

Report of Examination of

**The American Insurance Company**  
Columbus, Ohio

As of December 31, 2013

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Columbus, Ohio  
March 26, 2015

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, 2010. The Department’s current examination covers the period of January 1, 2011 through December 31, 2013.

Representatives of the California Department of Insurance, as the Coordinating State regulator of Sub-Group A of Allianz SE, namely, Fireman’s Fund Insurance Company (“Fireman’s Fund”) and its subsidiaries, led the multi-state coordinated examination. 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 corporate governance, identify and assess current and prospective risks, and evaluate the Company’s system of 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 Statements of Statutory Accounting Principles (“SSAPs”) 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 each year under examination, the Certified Public Accounting firm of KPMG LLP provided an unqualified opinion on the consolidated financial statements of Fireman’s Fund and its subsidiaries based on Statutory Accounting Principles. The independent auditors’ reports and supporting work papers 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>
Douglas E. Franklin	Senior Vice President and Chief Risk Officer, Fireman's Fund Insurance Company
Jeffery F. Johnson	Vice President and Controller, Fireman's Fund Insurance Company
Sally B. Narey	Senior Vice President, General Counsel and Secretary, Fireman's Fund Insurance Company
D. Andrew Torrance	President and Chief Executive Officer, Fireman's Fund Insurance Company
Kevin E. Walker	Senior Vice President, Chief Financial Officer and Treasurer, Fireman's Fund Insurance Company
David M. Zona	Senior Vice President and Chief Underwriting Officer, 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>
D. Andrew Torrance	Chairman, President and Chief Executive Officer
Kevin E. Walker	Senior 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, domiciled in California and wholly owned by Allianz of American, Inc. (“AZOA”), a Delaware corporation. AZOA is a wholly owned subsidiary of Allianz Europe B.V. (“AZ Europe”), a private limited liability company registered in the Netherlands, which is a wholly owned subsidiary of Allianz SE, a European Company incorporated in the Federal Republic of Germany and the European Union. Allianz SE, headquartered in Munich, Germany, is the ultimate controlling person in the holding company system and its shares are traded on all German stock exchanges.

## Territory and Plan of Operations

Fireman’s Fund and its subsidiaries conduct underwriting operations with three core business units, Commercial, Personal and Crop Reinsurance, throughout the United States and Puerto Rico utilizing approximately 2,379 agent and broker locations. The Commercial business represents nearly 50% of the total gross premium while Personal and Crop Reinsurance contribute 35%, and 15%, respectively.

The Company is licensed to operate in all fifty states as well as the District of Columbia, Puerto Rico and Canada. During 2013, the largest states in terms of direct premium written were as follows: California, \$76.2 million (19.3%); New York, \$36.6 million (9.3%); Texas, \$23.3 million (5.9%); Maryland, \$20.8 million (5.3%); and Massachusetts, \$20.2 million (5.1%). The following schedule illustrates the Company’s direct premium written in 2013 by line of business:

<b>Line of Business</b>	<b>Direct</b>	<b>Percent</b>
Commercial multiple peril	\$ 123,838,297	31.3%
Homeowners multiple peril	88,726,808	22.5%
Other liability – occurrence	61,186,027	15.5%
Workers’ compensation	38,864,513	9.8%
Inland marine	28,528,570	7.2%
Farmowners multiple peril	25,852,875	6.5%
Commercial auto liability	11,896,600	3.0%
All other lines	<u>16,312,659</u>	<u>4.1%</u>
Total	<u>\$ 395,206,349</u>	<u>100.0%</u>

Fireman’s Fund and certain affiliates, including the Company, participate in the Second Amended and Restated Intercompany Reinsurance Agreement effective January 1, 2012 (“Pooling Agreement”). Under the terms of the Pooling Agreement, each of the participating affiliates cedes, and Fireman’s Fund assumes, the liabilities of the participating affiliates for all policies and contracts of insurance issued. Fireman’s Fund retains 100% of the pool liabilities and the other participating insurers do not assume any portion of the pool results. The Department approved the Pooling Agreement in January 2012.

The following schedule identifies the affiliates participating in the Pooling Agreement as of the examination date:

<b>Company</b>	<b>Domicile</b>	<b>Percentage</b>
Fireman’s Fund Insurance Company	CA	100%
Associated Indemnity Corporation	CA	0%
Chicago Insurance Company	IL	0%
Interstate Fire & Casualty Company	IL	0%
National Surety Corporation	IL	0%
American Automobile Insurance Company	MO	0%
The American Insurance Company	OH	0%
Fireman’s Fund Insurance Company of Ohio	OH	0%

Fireman’s Fund reported the following underwriting results during the examination period:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Loss and LAE ratio	68.6	103.2	88.2
Expense ratio	36.0	26.0	29.2
Policyholder dividend ratio	<u>0.1</u>	<u>(0.1)</u>	<u>0.0</u>
Combined ratio	<u>104.7</u>	<u>129.1</u>	<u>117.4</u>

The Company and certain affiliates entered into an Intercompany Service Agreement (“Service Agreement”) effective January 1, 2012 with Fireman’s Fund as Service Provider and the affiliates as Service Recipients. Under the terms, Fireman’s Fund agrees to provide services necessary in the conduct of its operations and the administration of the Pooling Agreement. In return, the each of the Service Recipients agrees to reimburse Fireman’s Fund for the actual cost of services provided under the Service Agreement. The Department approved the Service Agreement in January 2012.

