



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

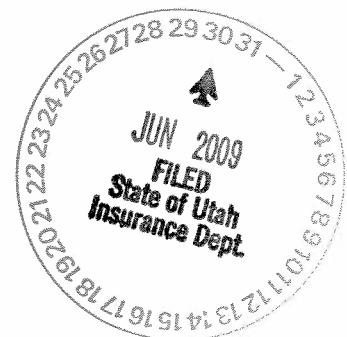
**UNITED INSURANCE COMPANY**

of

Provo, Utah

as of

December 31, 2007



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January 7, 2009

Honorable D. Kent Michie, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, UT 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of December 31, 2007, of the financial condition and business affairs of:

**UNITED INSURANCE COMPANY**  
Provo, Utah

A stock property and casualty insurance Company, hereinafter referred to as the (Company), and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

Period Covered by Examination

The examination covers the period from the Company's inception of November 9, 2004, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedures Employed

The Utah Insurance Department (Department) conducted this examination in accordance with the National Association of Insurance Commissioners (NAIC) and the NAIC Financial Condition Examiners Handbook. The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2007. The examination was conducted in accordance with generally accepted standards and procedures in conformity with the applicable laws of the state of Utah.

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period, and a determination of its financial condition as of December 31, 2007. Material assets were verified and valued, and liabilities were determined in accordance with the laws, rules and procedures prescribed by the state of Utah, and the NAIC Statements of Statutory Accounting Principles (SSAP).

The Company retained the services of a certified public accounting (CPA) firm to audit its financial records for the years under examination. Review and reliance was placed on certain portions of the CPA work for our examination.

A letter of representation obtained from management certified that all significant matters were disclosed and all records were provided for examination.

#### Status of Prior Examination Findings

This is the first examination of the Company, and there were no prior examination findings on which to comment.

### HISTORY

#### General

The Company was incorporated on March 16, 2004 and received its certificate of authority to transact insurance business on November 9, 2004. At December 31, 2007, the Company's certificate of authority provided for the following lines of business: liability; surety; property; marine and transport; vehicle liability; and workers compensation. No changes have been made to the Company's Articles of Incorporation since March 16, 2004.

#### Capital Stock

The Articles of Incorporation authorized 5,000,000 shares common stock with no stated par value. At December 31, 2007, there were 646,011 shares with a total reported value of \$2,000,000 issued and outstanding. The number of shares and values fluctuate based on each shareholder's, as producers of business, volume and percentage of business at year end, with the total value remaining at \$2,000,000 during the years covered by this examination. Shareholders at December 31, 2007 were Lynn Gordon Connelly, President (30.3%), The Estate of David Westover, Deceased (19.6%), Charles David Westover, Secretary (17.9%), Gregory John Heiner, Treasurer, (13.1%), and others, none of which owns 10% or more of the common stock.

#### Dividends to Stockholders

No dividends to stockholders were declared or paid during the period covered by examination from November 9, 2004 through December 31, 2007.

## Management

The Company's Bylaws indicated the number of directors to be no less than five, and no more than eight. The following persons served as directors of the Company as of December 31, 2007, as disclosed on the annual statement Jurat page:

<u>Name</u>	<u>Principal Occupation</u>
Lynn Gordon Connelly Provo, UT	President – United Underwriters, Inc.
Charles David Westover Lehi, UT	Insurance Agent
Gregory John Heiner Provo, UT	Vice President - United Underwriters, Inc.
Frank Owen Allen Orem, UT	Prime Landscape & Design, Inc.
Joseph Foch Ollivier Provo, UT	VP Oil Service Company

Frank Owen Allen replaced Keith Kerby, and Joseph Foch Ollivier replaced Charles David Westover in 2007. The examination could not verify by evidence in the minutes of the meeting of the shareholders that these terminations and elections were made.

