

REPORT OF EXAMINATION

OF THE

**STANDARD GUARANTY
INSURANCE COMPANY**

AS OF

DECEMBER 31, 2008

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
STANDARD GUARANTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2008

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

Consideration has been duly 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.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 30th day of June, 2010

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

STANDARD GUARANTY INSURANCE COMPANY

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

Attest By: Sonia C. Harris

Date: 30 June 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30th day of June 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

May 14, 2010

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Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
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Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 09.029, dated July 14, 2009 an Association examination has been made of the affairs, financial condition and management of the

STANDARD GUARANTY 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,

Standard Guaranty Insurance Company

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, 2005. This examination covers the period since that date through December 31, 2008. Transactions subsequent to the latter date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (FCEH Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The FCEH 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 current and prospective inherent risks to which the Company is exposed, and evaluating its system controls and procedures used to mitigate those risks. The examination also included 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination report addresses regulatory issues reviewed during the examination process.

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During the course of this examination, consideration was given to work performed by the Company's Internal Audit Department (RAS) and by the external accounting firm, PricewaterhouseCoopers (PwC), LLP of Atlanta, Georgia. Certain auditor workpapers have been incorporated into the workpapers of this examination and have been utilized in determining the scope and areas of emphasis in conducting the examination.

The examination was conducted concurrently with that of the Company's parent, American Security Insurance Company, also a Delaware domestic insurance company. Separate reports of examination were filed for each company.

HISTORY

The Company was incorporated on August 29, 1960 under the laws of Georgia, and commenced business September 12, 1960. On January 1, 1984, the Company merged with Standard Guaranty 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.

American Security Insurance Company, a Delaware Corporation, owns all outstanding stock of the Company. American Security is, in turn, wholly-owned by Interfinancial, Inc., a Georgia corporation. Interfinancial, Inc. is owned by Assurant, Inc., a Delaware corporation.

CAPITALIZATION

Common Capital Stock

As of December 31, 2008, the Company's common capital stock is represented by 1,075 shares authorized, with 1,075 shares issued and outstanding at \$3,300 par value, for total

Standard Guaranty Insurance Company

common capital stock of \$3,547,500. American Security Insurance Company, a Delaware corporation, owns 100% of the outstanding stock. During the period of this examination, Common Capital Stock remained unchanged.

Dividends to Stockholder

The following dividends were paid to the stockholder:

2006	\$25,000,000
2007	-0-
2008	\$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, 2005, gross paid in and contributed surplus amounted to \$1,802,500. During the period of this examination, Gross paid in and contributed surplus in the amount of \$1,802,500 remained unchanged.

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. All directors are officers of either the Company, affiliated companies or the

Standard Guaranty Insurance Company

Assurant Solutions and Specialty Property business units. Those directors serving at December 31, 2008 were as follows:

Steven Craig Lemasters, Chairman
Adam David Lamnin, Vice Chairman
Amelia Toural
Manuel Jose Becerra
Robert Jay Butler
Russell Gary Kirsch
Wendall William Stocker

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, 2008 were as follows:

<u>Name</u>	<u>Office</u>
Jon Frobose	President
Jeannie Aragon-Cruz	Secretary
Neville Knowles	Treasurer
Craig Lemasters	Group Senior Vice President
Adam Lamnin	Group Senior Vice President
Allen Tuthill	Senior Vice President
Amelia Toural	Senior Vice President
Gary Bursevich	Senior Vice President
John Euwema	Senior Vice President
Joseph Erdeman	Senior Vice President
Russell Kirsch	Senior Vice President
Katharine McDonald	Senior Vice President
Manuel Becerra	Senior Vice President
Valeria Seasholtz	Senior Vice President
Luis Falcon	Vice President
Wendall Stocker	Vice President
Chad Bullard	Assistant Treasurer

Corporate Governance

The assessment of the Company's corporate governance was considered strong with no identified areas of concern. The examination found that oversight of operational processes,

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business planning, non-routine transactions and material events are vetted through appropriate levels of management and the Board of Directors. This assessment impacted the exam approach by tending to lower inherent risks and impacted the exam approach further by lowering risk assessments for all key activities and their subcomponents. Our assessment of corporate governance concluded that management gives appropriate attention to the Company's internal control environment.

