

Report of Examination of

**The American Insurance Company**  
Columbus, Ohio

As of December 31, 2010

## Table of Contents

<b>Subject</b>	<b>Page</b>
Salutation.....	1
Description of Company.....	1
Scope of Examination.....	1
Management and Control:	
Board of Directors .....	2
Officers .....	2
Insurance Holding Company System .....	3
Territory and Plan of Operations .....	3
Reinsurance .....	4
Significant Operating Results.....	4
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus.....	6
Statement of Income.....	8
Statement of Changes in the Capital and Surplus Account.....	8
Notes to Financial Statements:	
Investments.....	9
Loss and Loss Adjustment Expense Reserves.....	9
Conclusion.....	9
Subsequent Events.....	10
Acknowledgement.....	11

Columbus, Ohio  
May 16, 2012

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**The American Insurance Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department last examined the Company as of December 31, 2007. The Department’s current examination covers the period of January 1, 2008 through December 31, 2010.

Representatives of the California Department of Insurance, as the coordinating state regulator of the insurance company affiliates of Fireman’s Fund Insurance Company (“Fireman’s Fund”), led the multi-state coordinated examination that included representatives from the states of Illinois, Louisiana, Missouri, New Jersey and Ohio. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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.

For all years under examination, the Certified Public Accounting firm of KPMG LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

## **Management and Control**

### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
Bruce F. Friedberg	Senior Vice President, Fireman's Fund Insurance Company
Jeffery F. Johnson	Vice President and Controller, Fireman's Fund Insurance Company
Michael E. LaRocco	President and Chief Executive Officer, Fireman's Fund Insurance Company
Sally B. Narey	Senior Vice President, General Counsel and Secretary, Fireman's Fund Insurance Company
Jill E. Paterson	Executive Vice President, Chief Financial Officer and Treasurer, Fireman's Fund Insurance Company
David M. Zona	Senior Vice President, Fireman's Fund Insurance Company

### **Officers**

As of the examination date, the following officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
Michael E. LaRocco	Chairman, President and Chief Executive Officer
Jill E. Paterson	Executive Vice President, Chief Financial Officer and Treasurer
Sally B. Narey	Senior Vice President, General Counsel and Secretary
Jeffery F. Johnson	Vice President and Controller

## **Insurance Holding Company System**

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is a wholly owned subsidiary of Fireman's Fund, all of whose voting stock is owned by Allianz Global Risks US Insurance Company (formerly Allianz Insurance Company), a subsidiary of Allianz of America, Inc., which in turn is a wholly owned subsidiary of Allianz SE, the ultimate controlling person in the holding company system.

## **Territory and Plan of Operations**

The Company is licensed to operate in all fifty states as well as the District of Columbia and Puerto Rico. During 2010, the largest states in terms of direct premium written were as follows: California, \$103.0 million (21.3%); New York, \$47.6 million (9.8%); Maryland, \$26.7 million (5.5%); Massachusetts, \$25.2 million (5.2%); and New Jersey, \$20.6 million (4.2%).

Fireman's Fund and certain affiliates ("Pooled Subsidiaries") are parties to an Amended and Restated Intercompany Reinsurance Agreement ("Pooling Agreement") that provides for the pooling of all underwriting operations and insurance business of participating members by means of mutual reinsurance. Under the terms of the Pooling Agreement, all liabilities for policies and contracts of insurance issued by the Pooled Subsidiaries are ceded to and reinsured by Fireman's Fund. Fireman's Fund retains a 75.8% share of the pooled business and retrocedes specific percentages to the Pooled Subsidiaries. The following schedule identifies the Pooled Subsidiaries and their respective participation percentage in the Pooling Agreement as of the examination date:

<b><u>Company</u></b>	<b><u>Domicile</u></b>	<b><u>Percentage</u></b>
Fireman's Fund Insurance Company	CA	75.8%
The American Insurance Company	OH	11.5%
National Surety Corporation	IL	4.0%
Interstate Fire and Casualty Company	IL	3.5%
American Automobile Insurance Company	MO	2.5%
Chicago Insurance Company	IL	1.5%
Associated Indemnity Company	CA	1.0%
Fireman's Insurance Company of Ohio	OH	0.2%

