

PART I

**STATE BOARD OF ADMINISTRATION OF FLORIDA
INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM ("PROGRAM")
APPLICATION**

IMPORTANT NOTES:

1. INCOMPLETE APPLICATIONS WILL BE RETURNED TO THE APPLICANT, UNREVIEWED.
2. THE FIRST TIME A WORD APPEARS IN THIS APPLICATION THAT HAS A SPECIAL DEFINITION, IT WILL BE SO INDICATED WITH AN ASTERISK (*). THE DEFINITION IS CONTAINED IN RULE 19ER06-3, F.A.C., WHICH IS AVAILABLE ON THE BOARD'S WEBSITE, WWW.SBAFLA.COM, UNDER "INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM" THEN "RULE 19ER06-3".

Part I: Basic Information

CONTACT INFORMATION:

Application Date: 6/15/2006
Insurer's* Name ("Applicant"*): Universal Property and Casualty Insurance Company NAIC #: 10861
Group Name, if applicable: N/A Group NAIC #: N/A
Address of Administrative Office: 1110 W. Commercial Blvd., Ft. Lauderdale, FL
Contact Name and Title: Brad Meier, President
Telephone Number: 954-958-1200 Fax Number: 954-958-1201
Email Address: bmeier@universalproperty.com

SURPLUS NOTE* REQUESTED:

Principal Amount of Surplus Note Requested: \$25,000,000
Date funds are desired: 9/1/2006
Amount of New Capital* contributed: \$25,000,000
Anticipated date New Capital infused: 9/1/2006
Will the New Capital be encumbered? No If yes, describe: N/A
Source of New Capital: Contribution from holding company (private placement)
Address for the source of New Capital: 1110 W. Commercial Blvd., Ft. Lauderdale, FL
Contact Name for the source of New Capital: Brad Meier

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Telephone Number for the source of New Capital: 954-958-1200
Fax Number for the source of New Capital: 954-958-1201
Email Address for the Contact for the source of New Capital: bmeier@universalproperty.com
Name of depository for New Capital: Wachovia Bank, N.A.
Address of depository for New Capital: 350 East Olas Blvd., Suite 1800, Ft. Lauderdale, FL
Contact Name for the depository and Title: Ryan Cronin
Telephone Number for the depository: 954-765-3873
Fax Number for the depository: 954-765-3870
Email Address for the Contact at the depository: ryan.cronin@wachovia.com

FINANCIAL INFORMATION:

Current Surplus* amount as of latest month end: \$13,302,808
Surplus as of most recently filed financial statement with the Office*: \$12,506,752
Annualized Net Written Premium* as of latest month end: \$23,806,854
Annualized Net Written Premium as of most recently filed financial statement with the Office:
\$19,447,808
Current ratio of Net Written Premium to Surplus as of latest month end: 1.79:1
Date Applicant estimates reaching the Minimum Writing Ratio*, if not already obtained: _____
6/30/2006

Part II:

BUSINESS PLAN: Provide an executive summary of the Applicant's business plan including the number of new policies the Applicant intends to write as a result of this Program and time frames for writing such policies. Also, indicate the target area of the state where the Applicant plans to write new policies. Discuss in a separate paragraph the prospects for the long term repayment of the Surplus Note indicating any circumstance which might prohibit or interfere with full repayment.

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REINSURANCE PROGRAM: Provide a descriptive summary and a chart of your reinsurance program for the 2006 hurricane season showing the results pre and post infusion of New Capital. Indicate the Insurer's 100-year probable maximum loss (PML) associated with the various model(s) used to determine the 100-year PML. Identify the model(s) and version number(s) used to determine the PML(s).

Part III: Interrogatories

Responses provided to the interrogatories may be added to the Surplus Note under the section entitled "Supplemental Agreements."