Enterprise Risk Management

The enterprise (Assurant) has established an Enterprise Risk Management Committee (ERMC) responsible for managing Assurant's exposure to enterprise risks. Responsibilities include creating a culture of risk awareness and mitigation across the enterprise, the oversight and monitoring of the segment level committees (BUIC, BURC, CAT committees and RAS and Compliance), consultation with executive management regarding risks and strategic business decisions, helping to facilitate the implementation of risk management into decision making processes and facilitating the development of risk assessment and management policies. The ERMC meets monthly. Members of the ERMC include the Chief Investment Officer, Strategic Analysis, Corporate Actuary and Chief Compliance Officer. The ERMC supports the efforts of the Board of Directors.

Assurant is segregated into four business units. Each business unit also has a Business Unit Risk Committee (BURC). Members of the BURC include each business segment's Chief Executive Officer, Chief Financial Officer and business unit presidents. Each BURC meets monthly and discusses business risks, existing controls in place to mitigate those risks and emerging risks. The group discusses risks at the individual business level and also at the

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corporate Assurant level. The BURC is also responsible for escalating pertinent risks to the ERMC.

The Business Unit Investment Committee (BUIC) proposes investment policy as well as new security and asset classes for ratification and monitors investment performance and cash flows. Members generally include the Chief Financial Officer and Assurant Asset Management (AAM) officers, including the Executive Vice President of Real Estate and Mortgage Services and the Vice President of Corporate Tax. Discussions and decisions are summarized by AAM.

Code of Ethics

All personnel are subject to the same Code of Ethics (Code). The Code is maintained by the Legal Compliance Team at Assurant, Inc. A toll free compliance help line is open 24-7 for anyone to report, anonymously, any concerns related to ethical or compliance matters. The help line is led by Assurant's Chief Compliance Officer (CCO). Investigating results are sent to CCO monthly and to the Audit Committee bi-monthly. Annually, the Legal Compliance Team and the Audit Committee make a review. Issues are analyzed on a qualitative and quantitative basis to determine which are to be escalated to the Board of Directors. The status and outcome of all matters reported to the compliance help-line, as well as any alleged SOX fraud matters, are reported to the Audit Committee not less than quarterly. The Code is well designed by the Board of Directors. Procedures are in place for determining ethical or compliance matters, including conflicts of interests. Issues and concerns are monitored and processed in a timely manner and reported to the appropriate individual or committee. Major issues are reviewed and resolved by the Board of Directors. Controls appear to be strong. The Company has an adequate policy and statement concerning conflict of interest, and the conflict of interest statements are signed each

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year by directors, officers and key employees. These statements were reviewed for the three year period of examination with no exceptions noted.

Internal Audit

Assurant, Inc. has an established internal audit department known as Risk and Advisory Services (RAS). RAS reports all activity and major findings to the Assurant Audit Committee when they meet every two months. All audit reports rated unsatisfactory are provided to the Audit Committee. All audit reports are provided to the General Counsel for the business unit where the audit was completed. All issues identified in the audits are captured in an issues log with remediation dates provided by management. RAS reports on the status of all issues in each report to the Audit Committee. RAS reports both on severity and the aging of the issues. Issues are deemed to be closed when RAS has verified that management has completed their remediation plan. RAS works closely with the Company's external auditors, PricewaterhouseCoopers, LLP (PwC) in assisting with both the annual audit and the statutory audits required by state governments. RAS also manages the SOX compliance efforts, performs risk based audits, provides advisory services to management when requested. RAS occasionally uses help from other major CPA firms when performing specialized IT audits such as network penetration testing. RAS works with the ERMC and the BURC to identify and verify financial, operational, compliance and strategic risks continuously.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The Company is a direct owned subsidiary of American Security Insurance Company, a Delaware corporation. In turn, American Security Insurance Company is a wholly-owned subsidiary of Interfinancial, Inc.,

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a Georgia corporation. In turn, Interfinancial, Inc. is a wholly-owned subsidiary of Assurant, Inc., a Delaware corporation.

Assurant Inc., was the subject of an initial public offering in February 2004 when its former parent Fortis (SA/NV) / Fortis N.V. sold approximately 65% of its interest and, then later, in January 2005, in a secondary offering sold approximately 19%. Fortis no longer retains a significant ownership interest in Assurant, Inc.