The following schedule illustrates the Company's direct and net premium written in 2010 by line of business, reported in thousands:

<b>Line of Business</b>	<b><u>Direct</u></b>	<b><u>Percent</u></b>	<b><u>Net</u></b>	<b><u>Percent</u></b>
Commercial multi peril	\$185,849	38.4%	\$ 74,377	18.9%
Homeowners multi peril	107,370	22.2%	64,704	16.5%
Other liability – occurrence	69,229	14.3%	59,600	15.2%
Workers' compensation	39,578	8.2%	14,717	3.7%
Inland marine	29,419	6.1%	19,489	5.0%
Farmowners multi peril	20,813	4.3%	4,547	1.2%
Commercial auto liability	10,280	2.1%	5,485	1.4%
Auto physical damage	4,358	0.9%	13,631	3.5%
Private passenger auto liability	2,511	0.5%	14,722	3.7%
Allied lines	1,298	0.3%	84,889	21.6%
Other liability – claims made	92	0.0%	18,578	4.7%
All other lines	<u>13,593</u>	<u>2.7%</u>	<u>18,143</u>	<u>4.6%</u>
Total	<u>\$484,390</u>	<u>100.0%</u>	<u>\$392,882</u>	<u>100.0%</u>

### **Reinsurance**

The Company does not assume or cede reinsurance other than through the Pooling Agreement.

### **Significant Operating Results**

The Company reported the following net underwriting results during the examination period:

	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Loss and loss adjustment expenses	78.1	70.8	75.0
Underwriting expenses	33.1	31.1	27.2
Dividends to policyholders	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Combined ratio	<u>111.3</u>	<u>102.0</u>	<u>102.3</u>

## **Financial Statements**

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus**  
**December 31, 2010**

Bonds	\$1,031,361,739
Cash, cash equivalents, and short term investments	18,128,522
Other invested assets	882,056
Receivables for securities	<u>97,489</u>
Subtotal, cash and invested assets	1,050,469,806
Investment income due and accrued	13,669,361
Uncollected premiums in course of collection	77,903,562
Deferred premiums and installments booked but not yet due	43,712,908
Accrued retrospective premiums	138,471
Amounts recoverable from reinsurers	35,370,694
Federal income tax recoverable	4,011,272
Net deferred tax asset	28,187,135
Miscellaneous assets	<u>1,463,234</u>
Total admitted assets	<u><u>\$1,254,926,443</u></u>

**Statement of Assets, Liabilities, Capital and Surplus  
December 31, 2010**

Losses	\$ 619,974,620
Reinsurance payable on paid losses and loss adjustment expenses	21,878,284
Loss adjustment expenses	77,302,709
Commissions payable, contingent commissions, and other charges	16,311,334
Other expenses	6,639,715
Taxes, licenses and fees	2,766,827
Unearned premiums	157,381,061
Advance premium	(16,014)
Dividends to policyholders	504,087
Ceded reinsurance premiums payable (net of ceding commissions)	34,739,666
Payable to parent, subsidiaries and affiliates	5,591,723
Payable for securities	1,702,034
Miscellaneous liabilities	<u>76,693</u>
Total liabilities	<u>944,852,739</u>
Special surplus from additional admitted deferred tax assets	6,332,493
Common capital stock	10,501,770
Gross paid in and contributed surplus	57,616,188
Unassigned funds	<u>235,623,253</u>
Total capital and surplus	<u>310,073,704</u>
Total liabilities, capital and surplus	<u>\$1,254,926,443</u>