1. Will the New Capital contribution be in excess of the Minimum Contribution*?
2. Have profits been retained to grow Surplus over the last five years? If yes, how much has been retained or contributed to Surplus each year?
3. Will profits be retained to grow Surplus should the Applicant be granted the Surplus Note proceeds associated with this Program?
4. Does the Applicant have a related company or other person or entity that is willing to guarantee the Applicant's Surplus Note under this Program? If yes, provide details.
5. Although not required, is the Applicant willing to commit collateral for the purpose of securing the state's interest in the proceeds of the Surplus Note?
6. Although not required, is the Applicant willing to deposit 10% or more of the proceeds derived from the Surplus Note in an account managed by the state?
7. Although not required, is the Applicant willing to prepay interest and principal for one year in advance?
8. Are there any commitments that the Applicant is willing to make as a condition of issuing the Surplus Note that would lessen the risk of default?
9. Has the Applicant fully placed its 2006 hurricane season reinsurance program?
10. If the 2006 hurricane season reinsurance program has been fully placed, can the Insurer withstand a 1 in 100-year event?
11. What is the Applicant's current writing ratio?
12. What was the Applicant's writing ratio for the last five years?
13. Is the Applicant willing to commit to a writing ratio in excess of the minimum for the duration of the Surplus Note? If so, note any adverse impact upon policyholder security.
14. Does the Applicant have a rating from a rating agency? If so, indicate the agency and the rating, how long the rating has been in effect, and whether or not the Applicant has ever been downgraded by a rating agency and the circumstances.
15. Is the Applicant currently being investigated by any federal or state regulatory authority?
16. Is the Applicant under any type of regulatory control or order?

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Part IV: Documents which must be provided with this Application

1. A detailed business plan, which includes:
 - a. A written description of the Applicant's current level of policy coverage for residential property in Florida covering the peril of wind.
 - b. Pro forma statements which outline the policy writings for the next three years and that distinguish between wind and ex-wind policy writings.
 - c. If the Applicant's ratio of Net Written Premium to Surplus does not equal or exceed 2:1, include a written strategy for increasing the ratio within sixty days of receiving the proceeds derived from the Surplus Note.
 - d. A description of the Applicant's strategy to maintain or increase the Minimum Writing Ratio within 60 days of receiving the proceeds derived from the Surplus Note and to maintain such ratio for the duration of the Surplus Note.
2. A copy of the Applicant's most recent audited financial statement and copies of the audited financial statements for the prior two years.
3. A copy of the Applicant's most recent annual statement of the National Association of Insurance Commissioners required to be filed by authorized insurers pursuant to Section 624.424, F.S.
4. A resolution from the Applicant's governing board which contains the following:
 - a. A statement clearly authorizing the Applicant to participate in the Program;
 - b. A statement that the Applicant's governing board has reviewed the Surplus Note, Form SBA 15-2, which is available on the Board's website, www.sbafla.com, under "Insurance Capital Build-Up Incentive Program" then "Surplus Note," and that the Applicant is able to comply and intends to comply with the requirements of the Surplus Note including the requirement that the New Capital be unencumbered;
 - c. A statement that the Applicant, if selected, intends to meet all the requirements of the Program including but not limited to meeting the Surplus and writing ratios.
5. Provide a list of all officers and board members.
6. Provide biographical information on the executive officers (e.g., CEO, CFO, COO).
7. A signed copy of the attestation in Part IX of this application.
8. If any items listed in this Application are not provided, please identify the item and provide an explanation as to why it was not provided.

Part V: False or Misleading Statements

Any application or any documents provided with the application which contain false or misleading statements, will, if discovered prior to the execution of a Surplus Note, cause the application to be rejected, and if discovered after the execution of a Surplus Note, will cause the Surplus Note to be in default.

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Part VI: Limitations

The Insurer is limited in how funds from the Surplus Note can be used. Funds received from this Surplus Note cannot be invested in any items not authorized under Part II of Section 625, F.S. The Board reserves the right to confirm the use of the funds at any time during the duration of the Surplus Note.

Part VII: Selection Period

The Applicant and its agents, officers, principals, and employees will not engage in any written or verbal communication regarding its application or its participation in this Program during the "selection period" (defined below) with the Office or the Board or any employee thereof, whether or not such individual or employee is assisting in the evaluation of applications. Any unauthorized contact may disqualify the Applicant from further consideration. Normal business communications not related to the processing of the Surplus Note are allowed.

The Applicant will not engage in any lobbying efforts or other attempts to influence the Office, the Board, or any financial or insurance consultant employed by the Board in an effort to influence the Board's decision with respect to executing the Surplus Note with a particular Insurer or Insurers under the Program. Any and all such efforts made by the Applicant or its agents, officers, principals, employees, or lobbyists will be disclosed to the Executive Director of the Board within five calendar days of its becoming known.

