

Report of Examination of

**American Modern Property & Casualty Insurance Company**

Amelia, Ohio

As of December 31, 2014

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Columbus, Ohio  
May 31, 2016

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

**American Modern Property & Casualty Insurance Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company.”) The examination was conducted at the Company's home office, located at 7000 Midland Boulevard, Amelia, Ohio.

**Scope of Examination**

The Company redomesticated to the State of Ohio effective January 2, 2014. The Department’s current examination covers the period from and including January 1, 2010 through December 31, 2014.

Representatives of the Department, as the lead state of the American Modern Insurance Group led the multi-state coordinated examination that included representatives from the States of Florida, Oklahoma and Texas.

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, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the ORC Section 3901.07 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination reports but separately communicated to other regulators and/or the Company.

## 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:

<u>Name</u>	<u>Occupation</u>
Rene Gobonya	Senior Vice President and Chief Financial Officer, The Company
Anthony J. Kuczinski	President and Chief Executive Officer, Munich Reinsurance America, Inc.
Murry S. Levy	Senior Vice President and Chief Financial Officer, Munich Reinsurance America, Inc.
Manuel Z. Rios	President and Chief Executive Officer, The Company
Robin H. Wilcox	Senior Vice President and General Counsel, Munich Reinsurance America, Inc.

### Officers

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

<u>Name</u>	<u>Title</u>
Anthony J. Kucsinski	Chairman and Senior Vice President
Manuel Z. Rios	President and Chief Executive Officer ( Resigned August 6, 2015)
Rene A. Gobonya	Senior Vice President and Chief Financial Officer
James P. Tierney	Senior Vice President
Charles S. Griffith III	Senior Vice President and Secretary
James E. Hinkle III	Senior Vice President and Treasurer
Kenneth L. Kuhn	Vice President and Controller
Steven J, Mackie	Vice President
Anthony W. Dirksing	Assistant Vice President
Michael J. Hagarty	Assistant Vice President
Michael W. Haines	Assistant Vice President
Anita K. Magnarini	Assistant Vice President

*Effective May 1, 2016, Andreas Kleiner was elected President and Chief Executive Officer of the Company.*

## **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the Ohio Revised Code. The ultimate controlling entity is Munich Re a publicly traded insurance holding company. The immediate ownership structure is as follows:

Munich-American Holding Corporation	Delaware
Midland Company	Ohio
American Modern Insurance Group	Ohio
American Modern Home Insurance Company	Ohio
American Modern Lloyds Insurance Company	Texas
American Modern Property & Casualty Company	Ohio
American Western Home Insurance Company	Oklahoma
American Southern Home Insurance Company	Florida
American Modern Insurance Company of Florida, Inc.	Florida
American Modern Select Insurance Company	Ohio
American Modern Family Home Insurance Company	Florida
American Modern Surplus Lines Insurance Company	Ohio

## **Reinsurance**

### **Ceded Reinsurance**

The Company has various property per risk excess of loss agreements that provide coverage of \$20,000,000 above a retention of \$5,000,000. Property catastrophe excess of loss agreements provides coverage of \$305,000,000 above a retention of \$60,000,000 for the first event and \$265,000,000 above a retention of \$100,000,000 for a second event. All agreements provide coverage for all property lines of business.

### **Inter-company pooling**

The American Modern Insurance Group (“Group”) consists of nine property and casualty companies. Under the terms of the pooling arrangement, the pooled companies cede all net premiums, losses, loss expenses and other insurance expenses to the pool. The results of the pool are then retroceded between the companies, based on the pooling percentages. The companies in the pool and the respective share of the pool participation are:

American Modern Home Insurance Company	47.5%
American Family Home Insurance Company	27.0%
American Southern Home Insurance Company	4.0%
American Western Home Insurance Company	9.0%
American Modern Select Insurance Company	5.0%
American Modern Surplus Lines Insurance Company	5.0%
American Modern Insurance Company of Florida	2.0%
American Modern Property & Casualty Insurance Company	0.5%

American Modern Lloyds Insurance Company cedes 100% of its premium and losses to American Modern Home Insurance Company who then retrocedes the business to the pool.

### **Territory and Plan of Operations**

The Company is licensed to operate in 41 states. The American Modern Group writes specialty products for owners of mobile and manufactured homes; specialty dwellings such as vacant, rental and seasonal homes; watercraft; motorcycles; collector vehicles; travel; pet; and snowmobiles.

On February 22, 2016, the Group announced it was exiting the lender-placed insurance business. This line of business represented about 20% of the group's written premiums.