**Statement of Income**  
**As of December 31, 2010**

Premiums earned	<u>\$414,442,456</u>
Losses incurred	267,593,443
Loss adjustment expenses incurred	55,891,551
Other underwriting expenses incurred	<u>130,237,839</u>
Total underwriting deductions	<u>453,722,823</u>
Net underwriting gain (loss)	<u>(39,280,367)</u>
Net investment income earned	59,828,137
Net realized capital gains	<u>2,556,423</u>
Net investment gain	<u>62,384,560</u>
Net gain (loss) from premium balances charged off	(566,091)
Miscellaneous income (loss)	<u>(1,984,979)</u>
Total other income (loss)	<u>(2,551,070)</u>
Net income before federal income taxes	19,991,417
Federal income taxes incurred	<u>(4,416,035)</u>
Net income	<u>\$ 24,407,452</u>

**Statement of Changes in the Capital and Surplus Account**  
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, beginning of the year	<u>\$369,560</u>	<u>\$394,519</u>	<u>\$656,413</u>
Net income	24,407	82,280	34,543
Change in net unrealized cap. gains (losses)	727	(27,060)	(3,346)
Change in net deferred income tax	(11,327)	(13,082)	(6,012)
Change in non-admitted assets	8,712	20,505	(1,967)
Surplus adjustments	-	-	(290,000)
Dividends to stockholders	(82,000)	(87,605)	-
Other gains (losses) to surplus	<u>(5)</u>	<u>3</u>	<u>(4,888)</u>
Change in surplus during the year	<u>(59,486)</u>	<u>(24,959)</u>	<u>(261,894)</u>
Capital and surplus, end of the year	<u>\$310,074</u>	<u>\$369,560</u>	<u>\$394,519</u>

## Notes to Financial Statements

### Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

### Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed David Heyman, Vice President and Appointed Actuary, Fireman's Fund Insurance Company, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Heyman prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2010 Annual Statement.

The California Department of Insurance retained Charles Petit, FCAS, of Petit Actuarial Group LLC, to evaluate the loss and loss adjustment expense reserves of the companies participating in the Fireman's Fund Pooling Agreement. Based on his analysis, Mr. Petit states that the reserve estimates were based on commonly employed actuarial methodologies and on reasonable and consistently applied assumptions and judgments. Furthermore, Mr. Petit concluded the carried reserves are reasonable estimates of the unpaid net loss and loss adjustment expense reserves as of December 31, 2010.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Assets	<u>\$1,254,926,443</u>
Liabilities	944,852,739
Capital and Surplus	<u>310,073,704</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,254,926,443</u>

### **Subsequent Events**

During 2011, Fireman's Fund's Senior Leadership Team underwent several changes. Those changes impacting the Company's Directors and Officers are noted below:

Michael E. LaRocco	Resigned as Director, President and Chief Executive Officer, effective July 3, 2011
Lori D. Fouche	Elected as Director, effective July 6, 2011; Elected as President and Chief Executive Officer, effective July 11, 2011
Jill E. Paterson	Resigned as Director and relinquished the offices of Chief Financial Officer and Treasurer, effective September 3, 2011
Kevin E. Walker	Elected as Director, Senior Vice President, Chief Financial Officer and Treasurer, effective September 19, 2011

Fireman's Fund and the Pooled Subsidiaries entered into a Second Amended and Restated Intercompany Reinsurance Agreement ("Amended Pooling Agreement") effective January 1, 2012. Under the Amended Pooling Agreement, each of the Pooled Subsidiaries' will continue to cede 100% of its insurance business to Fireman's Fund; however, the retroceded shares for all Pooled Subsidiaries is reduced to zero and Fireman's Fund's share is increased to 100%.

Effective January 1, 2012, Fireman's Fund and the Pooled Subsidiaries entered into an Intercompany Service Agreement ("Service Agreement") pursuant to which Firemen's Fund is authorized to provide all services necessary to operate the Pooled Subsidiaries insurance business..

The Amended Pooling Agreement and Service Agreement are subject to regulatory approval from the states of California, Illinois, Missouri and Ohio.

## Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, Jim Luke, CPA; of the Department, participated in this examination.

Respectfully,

  
\_\_\_\_\_  
Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

*J. K. Ebert*      *5/18/12*  
Assistant Chief Examiner      Date

State of Ohio  
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this *18* day of *May*, 2012.

*Elizabeth Chase*  
(Notary **ELIZABETH CHASE**)  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires