance Company are in excess of 3% of surplus and are not secured. The required disclosures were not made in Footnote 23 A.

Therefore:

> **It is again recommended that in future annual statement filings the Company make disclosures as required under SSAP 62 and properly disclose any reinsurance recoverables in excess of 3% of surplus that are not secured.**

Disclosure of Managing General Agent

The Company continued to erroneously report an unaffiliated company as a managing general agent (MGA) in Footnote 19 of the 2005, 2004, and 2003 Annual Statements. This error was also noted in the 2002 examination and brought to the attention of management. The Company finally corrected this error in its footnotes to the 2006 Annual Statement.

Therefore:

> **It is recommended that the Company be more diligent in ensuring the accuracy of its Annual Statement *Notes to Financial Statements*.**

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2005.

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Capital and Surplus Account
Schedule of Examination Adjustments

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

Assets

December 31, 2005

	Assets	Nonadmitted Assets	Net Admitted Assets	
Bonds	$403,909,524	$ 0	$403,909,524	Note 1
Preferred stocks	24,392,644		24,392,644	
Common stocks	59,124,765		59,124,765	
Mortgage loans on real estate: First liens	42,553,158		42,553,158	
Properties occupied by the Company	31,393,952		31,393,952	
Cash and short-term investments	(11,623,877)		(11,623,877)	
Other invested assets	10,688,479	666,193	10,022,286	
Receivables for securities	14,114		14,114	
Collateral held under securities lending	26,842,416		26,842,416	
Investment income due and accrued	5,392,546	33,841	5,358,705	
Premiums and agents' balances in course of collection	8,892,692	35,072	8,857,620	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,304,353		4,304,353	
Amounts recoverable from reinsurers	83,802,879		83,802,879	
Other amounts receivable under reinsurance contracts	29,833		29,833	
Net deferred tax asset	21,633,523		21,633,523	
Guaranty funds receivable or on deposit	1,020,494		1,020,494	
Electronic data processing equipment and software	5,812,421	1,887,186	3,925,235	
Furniture and equipment	586,836	586,836	0	
Receivables from parent, subsidiaries and affiliates	107,310,853		107,310,853	
Florida recoupment of 2004 Citizens Property Insurance recovery assessment	5,610,860		5,610,860	
Fee income receivable	5,007,648	133,744	4,873,904	
Prepaid expenses	531,244	531,244	0	
Premium tax receivable	314,588		314,588	
Miscellaneous assets	84,870	4,475	80,395	
Total Assets	$837,630,815	$3,878,591	$833,752,224	

Liabilities, Surplus and Other Funds

December 31, 2005

Losses	$ 84,958,924	Note 2
Loss adjustment expenses	9,079,018	Note 2
Commissions payable, contingent commissions and other similar charges	69,161,380	
Other expenses	11,491,764	Note 3
Taxes, licenses and fees	15,849,376	Note 4
Current federal and foreign income taxes	12,115,397	
Unearned premiums	218,828,684	
Ceded reinsurance premiums payable	24,586,740	
Funds held by Company under reinsurance treaties	5,337,571	
Amounts withheld or retained by Company for account of others	7,634,994	
Remittances and items not allocated	79,579	
Provision for reinsurance	24,478,500	Note 5
Payable to parent, subsidiaries and affiliates	6,720,788	
Payable for securities	10,000,128	
Agents' credit balance	34,725,071	
Obligation for securities lending	26,842,416	
Unearned ceding fees	10,255,577	
Contingent legal reserve	1,747,500	
Miscellaneous liabilities	146,042	
Other reinsurance payable	18,406	
Total Liabilities	$574,057,855	
Common capital stock	$5,052,500	
Gross paid in and contributed surplus	44,975,300	
Unassigned funds (surplus)	209,666,565	
Surplus as regards policyholders	$259,694,365	
Total Liabilities and Surplus	$833,752,220	