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, parent, affiliated insurers, and other members of the system as of December 31, 2008:

Assurant, Inc.
 Interfinancial Inc.
 American Security Insurance Company
 Standard Guaranty Insurance Company

Other related and controlled Assurant entities include Insureco, Inc. and American Bankers Insurance Company of Florida. See Schedule Y Part 1 of the annual statement for more detailed information concerning members of the holding group.

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 to, 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).

Management Agreements

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

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

Federal Tax Allocation Agreement

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This agreement, effective September 13, 2007, provides that Assurant, Inc. and the named corporations in Exhibit C of the agreement (Combined Group) file a consolidated income tax return. The method of allocation is in accordance with Treasury Regulation 1.1552-1 and 1.1502-33. The tax liability of the group is allocated to the several members on the basis of the percentage of the total tax, which the tax of such member, if computed on a separate return, would bear to the total amount of taxes for all members of the group. 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. Quarterly estimated tax payments are allocated to each member of the Combined Group in accordance with the allocation provision of the agreement.

Investment Management Agreement

This agreement, effective January 1, 1995, as amended December 31, 2007 between Assurant and the Company, provides for Assurant, through its affiliate Assurant 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 Agreements

A general agency agreement, effective July 1, 1997 between the Company, American Security Insurance Company, and Insureco Services, Inc., authorizes Insureco, Services, Inc. to solicit business, collect premiums and settle claims on behalf of ASIC and SGIC, for hazard insurance policies (forced-place coverage) to various banks and finance companies.

A general agreement, effective October 1, 2008, between The Signal (Signal) and the Company, provides that Signal is appointed as an agent of SGIC to solicit the insurance coverages of wireless communication equipment, wireless equipment insurance program and the

Standard Guaranty Insurance Company

wireless protector program; to the extent such coverages are underwritten by SGIC. Signal shall obtain and maintain licenses and appointments pursuant to SGIC guidelines and as required by state law. This agreement continues in-force until terminated by either party, upon 30 days written notice.

A general agreement, effective as of the accounting period ending December 31, 2008, between Insureco and the Company, provides that Insureco shall obtain and maintain licenses and appointments pursuant to SGIC guidelines and as required by state law. SGIC shall assist Insureco in the obtaining and maintaining of such licenses and/or appointments. Insureco shall have the right to bind SGIC in respect to coverage under the Insurance policies and certificates in accordance with SGIC requirements and the requirements of applicable law. This agreement shall renew automatically each year thereafter or continue in-force until terminated by either party, upon 30 days written notice.

Affiliate Agreement

This agreement, effective as of the accounting period ending December 31, 2007, between ASIC, SGIC and various insurer members controlled by Assurant, Inc., provides that each member may provide to other members the services of: premium receipt, claims payment, shared vendor costs, exercise of judgment in rendering services, and control services. Each member agrees to reimburse other members for services and facilities provided pursuant to the Agreement. This agreement continues in-force until terminated by a member, upon 30 days written notice, to any member.

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Agency Agreement

This agreement, effective May 1, 2006, includes the Company and ASIC, Voyager Indemnity Insurance Company (VIIC) and Tracksure Insurance Agency, Inc. (Tracksure). The agreement provides that Tracksure is to collect, receive and account for premiums of policies. Also, Tracksure can deliver and countersign policies which have been executed by an authorized officer of the Company, and make endorsements, changes, assignments, transfers and modification to policies as authorized by the Company. Additionally Tracksure will effect cancellation and non-renewal of policies as authorized by the Company.

Multicent Allocation Agreement

This agreement, effective January 1, 2008, between the Company and ASIC, American Bankers Insurance Company of Florida (ABIC), American Reliable Insurance Company, VIIC, Caribbean American Property Insurance Company, and Reliable Lloyds Insurance Company provides that each party shall be responsible for its proportionate share of the reinsurance premium based upon its estimated losses in respect to each reinsurance layer set forth in the Multicent Catastrophe Reinsurance Agreement. This agreement continues in-force until terminated by each party, upon 30 days written notice.

