

**REPORT ON EXAMINATION**  
**OF**  
**ASI HOME INSURANCE CORP.**  
**(FORMERLY KNOWN AS ACA HOME INSURANCE CORP.)**

**ST. PETERSBURG, FLORIDA**

**AS OF**  
**DECEMBER 31, 2013**

**BY THE**  
**FLORIDA OFFICE OF INSURANCE REGULATION**

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March 26, 2015

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2013, of the financial condition and corporate affairs of:

**ASI HOME INSURANCE CORP.  
1 ASI WAY N  
ST. PETERSBURG, FLORIDA 33702**

Hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2009 through December 31, 2013. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on November 9, 2014 to November 13, 2014. The fieldwork commenced on November 16, 2014, and concluded as of March 26, 2015.

This financial examination was a single-state financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and Annual Statement Instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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 and 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.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no material findings or exceptions noted during the examination as of December 31, 2013.

### **Prior Exam Findings**

#### **Investment Approval**

The minutes of the Company's Board of Directors did not reflect approval of the investments of the year 2008 as required by Section 625.304, Florida Statutes.

**Resolution:** Beginning with the November 2010 Board meeting, the Investment Committee began ratifying the investments as of part of its annual compliance review in conformity with Section 625.304, Florida Statutes.

## **SUBSEQUENT EVENTS**

In early 2015, ARX Holding Corp., the Company's ultimate parent, announced a sale of stock to Progressive Corporation for controlling interest. The effect of this transaction was reviewed as part of the prospective risks of this examination. No proposed changes in processes or controls resulted therefore, there was no effect on the examination approach.

## HISTORY

### General

The Company was incorporated in Florida on May 18, 2005, and commenced business on October 1, 2005, as Home Pointe Insurance Company. On January 23, 2008, American Capital Assurance Corp. purchased the Company and changed its name from Home Pointe Insurance Company to ACA Home Insurance Corp. Subsequent to December 31, 2013, the Company changed its name to ASI Home Insurance Corp. The Company was party to Consent Order 81010-05-00 filed April 7, 2005, with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the provisions of this consent order.

The Company was authorized to transact the following insurance coverage in Florida on July 29, 2005 and continued to be authorized as of December 31, 2013:

Allied Lines	
Fire	Homeowners Multi Peril
Other Liability	Mobile Home Multi Peril

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

### Dividends to Stockholders

The Company did not declare or pay any dividends during the period of this examination.

### Capital Stock and Capital Contributions

As of December 31, 2013, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, American Capital Assurance Corp., who owned 100% of the stock issued by the Company, who in turn was 100% owned by ARX Holding Corp., a Delaware corporation.

### **Surplus Notes**

There were no surplus notes received during the period of the examination.

### **Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance**

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

## **CORPORATE RECORDS**

The recorded minutes of the Shareholder, Board of Directors and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## MANAGEMENT AND CONTROL

### Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2013, were:

#### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Marc Fasteau Great Barrington, Massachusetts	Managing Director Fulcrum Partners, LLC
John Franklin Auer St. Petersburg, Florida	Director and Chief Executive Officer American Strategic Insurance Corp.
Kevin Robert Milkey St. Petersburg, Florida	Executive Vice President American Strategic Insurance Corp.
Gregory Scott Hendrick Wilton, Connecticut	Chief Executive of Insurance Operations XL Re Ltd.
Charles Frederick Alexander Cooper Hamilton, Bermuda	President and Chief Underwriting Officer XL Re Ltd.

In accordance with the Company's bylaws, the Board appointed the following senior officers:

#### Senior Officers

<b>Name</b>	<b>Title</b>
John Franklin Auer	President and Treasurer
Kevin Robert Milkey	Executive Vice President and Assistant Secretary
Antonio Scognamiglio <sup>1</sup>	Vice President
Marc Fasteau	Secretary
Angel Dawn Bostick	Vice President and General Counsel
Trevor Clark Hillier	Vice President
Tanya Judith Fjare	Vice President
Philip Loren Brubaker	Vice President
Jeffrey Hannon	Vice President
Mary Frances Fournet	Vice President

<sup>1</sup>Antonio Scognamiglio has subsequently left the Company and been replaced as a Senior Officer by Patrick Thomas McCrink as of June 9, 2014.