The "Selection Period" for this application begins on the date the application is submitted and continues until the Applicant is notified that it was or was not selected to participate in the Program.

Part VIII: Delivery Address; Number of Copies; Format; Costs

The Board shall not be liable or responsible for any costs incurred by any Applicant filing this application.

Submit ten (10) bound copies of the application and all accompanying documentation, an unbound original document, and an electronic copy of the responses on a CD in PDF format. All materials shall be in the order set forth in the application, identified, and divided by part. Responses to each part should be kept together and include a divider page between each part.

The application, along with all the required documentation shall be sent to the Board at the following address:

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State Board of Administration of Florida
c/o The Florida Hurricane Catastrophe Fund
P.O. Box 13300
Tallahassee, FL 32317-3300

Part IX: Attestation

To be eligible and to be considered for participation in the Program, Applicants must meet each of the statutory requirements listed below. To certify that the Applicant meets each requirement, check each of the boxes which follow the list of requirements.

1. The Surplus Note amount sought by the Applicant, or if the Applicant is part of a group, the amount sought by all group members when added together, does not exceed \$50 million.
2. An Applicant filing an application prior to July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed equals the amount of the approved Surplus Note. The New Capital contributed must be in the form of Cash* or Cash Equivalents* as defined in Rule 19ER06-3, F.A.C.
3. An Applicant filing applications after July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed is twice the amount of the approved Surplus Note. The New Capital must be in the form of Cash or Cash Equivalents.
4. Applicant's Surplus, New Capital contributions, and the Surplus Note must total at least \$50 million.

Applicant must be willing to commit to meeting a Minimum Writing Ratio of Net Written Premium to Surplus of 2:1 for the 20-year term of the Surplus Note.

- ☐ Affirms Applicant meets minimum qualifications.
- ☐ Affirms Surplus Note, Form SBA 15-2, has been reviewed and terms and conditions contained therein can be met by Applicant.
- ☐ Acknowledges and accepts all terms and conditions of Surplus Note.

We are each, respectively, executive officers of the Insurer making this application, acting within our authority in making the declarations listed in this application.

BY: _____ BY: _____

TYPED NAME: _____ TYPED NAME: _____

TITLE: _____ TITLE: _____

DATE: _____ DATE: _____

PART II

Part II: Business Plan

Executive Summary of UPCIC's Business Plan

Universal Property and Casualty Insurance Company commenced operations in 1998 by assuming policies from the Florida Residential Property and Casualty Joint Underwriting Association ("FPRCJUA"). After completing its initial FPRCJUA assumptions, the company has developed its business in the voluntary market relying upon an extensive network of independent insurance agents. UPCIC seeks to continue developing its residential property insurance business in Florida through participation in the Insurance Capital Build-Up Incentive Program ("Program").

UPCIC entered the 2004 hurricane season with a strong reinsurance program that allowed the company to meet the challenges of four hurricanes while continuing to expand its business. The company likewise had an effective reinsurance program in 2005 that allowed it to absorb its retentions while again continuing to provide a market for Floridians' personal residential insurance needs. UPCIC is encouraged that it can continue the underwriting performance that has allowed the company to grow despite recent setbacks affecting the Florida market. UPCIC's non-catastrophe loss ratio in 2004 and 2005 was less than 25%. After ending 2005 with approximately \$11.1 million in surplus as to policyholders, the company's favorable non-catastrophe performance has continued, producing surplus of \$13.3 million as of the company's most recently available month end.

While securing its catastrophe reinsurance program for 2006, UPCIC sought to place a strong program that will enable the company to withstand multiple events. UPCIC believes it is well positioned to continue developing its business after recently completing placement of its reinsurance program. At the same time, changes in the reinsurance market have underscored the desirability of a strong capital base. The Program offers this opportunity to UPCIC through the infusion of new capital coupled with the surplus notes authorized by the Florida Legislature.

By participating in the Program, UPCIC's surplus will increase from the recent \$13 million to more than \$60 million. The company estimates it then could write more than 150,000 policies over current levels in furtherance of the requirement of writing premiums on a 2:1 net basis. UPCIC currently writes new policies in all areas of Florida, while mitigating concentrations of risks that adversely affect reinsurance costs or company retentions. As a participant in the Program, UPCIC intends to continue writing personal residential insurance in all areas of Florida.