The Company's Bylaws provided that principal officers consist of a chairman, president, secretary, and chief financial officer, to be chosen by the directors for a term of approximately one year. The board may choose additional vice presidents and other officers as needed. The following persons served as officers as of December 31, 2007:

<u>Principal Officer</u>	<u>Office</u>
Lynn Gordon Connelly	President
Charles David Westover	Secretary
Gregory John Heiner	Treasurer

As of December 31, 2007, there were no committees of the board of directors, as actions were generally brought to those in attendance at board meetings rather than to committees.

At December 31, 2007, the Company was not in compliance with U.C.A. § 31A-5-412(2)(a), which requires every corporation to have an audit committee, except for certain exemptions under U.C.A. § 31A-5-407 (4). Pursuant to examiner recommendations, an Audit Committee was established on October 20, 2008, by majority vote of the board, with the appointments of Lynn Gordon Connelly, W. Mont Timmins, Charles David Westover and Gregory John Heiner to serve in 2008. At end of fieldwork, the Company was in compliance with U.C.A. § 31A-5-412(2)(a) for year 2008.

#### Conflict of Interest Procedure

The Company had no written conflict of interest policy in effect during the examination period. Pursuant to NAIC requirements, a conflict of interest policy was drafted, and signed statements were subsequently provided to examiners from persons currently serving as directors and officers as of November 2008.

#### Corporate Records

U.C.A § 16-10A-§ 1601 provides that corporate records shall be properly maintained, including minutes of all meetings and actions taken. The minutes taken of the board of directors (board) and shareholder meetings did not provide evidence that meetings were held according to Utah Code and in accordance with the Company's Bylaws, particularly the following:

- 1) The minutes in earlier years did not list the attendees, or evidence that a quorum was met, pursuant to Article III.5 and IV.4 of the Bylaws. The more recent minutes during 2007 identified the attendees, denoting a quorum at meetings.
- 2) Board meetings were not held on a quarterly basis, as specified in Article IV.2 of the Bylaws.
- 3) The Bylaws Article V.3 specifies that officers shall serve for a term of approximately one year; however, the board minutes did not specify an annual re-appointment of officers.
- 4) The Bylaws Article IV.1 specifies that directors are to be elected at each annual shareholder meeting. The shareholder minutes did not reflect annual voting and election of directors.

Recommendation: We recommend that the Company ensure the shareholder and board meetings are held as outlined in its Bylaws and in accordance with U.C.A § 16-10A-1601. We also encourage that meetings be conducted and minutes maintained evidencing proper voting and ratification procedures, approval of prior meeting minutes, and formalization with the signature of the secretary, as a normal process of parliamentary procedure and rules of order.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

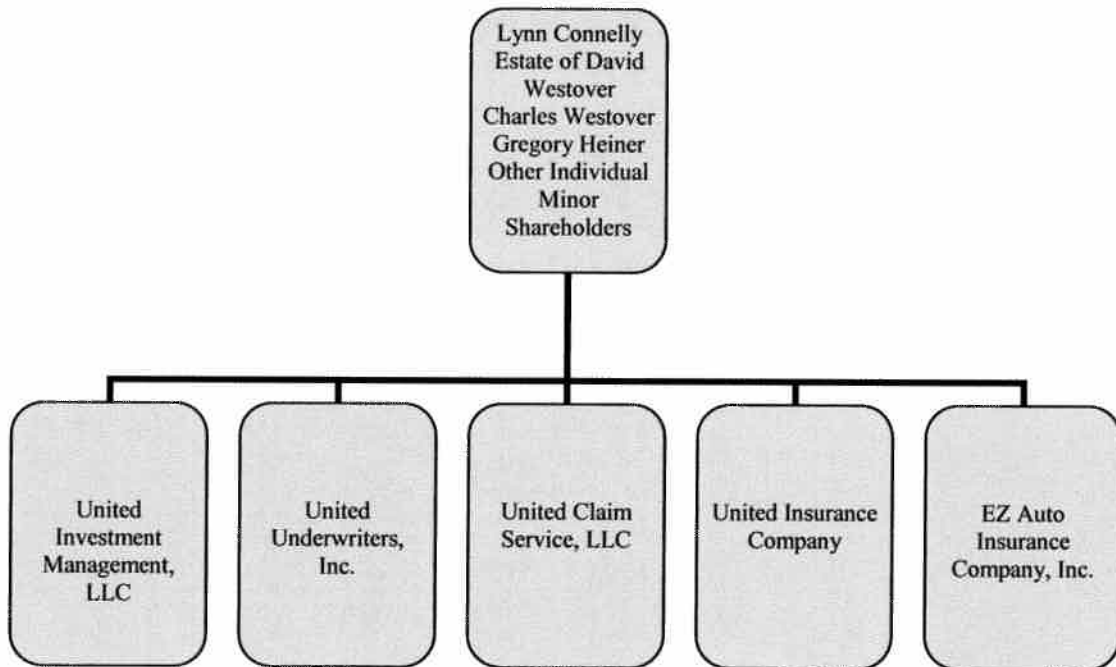
The Company had no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance during the years covered by this examination.

Surplus Debentures

The Company had no surplus debentures in effect, issued or retired during the years covered by this examination.

AFFILIATED COMPANIES

At December 31, 2007, the Company is wholly-owned and controlled by its shareholders. An organizational chart illustrating the Holding Company system follows:



Transactions with Affiliates

During the period ending December 31, 2007, the Company had the following agreements with its affiliates United Underwriters, Inc. and United Claim Service, Inc.:

### Producer Agreement

The Company entered into a written agreement on December 16, 2005, with United Underwriters, Inc. (UU), by which UU acts as the Company's managing general agent (MGA) and the Producer. The agreement authorizes UU to be responsible for all underwriting, policy issuance, servicing of policies, and marketing functions in connection with the Company's private passenger automobile business in Utah. The agreement provides for UU to collect an initial commission of 22.5% of gross net written premium less cancellations and return premiums, on a monthly basis. UU also shall earn additional provisional commissions based on favorable loss ratio determinations. Pursuant to the agreement, UU must maintain a certain level of Errors and Omissions coverage, which was verified by the examiners. The agreement automatically renews each consecutive twelve month period from effective date, until terminated.

### Claims Administration

The Producer is responsible for supervising claims administration as set forth in a "Claims Mandate" attached to the Producer Agreement, by which the Company and the Producer designate another affiliate, United Claim Service, LLC (UCS), to carry out the day to day claims management. All claim files shall be the joint property of the Company and Producer. The Claims Mandate spells out the responsibilities and limitations of the claims manager. All required information must be provided to the Company electronically, reconciled and forwarded within seven (7) business days from the close of each month. The fee to UCS, reported as a loss adjustment expense, is equal to 7.5% of gross net written premiums less cancellations and return premiums.

### FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for this size property and casualty insurance company is between \$100,000 and \$125,000. As of the examination date, the Company was covered by a fidelity bond with an aggregate liability of \$1,000,000.

### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Since the staff of UU provided all services to the Company, the Company had no employees. Therefore, the Company offered no employee benefits or insurance plans through December 31, 2007.

### STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105 the Company was required to maintain a deposit in the amount of its minimum capital requirement at December 31, 2007. The Company's minimum capital requirement was \$1,000,000 as determined by U.C.A. § 31A-5-

211(2)(b). The Utah Insurance Department confirmed the following assets, and also certified that the assets were held in accordance with U.C.A. § 31A-2-206 at December 31, 2007.

<u>State</u>	<u>Type of Asset</u>	<u>Book Value</u>	<u>Fair Value</u>
Utah	FHLB Agency Note 6.185%, Mat 5/6/08	501,991	502,656
Utah	FHLB Agency Note 4.125%, Mat 11/19/08	500,752	500,000
Utah	Central Bank CD Money Market, 1.93%	66,256	66,256
Total All Deposits		<u>1,068,999</u>	<u>1,068,912</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

A list of policy forms used in Utah was provided, and based upon review, the Company appears to have properly filed rates and forms currently in use.