The Company's Board of Directors appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2013:

**Audit Committee**

Marc Fasteau <sup>1</sup>  
Gregory Scott Hendrick  
Charles Frederick Alexander Cooper

**Investment Committee**

Mark Fasteau <sup>1</sup>  
John Franklin Auer  
Gregory Scott Hendrick

<sup>1</sup> Chairman

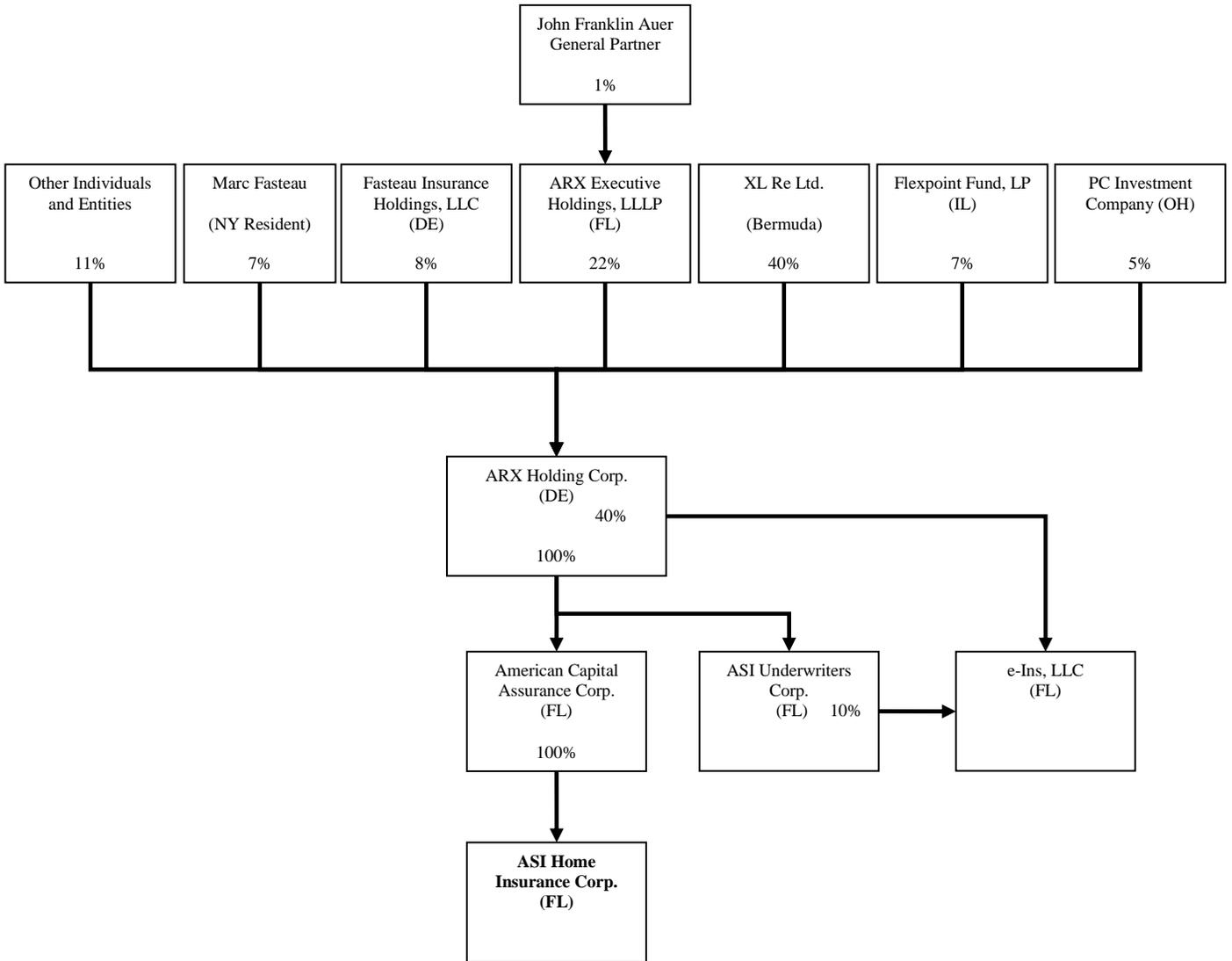
**Affiliated Companies**

The latest holding company registration statement was filed with the Office on April 15, 2014 as required by Section 628.801, Florida Statutes.

A simplified organizational chart as of December 31, 2013, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2013 annual statement provided a list of all related companies of the holding company group.