UPCIC's desire to participate in the Program is based upon its belief that its business prospects are favorable and will present ample opportunity for the company to expand its writings, increase its capital base, and repay the surplus note. The company believes that exposure to catastrophic losses presents the largest potential impediment to repayment of the surplus note. UPCIC uses industry-standard modeling techniques to evaluate its exposure to catastrophe losses and purchases reinsurance to mitigate

these losses. However, there can be no assurance that Florida will not experience catastrophes of greater magnitudes or frequency than can reasonably be protected under the reinsurance program. Likewise, while changes in reinsurance pricing can be reflected in the insurer's rates, it is possible that capacity in the worldwide reinsurance market may diminish in subsequent years, increasing insurers' exposure to catastrophic losses.

Reinsurance Program

The enclosed chart depicts the UPCIC's reinsurance program for the 2006 hurricane season. UPCIC does not anticipate that the reinsurance program will change as a result of the infusion of new capital under the Program, although the new capital will enhance the company's ability to meet its retention.

UPCIC's modeled 100-year PML using the AIR CLASIC/2 v7.0 model is \$277.7 million.

Universal Property & Casualty Insurance Company

global resources
local delivery

Property Catastrophe XOL (\$76M xs \$25M)
 Deposit Premium: \$27,170,000
 Minimum Premium: \$24,453,00
 Coverage Percent: 100%
 Reinstatement: 1@ 100%
 \$295.6M
 \$284.6M

*1:100 year PML - \$277.7M

Multiple Line Excess	Multiple Line Excess
Property \$1.3M xs \$500K Retention \$500K	Casualty \$1.0M xs \$300K Retention \$300K

Multiple Line Excess
 Deposit Premium: \$585,000
 Minimum Premium: \$468,000
 Coverage Percent: 100%
 Reinstatements: 3 Free
 Occurrence Cap: \$1,300,000 for Property
 \$1,000,000 for Casualty

Reinstatement Premium Protection
 Deposit Premium: \$12,477,000
 Minimum Premium: \$11,229,300
 Coverage Percent: 50%

Property/Per Risk XOL Ex-Wind Only \$300K xs \$200K Retention \$200K

Ex-Wind Property Per Risk XOL
 Deposit Premium: \$180,000
 Minimum Premium: \$144,000
 Coverage Percent: 100%
 Reinstatements: 6 Free
 Occurrence Cap: 3 Times (\$900,000)

<p>Estimated FHCF 90% of \$216.2M xs \$68.4M (Est. Premium \$10,380,863)</p>	
Open Market Capacity - \$76M	
Quota Share \$5.625M	Net \$5.625M
<p>Limited Apportionment 100% of \$10.0M xs \$3.75M</p>	
Quota Share \$1.875M	Net \$1.875M

50% Wind Only Quota Share (Effective 6/1/06)

Placement: 50%
 Ceding Commission: 28% (Gross)
 Occurrence Cap: \$25,000,000
 Contingent Commission: 35% after 35% Net Profit



*Note: Modeled on 4/1/06 w/AIR CLASIC/2
 V7.0



Universal Property & Casualty Insurance Company
Fort Lauderdale, Florida

Probable Maximum Loss by Return Time

<u>Return Time (Years)</u>	<u>Probable Maximum Loss ⁽¹⁾</u>
1,000	\$646,076,950
500	\$582,000,085
250	\$436,821,012
200	\$407,212,767
100	\$277,756,410
50	\$182,735,408
20	\$91,318,026

(1) Modeling results using AIR Clasic/2 v7.0 as of 4/1/06.

PART III

Part III: Interrogatories

1. *Will the New Capital Contribution be in excess of the Minimum Contribution?*

No, UPCIC seeks a surplus note in the amount of \$25 million and anticipates contributing new capital of \$25 million.