### **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, 2013**

Bonds	\$ 266,917,309
Cash, cash equivalents, and short term investments	4,532,314
Other invested assets	<u>117,604</u>
Subtotal, cash and invested assets	271,567,227
Investment income due and accrued	2,295,508
Amounts recoverable from reinsurers	41,142,794
Federal income tax recoverable	10,300,565
Miscellaneous assets	<u>220,747</u>
Total admitted assets	<u><u>\$ 325,526,841</u></u>
Losses	\$ 0
Loss adjustment expenses	0
Net deferred tax liability	2,232,761
Unearned premiums	0
Ceded reinsurance premiums payable (net of ceding commissions)	30,450,862
Payable to parent, subsidiaries and affiliates	9,069,721
Payable for securities	<u>233,259</u>
Total liabilities	<u>41,986,603</u>
Common capital stock	10,501,770
Gross paid in and contributed surplus	57,616,188
Unassigned funds	<u>215,422,280</u>
Total capital and surplus	<u>283,540,238</u>
Total liabilities, capital and surplus	<u><u>\$ 325,526,841</u></u>

**Statement of Income**  
**As of December 31, 2013**

Premiums earned	\$ <u>0</u>
Losses incurred	0
Loss adjustment expenses incurred	0
Other underwriting expenses incurred	<u>(114,043)</u>
Total underwriting deductions	<u>(114,043)</u>
Net underwriting gain	<u>114,043</u>
Net investment income earned	8,081,250
Net realized capital gains (losses)	<u>(1,207,443)</u>
Net investment gain	<u>6,873,807</u>
State tax credit expense	<u>(478,966)</u>
Total other income (loss)	<u>(478,966)</u>
Net income before federal income taxes	6,508,884
Federal income taxes incurred	<u>1,690,793</u>
Net income	<u>\$ 4,818,091</u>

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital and surplus, beginning of the year	\$ <u>312,257</u>	\$ <u>313,974</u>	\$ <u>310,074</u>
Net income	4,818	20,736	4,668
Change in net unrealized cap. gains (losses)	54	469	(44)
Change in non-admitted assets	0	7,825	7,483
Dividends to stockholders	(31,000)	0	0
Change in net deferred income tax	<u>(2,589)</u>	<u>(30,746)</u>	<u>(8,207)</u>
Change in surplus during the year	<u>(28,717)</u>	<u>(1,717)</u>	<u>3,900</u>
Capital and surplus, end of the year	<u>\$ 283,540</u>	<u>\$ 312,257</u>	<u>\$ 313,974</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 Christian Kortebein, Senior Vice President and Chief Actuary to render the Fireman's Fund Statement of Actuarial Opinion ("Opinion"). Mr. Kortebein prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Fireman's Fund December 31, 2013 Annual Statement.

The California Department of Insurance retained Charles Petit, FCAS, MAAA, of Petit Actuarial Group LLC, to conduct an actuarial review of the loss and loss adjustment expense reserves of Fireman's Fund as of December 31, 2013. Mr. Petit concluded that the carried reserves are based on appropriate actuarial methodologies and on reasonable and consistently applied assumptions. Furthermore, the unpaid loss and loss adjustment expenses of Fireman's Fund are reasonable estimates of the total reserves.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Assets	<u>\$ 325,526,841</u>
Liabilities	41,986,603
Capital and Surplus	<u>283,540,238</u>
Total Liabilities, Capital and Surplus	<u>\$ 325,526,841</u>

### **Subsequent Events**

On September 17, 2014, Allianz SE announced plans for an internal reorganization that would integrate the commercial insurance business of Fireman's Fund with Allianz Global Risk US Insurance Company ("AGR US"), an Illinois domiciled insurer, doing business as Allianz Global Corporate and Specialty North America ("AGCS NA"). Effective January 1, 2015, AZOA contributed the stock of Fireman's Fund to AGR US, an AZOA wholly owned subsidiary. Art Moossmann will take on dual responsibility for both Fireman's Fund and AGCS NA, as President and Chief Executive Officer. The integration of the commercial property and casualty businesses will be marketed under the Allianz brand.

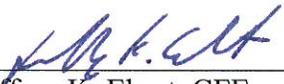
On April 1, 2015, AGCS NA announced the close of the sale of the Fireman's Fund personal lines business in the United States, focused on high net worth customers, to ACE, Ltd. The sale, announced in December 2014 and valued at \$365 million, includes renewal rights and reinsurance of existing liabilities.

### **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, Thomas Botsko, ACAS, MAAA; Metty Nyangoro, AES, CFE, CISA, CPA; and Bryan Radecky, CFE, 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, 2013.

*J. K. Ebert*      5/20/15  
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 20 day of May, 2015.

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