**ASI HOME INSURANCE CORP.  
SIMPLIFIED ORGANIZATIONAL CHART**

**DECEMBER 31, 2013**



The following agreements were in effect between the Company and its affiliates:

### **Tax Allocation Agreement**

The Company, along with its affiliates, ARX Holding Corp., American Capital Assurance Corp., American Strategic Insurance Corp., ASI Assurance Corp., ASI Preferred Insurance Corp., ASI Select Insurance Corp., ASI Lloyds, ASI Lloyds, Inc., ASI Underwriters Corp., ASI Underwriters of Texas, Inc., Sunshine Security Insurance Agency, Inc., Safe Harbour Underwriters, LLC and ASI Services, Inc., filed a consolidated federal income tax return. On December 31, 2013, the method of allocation for the liability of the federal income tax was in an amount not to exceed that which would have been due had the Company and its subsidiary filed a separate income tax return. Within ninety days of the remittance by the Company of any income tax payment to the taxing authorities, all intercompany tax balances were settled.

### **Intercompany Settlement Agreement**

The Company entered into an agreement with related parties through common ownership with ARX Holding Corp., American Capital Assurance Corp., Safe Harbour Underwriters, LLC, America Strategic Insurance Corp., ASI Assurance Corp., ASI Preferred Insurance Corp., ASI Select Insurance Corp., ASI Lloyds, ASI Lloyds, Inc., ASI Underwriters Corp., ASI Underwriters of Texas, Inc., Sunshine Security Insurance Agency, Inc., ASI Services, Inc., ASI RE, LLC and e-Ins, LLC, whereby the companies mutually acknowledge that in the ordinary course of business, it may become feasible for one company to pay expenses on behalf of another company. In such cases, the companies shall submit a monthly bill for any expenses incurred on behalf of another and shall remit payment in full no later than ninety days after receipt.

## **Managing General Agent Agreement**

The Company entered into a managing general agreement with its affiliate, ASI Underwriters Corp. (ASIU) on January 1, 2008, in which ASIU provided underwriting, premium collection and claims processing services for the Company. In exchange for these services, the Company paid ASIU a monthly commission equal to 8% of premium written plus a \$25 per policy fee on new and renewal business. Claims administration services were included in the agreement. For claims processing, the Company paid a monthly commission based on 5% of non-catastrophe paid losses and 1% for catastrophe paid losses.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$3,000,000 with a deductible of \$100,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers liability, commercial package liability and property insurance coverage during the period of this examination.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no pension, stock ownership, or insurance plans during the period of the examination.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance only in the State of Florida.

## Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

## COMPANY GROWTH

### Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2009	2010	2011	2012	2013
Premiums Earned	238,876	200,751	158,476	116,751	97,249
Net Underwriting Gain/(Loss)	(71,695)	(66,165)	27,390	(55,065)	(55,599)
Net Income	328,217	423,757	292,918	202,855	201,917
Total Assets	18,816,599	18,688,024	17,482,833	17,526,378	17,641,796
Total Liabilities	3,455,092	2,979,659	1,602,224	1,668,477	1,503,792
Surplus As Regards Policyholders	15,361,507	15,708,365	15,880,609	15,857,901	16,138,004

## LOSS EXPERIENCE

The Company cedes a total of 100% of losses incurred under two separate quota share agreements. As a result, the Company does not carry loss and loss adjustment expense reserves.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### **Assumed**

The Company did not assume any reinsurance during the period of this examination.

### **Ceded**

The Company ceded risk on a 90% quota share basis to American Capital Assurance Corp., the Company's parent. This quota share treaty covered all premiums and losses associated with the business produced by the Company. The Company paid a 24% ceding commission for these transactions. The Company also ceded risk on a 10% quota share basis to XL Re, Ltd., also an affiliate based on ownership. This treaty covered all premiums and losses associated with the business produced by the Company. The Company received a 30% ceding commission for these transactions. In addition to this quota share agreement, the Company was party to multiple layers of excess catastrophe coverage and multi-line excess per risk coverage. The Company participated in these treaties as part of the group reinsurance program with parent, American Capital Assurance Company, and affiliates.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in St. Petersburg, Florida.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with JP Morgan Worldwide Securities Services executed on November 2, 2007. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2009, 2010, 2011, 2012 and 2013 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

## **INFORMATION TECHNOLOGY REPORT**

Phil Schmoyer, CFE, CISA, and Emily Cheng CPA, CFE of Baker Tilly performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411,

Florida Statutes:

STATE	Description	Par Par Value	Market Market Value
FL	Denton, TX, Sch, 5.00%, 08/15/2025	200,000	220,050
FL	Lafayette, LA, Utils, 5.25%, 11/01/2017	<u>110,000</u>	<u>114,626</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 310,000</u>	<u>\$ 334,676</u>
TOTAL SPECIAL DEPOSITS		<u>\$310,000</u>	<u>\$ 334,676</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2013, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**ASI HOME INSURANCE CORP.**