2. *Have profits been retained to grow Surplus over the last five years? If yes, how much has been retained or contributed to Surplus each year?*

Yes, UPCIC has not paid any dividend to its parent over the last five years. The company retained \$2,257,522 in profit in 2005. This inquiry does not apply to prior years because catastrophe or underwriting losses resulted in the insurer not having profits in those years. UPCIC's parent has made the contributions to surplus in the following amounts over the last five years to mitigate storm losses or allow for growth and development of the insurer's business: 2005-- \$3,100,000; 2004-- \$2,205,000; 2003-- \$145,834; 2002-- \$1,767,950; and 2001-- \$588,000.

3. *Will profits be retained to grow Surplus should the Applicant be granted the Surplus Note Proceeds Associated with this Program?*

UPCIC anticipates using profits to repay the surplus note and to enhance its business. The company seeks to retain the ability to declare dividends as may be allowed by section 628.371, Florida Statutes, but of course will not make such a declaration in any year that the amount needed to make a principal and/or interest payment is not available and approved for distribution by the Office of Insurance Regulation.

4. *Does the Applicant have a related company or other person or entity that is willing to guarantee the Applicant's Surplus Note under this Program? If yes, provide details.*

UPCIC does not have an affiliate or other person that will guarantee repayment of the surplus note.

5. *Although not required, is the Applicant willing to commit collateral for the purpose of securing the state's interest in the proceeds of the Surplus Note?*

UPCIC does not anticipate that the surplus note will be secured by collateral.

6. *Although not required, is the Applicant willing to deposit 10% or more of the proceeds derived from the Surplus Note in an account managed by the state?*

Yes, UPCIC is willing to contribute 10% of the surplus note proceeds to an account managed by the State of Florida.

7. *Although not required, is the Applicant willing to prepay interest and principal for one year in advance?*

UPCIC expects to fully use the new capital and surplus note proceeds in expanding its residential property insurance writings and therefore does not anticipate prepaying principal or interest.

8. *Are there any commitments that the Applicant is willing to make as a condition of issuing the Surplus Note that would lessen the risk of default?*

The company believes the severity and frequency of hurricane losses present the primary risk of default. UPCIC takes steps to mitigate this risk each year in the placement of its reinsurance program. Because measures to lessen the risk of default in turn are likely to protect the company's capital base, UPCIC is willing to consider other ideas the SBA may have in this regard.

9. *Has the Applicant fully placed its 2006 hurricane season reinsurance program?*

Yes, the reinsurance program for 2006 has been fully placed and is depicted in a chart included with this application.

10. *If the 2006 hurricane season reinsurance program has been fully placed, can the Insurer withstand a 1 in 100-year event?*

Yes, the program is designed to protect against a 1 in 100-year event.

11. *What is the Applicant's current writing ratio?*

1.79 : 1 (net)

12. *What was the Applicant's writing ratio for the last five years?*

2005:	1.939 : 1
2004:	1.097 : 1
2003:	0.681 : 1
2002:	0.434 : 1
2001:	1.887 : 1

These ratios are presented on a net basis. UPCIC notes that its net writings ratios are low in relation to written premiums because the company until 2004 ceded a substantial portion of its risk to quota share reinsurers. Management reduced the rate of cession in 2005 largely due to good non-catastrophe operating results in 2004 and early 2005. UPCIC's 2006 reinsurance program provides for a 50% cession, whereas the company ceded 80% or even 90% of its risk in some prior years.

13. *Is the Applicant willing to commit to a writing ratio in excess of the minimum for the duration of the Surplus Note? If so, note any adverse impact on policyholder security.*

The company must balance its use of capital under the Program against the availability and pricing of reinsurance and policyholder security. Factors affecting the Florida property insurance market are subject to fluctuation, and UPCIC therefore believes it would be imprudent at this time to make a commitment that it will exceed the 2:1 requirement over the 20-year duration of a surplus note.

14. *Does the Applicant have a rating from a rating agency? If so, indicate the agency and rating, how long the rating has been in effect, and whether or not the applicant has ever been downgraded by a rating agency and the circumstances.*

UPCIC has maintained a rating of "A" from Demotech since it commenced operations in 1998. The company's rating has not been downgraded.

15. *Is the Applicant currently being investigated by any federal or state regulatory authority?*

UPCIC is not currently being investigated by a federal or state regulatory authority. As a Florida domestic insurer, UPCIC operates under the routine oversight of the Florida Office of Insurance Regulation.

16. *Is the Applicant under any type of regulatory control or order?*

No, UPCIC is not under any type of regulatory control or order.