### Territory and Plan of Operation

At December 31, 2007, the Company's certificate of authority provided for the following lines of business: liability; surety; property; marine and transport; vehicle liability; and workers compensation written in the state of Utah. The Company began issuing policies in 2005 and its processes and outcomes have been positive and as expected. It developed an automated processing program aimed to empower its agents to meet the needs of its customers.

The Company procured business through eighty-five independent insurance agencies throughout Utah. Through December 2007, the Company's primary product was non-standard private passenger automobile insurance. Approximately 40% of the vehicles insured had no physical damage coverage, and approximately 85% of the policies were issued at the state-mandated minimum limits of bodily injury and property damage coverage. The automobile policies were written on a semi-annual term and the majority of policyholders were on monthly payment plans.

The Company's records and those on file with the Department concerning agency appointments were not accurately stated, and some appointments were not made in accordance with U.C.A. § 31A-23a-115. In response to examination recommendations, the Company subsequently made changes to its appointment process to ensure the agencies and agents were licensed, and to verify that Company records corresponded with Departmental records.

### Advertising and Sales Material

The Company does not do any advertising nor use brochures or other advertising and sales materials.

### Treatment of Policyholders

Two formal complaints were filed with the Department during the examination period, which were resolved. The Company maintains some control over policyholder complaints.

## REINSURANCE

### Ceded

From May 1, 2005 through June 30, 2007, the Company had a quota share contract with Motors Insurance Corporation through GMAC Reinsurance Corporation, and with Civil Service Employees Insurance Company, as subscribing reinsurers at 90% and 10%, respectively. The reinsurance intermediary was John B. Collins Associates, Inc. The Company retained 15% and the reinsurers assumed 85% of the Company's net liability, defined as the Company's gross liability remaining after cessions, if any, to other pro rata reinsurers.

Effective June 30, 2007, the Company terminated this agreement, and entered into a quota share contract with CSE Safeguard Insurance Company (CSE), a California insurance company licensed to do business in Utah. Under this agreement the Company retained 50% of its net liability up to a \$100,000 limit.

### Assumed

Until June 30, 2007, the Company did not assume business. Effective June 30, 2007, the Company entered into a quota share agreement with CSE Safeguard Insurance Company (CSE), whereby the Company assumes 50% of CSE's net liability (liability remaining after any other pro rata cessions) on commercial auto and businessowners policies in Utah, which are underwritten by United Underwriters, Inc. This agreement is effective through December 31, 2008, inclusive. The Company is limited to the following exposures. Property losses that include two or more risks that exceed \$1,000,000, exposure is limited to \$5,000,000 per occurrence; all other property losses exposure is limited to \$400,000 per risk; casualty loss exposure is limited to \$300,000 per occurrence.

## ACCOUNTS AND RECORDS

This examination was conducted at the Company's principal business location at 4778 North 300 West, Provo, Utah, where the Company's accounts and records were maintained as required by U.C.A. § 31A-5-401.

As of December 31, 2007, the Company's accounting system consisted of a general ledger, registers, statistical and other records maintained primarily on information systems equipment and software.

The following comments and recommendations are made concerning the Company's accounts and records:

#### Custodial Agreements

At December 31, 2007, the Company had securities held by custodians without proper custodial agreements. The Company did not comply with U.C.A. § 31A-4-108 and Utah Administrative Code (U.A.C.) Rule R590-178. Assets held by these custodians are not considered admissible assets. The Utah Insurance Department and Company management mutually agreed that the Department will allow these assets to be reported as of December 31, 2007, only if custodial agreements were properly executed meeting all requirements of U.A.C. Rule R590-178 prior to the end of examination. The Company provided sufficient evidence to the examiners that corrective action was subsequently taken. The revised custodial agreements were approved by the board of directors and executed with the custodians during June and September 2008. The Company is considered to be in compliance with U.A.C. Rule R590-178 as of the end of examination fieldwork.