Statement of Income

December 31, 2005

Underwriting Income	
Premiums earned	$444,466,305
Deductions	
Losses incurred	107,675,191
Loss expenses incurred	23,721,734
Other underwriting expenses incurred	256,531,679
Change in contingent legal reserve	(311,875)
Net underwriting gain	$ 56,849,576
Investment Income	
Net investment income	$61,610,005
Net realized capital gains	(644,581)
Net investment gain	$ 60,965,424
Other Income	
Net gain from agents' or premium balances charged off	$1,440,031
Finance and service charges not included in premium	93,873
Fee income, net of expenses	(336,758)
Total other income	$ 1,197,146
Net income before federal taxes	$119,012,146
Federal taxes incurred	(31,257,175)
Net Income	$ 87,754,971

Capital and Surplus Account

December 31, 2004 to December 31, 2005

Surplus as Regards Policyholders, December 31, 2004	$ 225,109,642
Net Income	$ 87,754,971
Net unrealized capital gains or (losses)	(24,641,111)
Change in net deferred income tax	3,820,784
Change in nonadmitted assets	2,413,656
Change in provision for reinsurance	(20,205,500)
Dividends to stockholders	(15,000,000)
Prior year adjustment	441,923
Net change in capital and surplus for the year	$34,584,723
Surplus as Regards Policyholders, December 31, 2005	$ 259,694,365

Schedule of Examination Adjustments

	Per Company	Per Examination	Surplus Increase (Decrease)
Liabilities			
Change in provision for reinsurance	$17,133,500	$24,478,500	($ 7,345,000)
Liability for guaranty fund assessments	$ 8,228,383	$ 8,228,383	-0-
Surplus per Company			267,039,365
Surplus per Examination			$259,694,365

NOTES TO FINANCIAL STATEMENTS

Note 1. Bonds **$403,909,524**

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this Report of Examination.

An evaluation of the Company's bond portfolio noted that 95.8% of the portfolio has an NAIC rating of 1 or 2. A review of corporate records indicated that the Board of Directors has approved the Company's bond investment transactions made during the examination period in accordance with 18 Del.C. §1304.

Note 2. Losses **$84,958,924**

Note 2. Loss Adjustment Expenses **$9,079,018**

The above-captioned amounts, which are the same as that reported by the Company in its Annual Statement, have been accepted for purposes of this Report of Examination.

The examination retained the firm of INS Consultants, Inc. (INS or Consulting Actuary) to review the Company's stated reserves. The Consulting Actuary was provided with the Company's statement of actuarial opinion and two in-house actuarial reports as the supporting documentation of the actuarial opinion with loss and loss adjustment expense reserves evaluated as of December 31, 2005. In addition, INS was provided with other reports, schedules, exhibits and relevant information as requested.

Upon reviewing the in-house actuarial reports provided, the Consulting Actuary recommends improvement in the quality of the supporting documentation. The Consulting Actuary noted that the in-house actuarial report should serve as a self-contained document in complete support of the Company loss and LAE reserves as opined in the Statement of Actuarial

Opinion, specifically that the report contain appropriate documentation sufficient for another actuary practicing in the same field to evaluate the work.

Therefore:

> **It is recommended that future actuarial reports which represent the supporting documentation for the Company's Statement of Actuarial Opinion contain the appropriate documentation that would be sufficient for another actuary practicing in the same field to evaluate the work.**

The Consulting Actuary's review consisted of conducting an analysis of the Company's book of business by category of business on both a gross and net basis. The Consulting Actuary's estimated net loss and LAE reserves are $10.2 million lower than the Company's booked net loss and LAE reserves of $94.0 million. This $10.2 million difference represents 11.1% of December 31, 2005 Annual Statement reserves.

In conjunction with the actuarial review, the examination team was tasked with verifying paid claims data. As discussed in the Accounts and Records section of this Report, test sampling to determine the accuracy of paid and outstanding claims data for the year 2005 determined that the Company's inability to produce supporting claim files needed to test the data reached unacceptable levels.

Note 3. Other Expenses **$11,491,764**

The amount per examination is $8,228,383 less than the Company reported in the 2005 Annual Statement. The Company included the liability for guaranty fund assessments in this line item. The amount was again re-classified to Taxes, Licenses and Fees as is appropriate under the provisions of the *NAIC Annual Statement Instructions for Property and Casualty Companies*, and the *NAIC Accounting Practices and Procedures Manual*, SSAP 35, Paragraph 4.

Note 4. Taxes, Licenses and Fees **$15,849,376**

As described above, the amount per examination is $8,228,383 more than the Company reported in the 2005 Annual Statement. The Company included the liability for guaranty fund assessments in Other Expenses. The amount was reclassified to this item.

Note 5. Provision for Reinsurance **$24,478,500**

The amount per examination is $7,345,000 more than the Company reported in its 2005 Annual Statement. The values reported in Schedule F, Part 5, Column 7 Letters of Credit were incorrect because the Company reported the values for an affiliated company. The reported amount of letters of credit was $35,597,000; the correct amount was $18,296,000. This difference affected the amount of the Provision for Reinsurance, which was increased by $7,345,000.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were 31 recommendations made in the prior examination report as of December 31, 2002. The Company's compliance with prior examination recommendations was reviewed during the current examination.

It has been determined in the current examination that the Company has complied with the prior examination recommendations except as follows.

The prior examination report recommended that the Company amend the custodial agreement to incorporate all safeguards recommended in the *NAIC Financial Condition Examiners' Handbook*, Part 1, Section IV, Paragraph J. As indicated in the Agreements with Non-Affiliates section of this report, the agreement was amended. However, it still does not contain all the recommended safeguards.

The prior examination report recommended that the Company properly disclose net unsecured amounts recoverable in excess of 3% of surplus in the Notes to Financial Statements of the Annual Statement and comply with SSAP 62, Paragraph 65 (a), the *NAIC Annual Statement Instructions for Property and Casualty Companies*, the *NAIC Accounting Practices and Procedures Manual*, and 18 Del. C. § 526 (a). As indicated in the Accounts and Records section of this report, the Company has not complied with this recommendation. It is again recommended that the Company comply with SSAP 62, Paragraph 65 (a) and 18 Del. C. § 526 (a).

The prior examination report recommended that the Company implement procedures for retrieval of policy information. As noted in the Accounts and Records section of this report, the Company has not complied with this recommendation.

The prior examination report recommended that the Company comply with Delaware Insurance Statutes, Sections 320 (c), 526 (a), 526A, and 5005 (a) (1) (d) and maintain properly documented policy files necessary for examinations. As noted in the Accounts and Records section of this report, the Company has not complied with this recommendation.

The prior examination report recommended that the Company implement procedures for retrieval of claim information. As noted in the Accounts and Records section of this report, the Company has not complied with this recommendation.

The prior examination report recommended that the Company comply with Delaware Insurance Statutes, Sections 320 (c), 526 (a), 526A, and 5005 (a) (1) (d) and maintain properly documented loss reserve and paid loss files necessary for examinations. As noted in the Accounts and Records section of this report, the Company has not complied with this recommendation.

The prior examination report recommended that the Company age all outstanding debit balances based on the effective date of the underlying policy in compliance with SSAP 6, Paragraph 7 (a), 9 (a) and 9 (c). It was also recommended that the Company comply with Delaware Insurance Statutes, Section 526 (a) by filing its annual statement in compliance with *NAIC Annual Statement Instructions for Property and Casualty Companies* and the *NAIC Accounting Practices and Procedures Manual*. As noted in the Accounts and Records section of this report, the Company has not complied with this recommendation.

The prior examination report recommended that the Company follow the *NAIC Annual Statement Instructions for Property and Casualty Companies,* and the *NAIC Accounting Practices and Procedures Manual,* SSAP 35, Paragraph 4 and properly classify guaranty fund assessments in its annual statement as required by the 18 Del. C. § 526 (a). As noted in the Accounts and Records section of this report, the Company has not complied with this recommendation.