Services and Payment Intermediary Agreements

A services and payment intermediary agreement, effective January 1, 2008, between ABIC and the Company, provides that ABIC agrees to perform various functions including premium, collection, receipt and depository services. Commissions and claims payment shall be reimbursed by SGIC to ABIC as set forth in the Agreement. Premium remittance payable to

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SGIC by ABIC is set forth in the Agreement. This agreement continues in-force until terminated by either party, upon 30 days written notice.

A services and payment intermediary agreement, effective as of the accounting period ending December 31, 2008, between ABIC and the Company, provides that ABIC perform various services as mutually determined, in good faith, to be reasonably necessary to the performance of the services. This agreement shall renew automatically each year thereafter or continue in-force until terminated by either party, upon 30 days written notice.

Payroll Prefunding Agreement

This agreement, effective as of the accounting period ending December 31, 2008, between Assurant and the Company, provides Assurant assume the handling of payroll for SGIC and then bill the Company for said amounts due. Once every quarter, SGIC closes its books approximately a week prior to the date payroll is made by Assurant. As a result of such early closure, SGIC is required to pay Assurant, in advance, an estimated amount for payroll based on the prior month's payment. This agreement shall renew automatically each year thereafter or continue in-force until terminated by either party, upon 30 days written notice.

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, as amended, restated and effective September 21, 2007, for the custody and management of its investments.

TERRITORY AND PLAN OF OPERATION

Territory

During the examination, the Company's certificates of authority were reviewed without exception. As of December 31, 2008, the Company was licensed in the following jurisdictions:

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

* The Company has a certificate of authority as a surplus lines insurer in the state of Texas.

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 Health.

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.

Business is written by banks and finance companies located throughout the US. 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

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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 2008 Annual Statement indicates direct business written was as follows:

Fire	\$109,883,837
Allied lines	28,385,340
Homeowners multiple peril	14,991,775
Inland marine	8,121
Earthquake	3,615
Credit accident and health	3,313,413
Other liability – occurrence	317,097
Auto physical damage	2,645,501
Credit	518,816
Warranty	803,925
	<hr/>
Total	<u>\$160,871,440</u>

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:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus</u>	<u>Gross Written Premiums</u>	<u>Net Income</u>
2008	\$199,887,930	\$81,222,055	\$160,871,097	\$9,213,736
2007	192,934,763	88,869,494	168,061,018	43,183,090
2006	141,972,910	39,660,847	123,474,648	28,636,141
2005	124,776,981	35,205,847	105,134,717	14,072,294

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Assets of the Company increased 60% from 2005 to 2008; premiums increased 53%; and net income decreased 34%. Surplus as Regards Policyholders increased 131% during this examination period. That increase is attributable to increases of total net income of \$81 million, and change in non-admitted assets of (\$4.6) million, reduced by total dividends to parent of \$40 million, net unrealized capital losses of \$1.5 million, and change in provision for reinsurance of \$1.2 million.

REINSURANCE

During 2008, the Company both ceded and assumed reinsurance. The 2008 Annual Statement indicates the following:

Direct Business	\$160,871,440
Assumed from non-affiliates	(343)
Ceded to affiliates	11,850,880
Ceded to non-affiliates	<u>21,022,845</u>
Net written premiums	<u>\$127,997,372</u>

Assumed

Business was assumed from one reinsurer. The premiums assumed consisted of Allied Lines.

Ceded

Business is ceded to about 65 different reinsurers. The following five reinsurers represent approximately 73% of premiums ceded during 2008:

<u>Authorized Reinsurers</u>	<u>Ceded Written Premiums</u>
American Reliable Insurance Company	\$11,828,000
Swiss Reinsurance America Corp	881,000

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Unauthorized Reinsurers

Banc One Insurance Company	\$ 9,440,000
IPCRE Limited	1,022,000
Pelatis Insurance LTD	942,000

The treaties above were primarily quota share arrangements, with cession percentages ranging from 50% to 100%. The balances due from unauthorized reinsurers are secured by funds held by the Company, letters of credit, or by assets held in trust under a trust agreement.

The Company is mainly covered by a property catastrophe reinsurance program which includes the following:

1. Property Excess Catastrophe, Property Aggregate Excess Catastrophe and
2. Property and Casualty Excess of Loss reinsurance contracts

1. Property Excess Catastrophe Reinsurance Coverage

The Company's ultimate parent company, Assurant, Inc., has a property catastrophe reinsurance program, which is made up of three types of coverage:

- I. Florida Hurricane Catastrophe Fund (FHCF) Mandatory Coverage and Temporary Increased in Coverage Limit (TICL) Coverage
- II. Property Excess Catastrophe Reinsurance Coverage, comprised of the:
 - a. June 1st Placement Annual Coverage, June 1st Placement Two-Year Coverage, and June 1st Placement Top Layer Coverage
 - b. January 1st Placement Annual Coverage, January 1st Placement Forward Placed Coverage
- III. Multiple Event Cover, comprised of Coverage A and Coverage B

The FHCF coverage runs June 1, 2008 through May 31, 2009. The coverage provided by the FHCF inures to the benefit of Assurant's Property Excess Catastrophe Reinsurance Coverage and Multiple Event Cover.

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Assurant's property catastrophe reinsurance program renews at two effective dates each year, January 1, and June 1. At each renewal date, 50% of the program is placed.

Effective June 1, 2008, coverage was secured for 50% of the program for \$675.25 million in excess of \$94.75 million retention, covering a ground up per occurrence loss of \$770 million after inuring FHCF recoveries. The majority of the coverage was placed on a one-year term with a small portion placed on a two-year term (\$78 million in limit). In addition to these coverages, a top layer of \$110 million in excess of \$660 million retention was placed with a seven month term, effective June 1, 2008 to December 31, 2008, for the 50% of the program that was placed at January 2008.

Effective June 1, 2008 through May 31, 2009, the multiple event cover is comprised of two coverages, Coverage A and Coverage B. Coverage A provides coverage of \$17.8 million limits excess \$115 million of the Property Excess Catastrophe Reinsurance Coverage - 6/1 Placement Annual Coverage, and covers all perils (subject to contract exclusions). Coverage B provides catastrophe aggregate coverage of \$90 million excess \$80 million, with subject losses of \$40 million excess \$10 million per Occurrence. Coverage B provides coverage for Hurricane only as named or numbered by the National Weather Service. The maximum total recovery is \$90 million between Coverage A and B for the term of the contract.

Other major reinsurance agreements protecting the Company's exposure as of December 31, 2008 were as follows:

<u>Treaty</u>	<u>Description</u>	<u>Company Retention</u>	<u>Limits</u>
Property			
Casualty	1st layer per occurrence	\$ 90,000,000*	\$25,000,000
	2 nd layer-Jan Placement	\$ 115,000,000	\$25,000,000
	2 nd layer-Jun Placement	\$ 115,000,000	\$45,000,000
	3 rd layer-Jan Placement	\$140,000,000	\$40,000,000
	3 rd layer-Jun Placement	\$160,000,000	\$70,000,000

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4th layer-Jan Placement	\$180,000,000	\$70,000,000
4th layer-Jun Placement	\$230,000,000	\$90,000,000
5th layer-Jan Placement	\$250,000,000	\$100,000,000
5th layer-Jun Placement	\$320,000,000	\$145,000,000
6th layer-Jan Placement	\$350,000,000	\$100,000,000
6th layer-Jun Placement	\$465,000,000	\$305,000,000
7th layer-Jan Placement	\$450,000,000	\$100,000,000
8th layer-Jan Placement	\$550,000,000	\$110,000,000
9th layer-7 month (June)	\$660,000,000	\$110,000,000

* \$90 million represents base retention, also retains 19% of difference between 1st and 2nd layers (\$115 million-\$90 million or \$4.75 million).

2. Excess of Loss Reinsurance

Assurant Specialty Property has various programs and product specific reinsurance contracts in force that could potentially impact the recovery of catastrophe related losses. Two of these programs name the Company as a participant; they are the Property and Casualty Excess of Loss (XOL) reinsurance treaties.

The Property XOL reinsurance treaty provides per-risk property coverage for Commercial Protector, Lender-Placed Residential, and Homeowners' policies of up to \$4 million in excess of \$1 million. Recoveries under this treaty inure to the benefit of Assurant property catastrophe reinsurance program.

The Casualty XOL reinsurance treaty provides liability coverage of up to \$4 million in excess of \$1 million. This program has nothing to do with the catastrophe reinsurance protection.