### **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  
December 31, 2014**

Bonds	\$ 15,827,329
Cash, cash equivalents and short term investments	893,076
Receivable from securities	<u>4,762</u>
Subtotal, cash and invested assets	16,725,167
Investment income due and accrued	48,481
Uncollected premiums and agents' balances	741,912
Amounts recoverable from reinsurers	114,358
Funds held by or deposited with reinsured companies	3,363,927
Net deferred tax asset	188,543
Receivables from parent, subsidiaries and affiliates	<u>1,891</u>
Total admitted assets	<u><u>\$ 21,184,279</u></u>

**Statement of Liabilities, Capital and Surplus  
December 31, 2014**

Losses	\$ 859,070
Reinsurance payable on paid losses and loss adjustment expenses	191,277
Loss adjustment expenses	86,933
Commissions payable	29,511
Taxes, licenses and fees	21,493
Current federal and foreign income taxes	64,479
Unearned premiums	2,557,999
Funds held by company under reinsurance treaties	349,933
Payable to parent, subsidiaries and affiliates	721,392
Aggregate write-ins for liabilities	<u>13,380</u>
Total liabilities	<u>4,895,467</u>
Common capital stock	5,000,000
Gross paid in and contributed surplus	10,700,000
Unassigned funds (surplus)	<u>588,812</u>
Total capital and surplus	<u>16,288,812</u>
Total liabilities, capital and surplus	<u><u>\$ 21,184,279</u></u>

**Summary of Operations**  
**As of December 31, 2014**

Premiums earned	\$ 4,823,630
Losses incurred	2,064,177
Loss adjustment expenses incurred	264,811
Other underwriting expenses incurred	2,494,806
Aggregate write-ins for underwriting deductions	3,286
Total underwriting deductions	4,827,080
Net underwriting gain (loss)	(3,450)
Net investment income earned	108,497
Net realized capital gains (losses)	35,128
Net investment gain	143,625
Net income after dividends to policyholders	140,175
Federal and foreign income taxes incurred	56,491
Net income	<u>\$ 83,684</u>

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

	2014	2013	2012	2011	2010
Capital and surplus, prior year end	\$ 5,702	\$ 5,629	\$ 5,666	\$5,623	\$5,321
Net income	84	27	3	44	262
Change in net unrealized capital gains (losses)	(26)	8	19	26	
Change in net deferred income tax	21	38	14	(19)	(2)
Change in nonadmitted assets				5	29
Capital changes	2,500				
Surplus adjustments	8,009				
Aggregate write-ins			(74)	(13)	13
Net change in capital and surplus	10,587	73	(37)	43	302
Capital and surplus, current year end	<u>\$16,289</u>	<u>\$ 5,702</u>	<u>\$ 5,629</u>	<u>\$5,666</u>	<u>\$5,623</u>

## **Notes to Financial Statements**

### **Investments**

The Company's investments were in compliance with ORC 3925 and valued in accordance with the relevant Statements of Statutory Accounting Principles ("SSAP") and the NAIC Securities Valuation Office.

### **Losses and Loss Adjustment Expenses**

The Company's Board of Directors appointed Jeffrey Scott, FCAS, MAAA, consulting actuary to render the Company's Statement of Actuarial Opinion ("Opinion. The Department's actuary, Thomas Botsko, CAS, MAAA, reviewed an Actuarial Memorandum supporting the Opinion in connection with the preparation of the Company's December 31, 2014 Annual Statement.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves reported in the Annual Statement meet the requirements of the insurance laws and regulations of the State of Ohio

### Conclusion

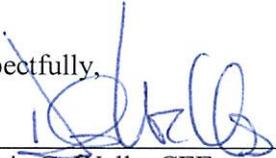
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

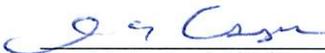
Total Assets	<u>\$21,184,279</u>
Liabilities	4,895,467
Capital and Surplus	<u>16,288,812</u>
Total Liabilities, Capital and Surplus	<u>\$21,184,279</u>

### Acknowledgement

In addition to the aforementioned and undersigned, Mohammad Arif, CFE, AES, CISA; Richard Morris, CPA; Bradley Schroer; and Patricia Severs, CPA of the Ohio Department of Insurance participated in this examination.

Respectfully,

  
\_\_\_\_\_  
Donnie G. Wells, CFE  
Examiner-In-Charge  
Office of Risk Assessment  
Ohio Department of Insurance

  
\_\_\_\_\_  
David A. Cook, 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, 2014.

[Signature]  
Examiner-In-Charge

5/31/16  
Date

[Signature]  
Assistant Chief Examiner

5/31/16  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named Donnie G. Wells 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 31 day of May, 2016.

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

Personally appeared before me the above named David A. Cook 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 31 day of May, 2016.

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