SUMMARY OF RECOMMENDATIONS

Custodial Agreement

It is recommended that the Company amend the custodial agreement to incorporate all safeguards as recommended in the *NAIC Financial Condition Examiners' Handbook*, Part 1, Section IV, Paragraph J. (Page 12)

Examination Delays

It is recommended that the Company take steps to ensure the timely and accurate delivery of supporting documentation to examiners for review. (Page 19)

Annual Statement Reporting of Capital Stock

It is recommended that the Company ensure that the reporting of capital stock in its Annual Statement *Notes to Financial Statements* is accurate and consistent with corporate records. (Page 19)

Aging of Agents' Balances

It is recommended that in the future the Company report and age agents' balances on a policy level basis in compliance with SSAP 6, Paragraph 9c of the NAIC Accounting Practices and Procedures Manual. (Page 20)

Collectibility of Premiums Receivable

It is recommended that requested information during the examination be provided in a timely manner. It is noted that the Company ultimately provided the requested information; however, it was after the completion of the field work. (Page 20)

Premium Data Verification

As recommended in the prior examination reports dated December 31, 1999 and December 31, 2002, it is again recommended that the Company improve its control over policy files and implement procedures for the retrieval of policy files so as to insure the availability of all policy files for the purpose of examination. (Page 20)

As recommended in the prior examination reports dated December 31, 1999 and December 31, 2002, it is again recommended that the Company comply with Delaware Insurance Statutes, Sections 320 (c), 526 (a), 526A, and 5005 (a) (1) (d) and maintain properly documented policy files necessary for examination. (Page 21)

Loss Data Verification

It is again recommended that the Company improve its control over claim files so as to ensure the availability of all claim files for the purpose of examination. (Page 21)

As recommended in the prior examination reports dated December 31, 1999 and December 31, 2002, it is again recommended that the Company comply with Delaware Insurance Statutes, Sections 320 (c), 526 (a), 526A, and 5005 (a) (1) (d) and maintain properly documented loss reserve and paid loss files necessary for examination. (Page 22)

Provision for Reinsurance

It is recommended that the Company exercise greater care in the preparation of the Annual Statement and more thoroughly review the Annual Statement to prevent errors from occurring in the future. (Page 23)

Guaranty Fund Assessments

It is again recommended that the Company follow the NAIC Annual Statement Instructions for Property and Casualty Companies, and the NAIC Accounting Practices and Procedures Manual, SSAP 35, Paragraph 4, and properly classify guaranty fund assessments in its annual statement as required by 18 Del. C. §526(a). (Page 23)

Disclosure of Unsecured Reinsurance Recoverables

It is recommended that in future Annual Statement filings the Company make disclosures as required under SSAP 62 and properly disclose any reinsurance recoverables in excess of 3% of surplus that are not secured. (Page 24)

Disclosure of Managing General Agent

It is recommended that the Company be more diligent in ensuring the accuracy of its Annual Statement *Notes to Financial Statements.* (Page 24)

Actuarial Report

It is recommended that future actuarial reports, which represent the supporting documentation for the Company's Statement of Actuarial Opinion, contain the appropriate documentation that would be sufficient for another actuary practicing in the same field to evaluate the work. (Page 31)

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	December 31, 2005	December 31, 2002	Increase or Decrease
Assets	$833,752,224	$548,314,244	$285,437,980
Liabilities	$574,057,855	$376,620,745	$197,437,110
Capital and Surplus	$259,694,365	$171,693,499	$88,000,866

In addition to the undersigned, Gloria Dunn, CFE, CPA; Legh Cathey, CFE; Ray Hartsfield, CFE; Robert Murphy, CFE; Mike Davis, CFE; Mary Craig Misenheimer; Joe Torres, CFE; and Robert McGee, CFE participated on this examination. Patricia Casey Davis, CFE, CPA, served as the examination supervisor.

The assistance of David J. Macesic, ACAS, MAAA, of the actuarial consulting firm, INS Consultants, Inc., is acknowledged along with the information systems consulting firm of INS Services, Inc.

Respectfully submitted,

Frank W. Brooks

Frank W. Brooks, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENT

On December 1, 2006, American Bankers Life Assurance Company of Florida, a Florida domestic insurance company, and an affiliate of the Company, purchased all of the Union Security Life Insurance Company outstanding stock from ASIC.