

REPORT ON EXAMINATION
OF
AMERICAN COLONIAL INSURANCE
COMPANY, INC.
LONGWOOD, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

December 1, 2010

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Dear Sirs:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2009, of the financial condition and corporate affairs of:

**AMERICAN COLONIAL INSURANCE COMPANY, INC.
260 WEKIVA SPRINGS RD, SUITE 2060
LONGWOOD, FLORIDA 32779**

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, 2005, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This examination commenced with planning at the Office on September 13, 2010, to September 17, 2010. The fieldwork commenced on September 20, 2010, and concluded as of December 1, 2010.

This financial examination was a association zone statutory 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, 2009.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with resulting action taken by the Company.

Accounts and Records

The Company kept its accounting records in the State of Alabama. **Resolution:** The Company acknowledged that they agreed to keep and/or make their records available in Florida after the 2001 examination. In February 2005 (prior to the 2004 examination), the Parent Company sold its Florida operations leaving the Company without an office in Florida. The Company has since found another Florida office and maintains the records in the State of Florida.

SUBSEQUENT EVENTS

Many changes have been made to the management of the Company subsequent to the examination date. On February 26, 2010, the Company was acquired by Echelon Insurance Company of America (a newly formed and licensed Florida domestic company that had not

commenced business). On March 31, 2010, the Company merged into Echelon and American Colonial was the surviving entity. The current directors and officers are all original directors and officers of Echelon.

HISTORY

General

American Colonial Insurance Company, Inc. (ACIC) was organized in Alabama in 1957. The Company received its Certificate of Authority and its Certificate of Domestication on March 23, 1998 and May 5, 1998, respectively, under the laws of the State of Florida, as a stock property and casualty insurer and commenced business in June of 1998 with the name American Colonial Insurance Company, Inc.

The Company's previously written business is in run-off. The Company is licensed in 4 states. The Parent Company at December 31, 2009 was The Colonial Company and there were no other insurance companies in the group. Subsequent event: As of September 30, 2010, the Company resumed writing insurance under the new ownership.

The Company was party to Consent Order 85710-06-CO, filed August 2, 2006, regarding the findings from the prior examination and was in compliance.

The Company was authorized to transact the following insurance coverage in Florida as of December 31, 2009:

Homeowners multi peril
Fire
Private passenger auto physical damage

Surety
Private passenger auto liability

The Company had not written insurance coverage during calendar year 2008 or 2009 in any of the authorized lines of business due to the Company being in run off status.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination; however they were amended to reflect the changes as a result of the merger in March, 2010.

Dividends to Stockholders

No dividends were declared or paid during the examination period.

Capital Stock and Capital Contributions

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	1,500,723
Total common capital stock	\$1,500,723
Par value per share	\$1.00

Control of the Company was maintained by its parent, The Colonial Company, who owned 100% of the stock issued by the Company, who in turn was 100% owned by James K. Lowder and Thomas H. Lowder, equally.

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

The Company was not part of any acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the examination period.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), 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 accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual 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 Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

Directors

Name and Location	Principal Occupation
Purser Livingston McLeod Jr. Montgomery, Alabama	President and CEO, The Colonial Co.
Timothy Dean Herndon Montgomery, Alabama	Accountant
John Whittaker Dorough Jr. Montgomery, Alabama	Executive VP, The Colonial Company

James Harvey Farris, Jr.
Montgomery, Alabama

President, The Colonial Insurance Agency

Bryan Keith Tucker
Montgomery, Alabama

CFO, The Colonial Co.

The Board in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Purser Livingston McLeod Jr.	Chairman of the Board
James Harvey Farris, Jr.	President/CEO
Bryan Keith Tucker	Secretary & Treasurer
John Whittaker Dorough Jr.	Executive Vice President
Timothy Dean Herndon	Assistant Secretary

Other than the audit committee as required by Section 624.424(8), FS, the Company had no established internal committees. However, the Company's Board of Directors performed duties that would normally be performed by the committees.

Audit Committee

P. L. McLeod Jr.
Michael Toohey*
Bryan K. Tucker

*Resigned as Secretary/Treasurer and as Director of the Corporation effective August 1, 2008.