#### Annual Statement Reporting

The General Interrogatories Item 10, Part 1 of the filed 2005 and 2006 Annual Statements incorrectly disclosed Brett Horoff as the actuary who signed the Statement of Actuarial Opinion. The 2007 General Interrogatories properly disclosed Leslie Vernon, who was affiliated with the same actuarial firm, and the preparer and signer of the Opinion for all three years. The NAIC Instructions specifically require the individual person must be named as the appointed actuary rather than the firm or another member of the firm.

## FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2007

STATEMENT OF REVENUE AND EXPENSES for the Year Ended  
December 31, 2007

RECONCILIATION OF CAPITAL AND SURPLUS – 2004 through 2007

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

UNITED INSURANCE COMPANY  
BALANCE SHEET  
As of December 31, 2007

ASSETS

	Net Admitted Assets Per Company	Examination Adjustments	Net Admitted Assets Per Examination	Notes
Bonds	\$668,876		\$668,876	
Common stocks	427,299		427,299	
Cash and short-term investments	1,665,295		1,665,295	
Investment income due and accrued	20,042		20,042	
Uncollected premiums and agents balances	977,874		977,874	
Amounts recoverable from reinsurers	162,841		162,841	
Receivables from parent, subsidiaries and	279,790		279,790	
Total assets	<u>\$4,202,016</u>	<u>\$0</u>	<u>\$4,202,016</u>	

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses	\$339,330		\$339,330
Loss adjustment expenses	37,244		37,244
Taxes, licenses and fees	22,811		22,811
Current federal and foreign income taxes	(31,976)		(31,976)
Unearned premiums	687,839		687,839
Ceded reinsurance premiums payable	574,650		574,650
Aggregate write-ins for liabilities	1,927		1,927
Total liabilities	<u>\$1,631,825</u>	<u>\$0</u>	<u>\$1,631,825</u>
Common capital stock	\$2,000,000		\$2,000,000
Gross paid in and contributed surplus			
Unassigned funds (surplus)	570,192		570,192
Total Surplus as regards policyholders	<u>\$2,570,192</u>	<u>\$0</u>	<u>\$2,570,192</u>
Total liabilities, capital and surplus	<u>\$4,202,017</u>	<u>\$0</u>	<u>\$4,202,017</u>

UNITED INSURANCE COMPANY  
STATEMENT OF INCOME  
For the Year Ended December 31, 2007

	Current Year Total	Notes
Premiums earned	\$1,314,377	
Losses incurred	\$789,319	
Loss expenses incurred	120,066	
Other underwriting expenses	170,277	
Total underwriting deductions	<u>\$1,079,662</u>	
Net underwriting gain	<u>\$234,715</u>	
Net investment income earned	\$115,192	
Net realized capital gains	11,727	
Net investment gains or (losses)	<u>\$126,919</u>	
Net income before federal and foreign income taxes	\$361,634	
Federal and foreign income taxes incurred	<u>117,987</u>	
Net income	<u>\$243,647</u>	

UNITED INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
2004 through 2007

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Per Exam 2007</u>	<u>Notes</u>
Capital and surplus prior reporting year	\$0	\$2,016,912	\$2,066,624	\$2,317,347	
Net income or (loss)	16,912	52,681	224,709	243,647	
Change in unrealized capital gains (losses)		(2,967)	26,014	9,198	
Change in net deferred income tax					
Change in nonadmitted assets					
Change in provision for reinsurance					
Transfer from surplus (stock dividend)					
Change in paid in capital	2,000,000				
Transfer to capital (stock dividend)					
Net change in capital and surplus	<u>\$2,016,912</u>	<u>\$49,714</u>	<u>\$250,723</u>	<u>\$252,846</u>	
Examination adjustments					
Capital and surplus end of reporting year	<u>\$2,016,912</u>	<u>\$2,066,626</u>	<u>\$2,317,347</u>	<u>\$2,570,192</u>	(1)

NOTES TO FINANCIAL STATEMENTS

The following adjustments and notes are made to the financial statements as reported at December 31, 2007.