**Assets**

**DECEMBER 31, 2013**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$12,880,490		\$12,880,490
Stocks:			
Common			0
Cash and Short-Term Investments	4,512,066		4,512,066
Other investments			0
Investment income due and accrued	67,726		67,726
Premiums and Considerations			
Uncollected premiums and agents' balances in the course of collection	0		0
Deferred premiums, agent's balances and installments booked but deferred and not yet due	(16,869)		-16,869
Reinsurance			
Amounts recoverable from reinsurers	108,416		108,416
Net deferred tax asset	25,674		25,674
Receivable from parents, subsidiaries and affiliates	3,198		3,198
Aggregate write-in for other than invested assets	61,095		61,095
Totals	\$17,641,796	\$0	\$17,641,796

**ASI HOME INSURANCE CORP.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2013**

	Per Company	Examination Adjustments	Per Examination
Losses			
Reinsurance payable on paid losses and loss adjustment expenses			
Loss adjustment expenses			
Commissions payable, contingent commissions and other similar charges	\$14,710		\$14,710
Other expenses	91,803		91,803
Taxes, licenses and fees	(82,284)		(82,284)
Current federal and foreign income taxes	27,480		\$27,480
Unearned premium			
Advance premium	1,243,752		1,243,752
Ceded reinsurance premiums payable	(3,837)		(3,837)
Payable for securities			
Provision for reinsurance	95,000		\$95,000
Payable to parent, subsidiaries and affiliates	967		\$967
Aggregate write-ins for liabilities	116,201		116,201
Total Liabilities	\$1,503,792		\$1,503,792
Common capital stock	\$1,000,000		\$1,000,000
Surplus notes			
Gross paid in and contributed surplus	10,500,000		10,500,000
Unassigned funds (surplus)	4,638,004		4,638,004
Surplus as regards policyholders	\$16,138,004		\$16,138,004
Total liabilities, surplus and other funds	\$17,641,796		\$17,641,796

**ASI HOME INSURANCE CORP.**

**Statement of Income**

**DECEMBER 31, 2013**

**Underwriting Income**

Premiums earned		\$97,249
	<b>Deductions:</b>	
Losses incurred		
Loss expenses incurred		97,364
Other underwriting expenses incurred		55,484
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$152,848
Net underwriting gain or (loss)		(\$55,599)

**Investment Income**

Net investment income earned		\$232,677
Net realized capital gains or (losses)		
Net investment gain or (loss)		\$232,677

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$866
Finance and service charges not included in premiums		11,652
Aggregate write-ins for miscellaneous income		48
Total other income		\$12,566

Net income before dividends to policyholders and before federal & foreign income taxes		\$189,644
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$189,644
Federal & foreign income taxes		(12,273)
Net Income		\$201,917

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$15,857,901
Net Income		\$201,917
Net unrealized capital gains or losses		
Change in net deferred income tax		(46,058)
Change in non-admitted assets		60,144
Change in provision for reinsurance		64,100
Change in excess statutory over statement reserves		
Surplus adjustments: Paid in		
Aggregate write-ins for gains and losses in surplus		
Examination Adjustment		
Change in surplus as regards policyholders for the year		\$280,103
Surplus as regards policyholders, December 31 current year		\$16,138,004

A comparative analysis of changes in surplus is shown below.

**ASI HOME INSURANCE CORP.**

**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2013**

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by this examination.

Surplus as Regards Policyholders December 31, 2013, per Annual Statement	\$ 16,138,004
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Other Expenses			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2013, Per Examination			<u>\$ 16,138,004</u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$0

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2013, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office determined a review of losses and loss adjustment expenses was not warranted based on the 100% ceding relationship.

### Capital and Surplus

The amount of capital and surplus reported by the Company of \$16,219,125 exceeded the minimum \$5,000,000 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of ASI Home Insurance Corp. as of December 31, 2013, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$16,138,004, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Phil Schmoyer, CFE, CISA, Examiner-In-Charge, and Jennifer Cox, Participating Examiner, of Baker Tilly participated in the examination. Additionally, Ronald Kuehn, FCAS, MAAA, CERA, CPCU, ARM, FCA, and Todd Dashoff, FCAS, MAAA, ARM, consulting actuaries of Huggins Actuarial Firm, Emily Cheng, CPA, CFE, IT Participating Examiner of Baker Tilly and Mikhael Goldgisser, Financial Examiner of the Office participated in the examination.

Respectfully submitted,

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Robin Brown, CFE  
Chief Examiner  
Florida Office of Insurance Regulation