The contracted deposit premiums are paid for this coverage on a quarterly basis. These ceded premiums are recognized over the coverage period. There is a true-up with the reinsurer at the end of the contract period based on actual premiums earned on the covered products.

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In addition, for the catastrophe program, the Company used two intermediaries; AON/Benefield and WNC First Insurance Services.

FIDELITY BONDS AND OTHER INSURANCE

The Company is covered under a standard financial institution bond covering Assurant, Inc., its 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, but are not limited to:

- Directors' and officers' liability and company indemnification
- Commercial auto policy
- Workers' compensation and employers' liability policy
- Commercial liability policy
- Commercial umbrella

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.

Information Technology Systems Controls

The financially significant information technology systems controls (IT) applications were reviewed in conjunction with this examination. The results of the IT systems review determined that the overall mitigation strategies/controls risk related to information systems controls at the Company is strong for those policies and procedures that had been in place during the examination year ended December 31, 2008, and until the date of the IT report on November 6, 2009.

Paid and Outstanding Claims Supporting Documentation

Test sampling to determine the accuracy of paid and outstanding claims data for the year 2008 determined that the Company was able to produce supporting claim files needed to test the data.

A total of 28 loss transactions were selected from the two systems utilized by the Company to collect and process claims data systems, with a total of 28 claim files being provided by the Company. These two systems represent 90 percent of the total direct losses paid in 2008. No errors were noted based on review of the underlying claim files.

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, 2008.

Assets
Liabilities, Surplus and Other Funds
Statement of Income

Standard Guaranty Insurance Company

Capital and Surplus Account

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

Standard Guaranty Insurance Company

Assets

December 31, 2008

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$95,398,061	\$ 0	\$95,398,061
Preferred stocks	3,995,968		3,995,968
Common stocks	205,000		205,000
Cash and short-term investments	81,130,168		81,130,168
Investment income due and accrued	1,422,707		1,422,707
Premiums and agents' balances in course of collection	784,851	434,088	350,763
Amounts recoverable from reinsurers	3,802,210		3,802,210
Other amounts receivable under reinsurance contracts	52,347		52,347
Net deferred tax asset	8,287,942	3,731,662	4,556,280
Guaranty funds receivable or on deposit	29,449		29,449
Receivables from parent, subsidiaries and affiliates	6,327,588		6,327,588
Premium tax recoverable	172,189		172,189
Accounts receivable other	152,436		152,436
Balances under deposit type contracts	1,607,947	2,012	1,605,935
Prepaid expenses	591,737	591,737	0
Other assets	316,676		316,676
Cash suspense	370,153		370,153
	<hr/>		
Total Assets	<u>\$204,647,429</u>	<u>\$4,759,499</u>	<u>\$199,887,930</u>

Standard Guaranty Insurance Company

Liabilities, Surplus and Other Funds

December 31, 2008

		<u>Note</u>
Losses	\$ 13,420,450	1
Loss adjustment expenses	1,784,812	1
Commissions payable, contingent commissions and other similar charges	4,514,765	
Other expenses	72,029	
Taxes, licenses and fees	789,429	
Current federal and foreign income taxes	2,667,351	
Unearned premiums	62,282,520	
Ceded reinsurance premiums payable	2,073,525	
Funds held by Company under reinsurance treaties	19,516	
Amounts withheld or retained by Company for account of others	10,431	
Remittances and items not allocated	14,860,073	
Provision for reinsurance	1,932,516	
Payable to parent, subsidiaries and affiliates	12,224,794	
Checks pending escheat	4,304	
Agents' credit balance	203,453	
Unearned ceding fees	669,165	
Balances under deposit type contracts	163,962	
Cash suspense	749,481	
Unearned income	219,034	
Insurance department penalties	4,197	
Amounts payable reinsurance assumed	<u>68</u>	
 Total Liabilities	 <u>\$118,665,875</u>	
 Common capital stock	 3,547,500	
Gross paid in and contributed surplus	1,802,500	
Unassigned funds (surplus)	<u>75,872,055</u>	
 Surplus as regards policyholders	 <u>\$81,222,055</u>	
 Total Liabilities and Surplus	 <u>\$199,887,930</u>	