Note (1): Minimum capital and risk-based capital:

As defined by U.C.A. § 31A-17 Part 6, the Company had total adjusted capital, per examination, of \$2,570,192, which was more than sufficient to meet the authorized control level of \$119,837. The Company's Risk Based Capital (RBC) ratio was 21.45 at December 31, 2007.

The Company's minimum capital requirement was \$1,000,000 pursuant to U.C.A. §31A-5-211. The examination total adjusted capital of \$2,570,192 meets the minimum capital requirement.

## SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:

1. At December 31, 2007, the Company was not in compliance with U.C.A. § 31A-5-412(2)(a), which requires an audit committee. Subsequently the Company established an Audit Committee on October 20, 2008, by majority vote of the board, thereby coming into compliance with U.C.A. § 31A-5-412(2)(a) as of the end of fieldwork. (Management)
2. During the examination period, the Company had no written conflict of interest policy in effect or signed disclosure statements as required by the NAIC. Subsequently a conflict of interest policy was drafted, and signed statements were provided to examiners from persons currently serving as directors and officers at November 2008.

*Recommendation:* We recommend the Company maintain and keep current such procedure going forward. (Conflict of Interest)

3. The Company did not maintain its corporate minutes in compliance with U.C.A § 16-10A-1601 or in accordance with its Bylaws, regarding evidence of attendees and quorum; quarterly board meetings; annual appointment of officers; and annual election of directors.

*Recommendation:* We recommend the Company hold its meetings and maintain minutes of those meeting in accordance with U.C.A § 16-10A-1601 and its Bylaws, and in accordance with normal parliamentary procedure and rules of order. (Corporate Records)

4. Agency appointments were not made in compliance with U.C.A. §31A-23a-115. Discrepancies were found between the Company's records and the Department files. Subsequently during the course of examination, the Company made changes to its appointment process in the third quarter 2008 to ensure the agencies and agents were licensed, and also that the Company records corresponded with Department records.

*Recommendation:* We recommend that the Company establish internal procedures to ensure the information provided by the agencies/agents is correct to properly appoint all individual and agency producers doing business in Utah in accordance with U.C.A. §31A-23a-115. (Territory and Plan of Operation)

5. The Company did not comply with U.C.A. § 31A-4-108 and U.A.C. Rule R590-178, Custodial Agreements. New agreements were subsequently executed in June and September 2008, which were approved by the board and executed with the custodians, bringing the Company into compliance. (Accounts and Records)

6. The 2005 and 2006 Annual Statement General Interrogatories Item 10, Part 1, Disclosure of Actuary was not made in accordance with the NAIC Annual Statement Instructions. The disclosure was corrected in the 2007 General Interrogatories.

*Recommendation:* We recommend the Company properly disclose the name of the appointed actuary in its statements and filings with the Department pursuant to the NAIC Instructions. Also, the appointed actuary should also correspond with U.A.C. Rule R590-162-5(C) regarding any Actuarial Change Notification Letter. (Accounts and Records)

#### ACKNOWLEDGEMENT

In addition to the below signed, Clarissa Crisp, Financial Examiner; Michael Lamb, FCAS, MAAA, Brandon Thomas, HISP, and Colette M. Hogan Sawyer, CFE, CPM, Assistant Chief Examiner, participated in the examination representing the Utah Insurance Department, and join the undersigned in acknowledging the assistance and cooperation extended during the course of this examination by officers, employees, and representatives of the Company.

Respectfully Submitted,



Carolyn Maynard, CFE, Examiner-in-Charge  
Huff, Thomas and Company  
Representing the Utah Insurance Department