Statement of Income

December 31, 2008

Underwriting Income	
Premiums earned	\$ <u>128,048,763</u>
Deductions	
Losses incurred	48,504,299
Loss adjustment expenses incurred	12,440,059
Other underwriting expenses incurred	<u>53,954,292</u>
Net underwriting gain	\$ <u>13,150,113</u>
Investment Income	
Net investment income	8,358,016
Net realized capital gains	<u>(6,618,089)</u>
Net investment gain	\$ <u>1,739,927</u>
Other Income	
Finance and service charges not included in premium	18,088
Other income	160,879
Deposit treaty expense	(2,306,694)
Fee income	3,174,032
Insurance department penalty	<u>(12,173)</u>
Total other income	\$ <u>1,034,132</u>
Net income before federal taxes	\$ 15,924,172
Federal taxes incurred	<u>6,710,436</u>
Net Income	\$ <u>9,213,736</u>

Capital and Surplus Account

December 31, 2007 to December 31, 2008

Surplus as Regards Policyholders, December 31, 2007	\$88,869,495
Net Income	\$ 9,213,736
Net unrealized capital gains or (losses)	(1,600,215)
Change in net deferred income tax	1,947,142
Change in non-admitted assets	(1,870,529)
Change in provision for reinsurance	(1,341,516)
Dividends to stockholders	(15,000,000)
Statutory audit adjustments, net of tax	<u>1,003,943</u>
Net change in capital and surplus for the year	<u>(7,647,439)</u>
Surplus as Regards Policyholders, December 31, 2008	\$ <u>81,222,055</u>

NOTES TO FINANCIAL STATEMENTS

Note 1. Losses **\$13,420,450**

Note 1. Loss Adjustment Expenses **\$1,784,812**

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, 2008. In addition, INS was provided with other reports, schedules, exhibits and relevant information as requested.

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 \$744,000 higher than the Company's booked net loss and LAE reserves of \$15.2 million. This \$744,000 difference represents 4.9% of December 31, 2008 Annual Statement reserves. In INS' opinion, Standard Guaranty's booked net loss and LAE reserves as of December 31, 2008 are reasonably stated. INS' estimated gross loss and LAE reserves are \$366,000 higher than Standard Guaranty's booked gross loss and LAE reserves of \$24.2 million. This \$366,000 difference represents 1.5% of December 31, 2008 Annual Statement reserves.

In conjunction with the actuarial review, the examination team was charged 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 2008

Standard Guaranty Insurance Company

determined that the Company provided 100% of supporting claim files needed to test the data.

No errors in the sample selected for attribute testing were noted.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were nine recommendations made in the prior examination report as of December 31, 2005. 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, or provided satisfactory responses to, the prior examination recommendations.

SUMMARY OF RECOMMENDATIONS

There were no recommendations made in this examination report dated as of December 31, 2008.

CONCLUSION

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

<u>Description</u>	<u>December 31, 2008</u>	<u>December 31, 2005</u>	<u>Increase or (Decrease)</u>
Assets	\$199,887,930	\$124,776,981	\$75,110,949
Liabilities	\$118,665,875	\$ 90,314,134	\$28,351,741
Capital and Surplus	\$81,222,055	\$ 34,462,847	\$46,759,208

Standard Guaranty Insurance Company

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,



Steven C. Gregory, CFE, FLMI, AIE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENT

On January 21, 2010, the U.S. Securities and Exchange Commission (the “SEC”) filed a civil complaint in the United States District Court for the Southern District of New York in connection with the SEC’s previously disclosed investigation into a finite reinsurance arrangement entered into by Assurant, Inc. In the complaint, the SEC charged Assurant, Inc. with violating Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 and Rules 12b-20, 13a-11 and 13a-13 thereunder. As previously disclosed by Assurant, Inc. in a Current Report on Form 8-K, Assurant, Inc. entered into a settlement with the SEC on January 21, 2010, in which Assurant, Inc. consented, without admitting or denying the allegations in the complaint, to the entry of a judgment requiring payment of a civil penalty of \$3.5 million – an expense that Assurant, Inc. accrued as of December 31, 2009 – and enjoining Assurant, Inc. from violating the aforementioned federal securities laws. The court approved the settlement in a final judgment entered on January 25, 2010.