Affiliated Companies

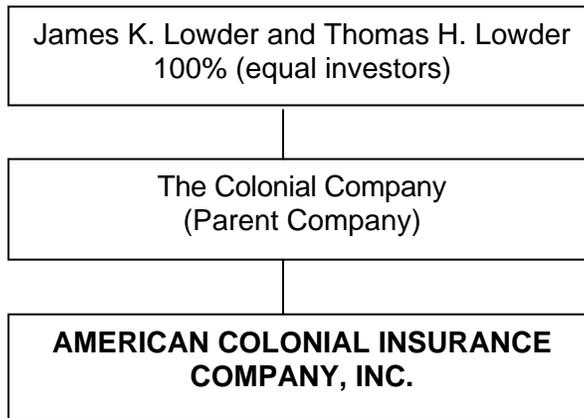
The Company was a member of the previous insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

Subsequent event: An updated holding company registration statement was filed, August 2, 2010, with the State of Florida, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

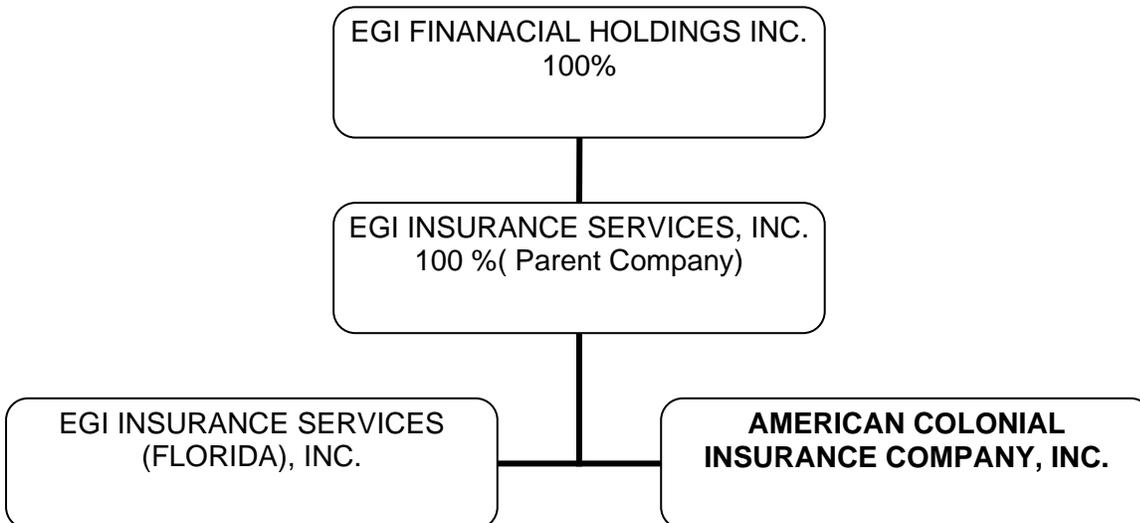
A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. The Company presented an update to their organizational chart as of March 31, 2010.

**AMERICAN COLONIAL INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2009



MARCH 31, 2010



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

Management and Administrative Services Agreement

The Company had a management and administrative services agreement, dated March 1, 2010, with EGI Insurance Services Inc. (EGI). Under the agreement, EGI was to perform certain management and administrative functions for the Company subject to all of the terms and conditions set forth. EGI and the Company always acted and performed at arms – length as independent contractors. EGI provided services to the Company in addition to the administrative services, mutually agreed upon by the parties. EGI was paid fees according to this agreement which may be amended from time to time. The service fee consisted of the actual cost of providing the administrative services (all expenses incurred by EGI, including but not limited to salaries and benefits for employees) + 5%.

Managing General Agency Agreement

The Company had a MGA agreement, dated March 1, 2010, with EGI Insurance Services (Florida), Inc., (MGA). The MGA was to develop and expand an insurance business and required administrative, product development, and marketing functions necessary to successfully accomplish the expansion. The MGA performed all functions necessary for the production, service and management of policies of insurance. The Company allowed the MGA full compensation for all services rendered and in full reimbursement for all expenditures made by the MGA, a fee of twenty percent (20%) of net premium written. The MGA was to notify the Company, in writing, within thirty (30) days if there was a change in ownership of 10% or more of the outstanding stock or when there was a change in the MGA's principal officers or directors. The MGA was allowed to charge a per policy fee not to exceed \$25.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond with an aggregate limit of liability coverage of \$10,000,000 in the name of EGI Financial Inc. (including its subsidiaries), with a deductible of \$100,000 which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O), employment practices liability and fiduciary liability insurance coverage with limits of \$10 million aggregate limit of liability on D&O, \$1 million employment practices and \$1 million fiduciary; and deductibles ranging from \$100,000 on company indemnification and \$25,000 on employment practices and fiduciary claims.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have a pension, stock ownership, or insurance plan. The information reported in the annual statement referred to the parent company's overall benefits for all its subsidiaries. Employees were eligible to participate in a 401K defined contribution plan.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Florida	Louisiana
Georgia	Alabama

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	2008	2007	2006	2005
Premiums Earned	0	0	0	28,246	30,078
Net Underwriting Gain/(Loss)	(49,678)	(47,402)	(86,557)	(40,795)	(33,322)
Net Income	(27,660)	83,996	117,278	126,297	(61,209)
Total Assets	4,579,087	4,622,684	4,591,472	4,481,363	4,388,173
Total Liabilities	230,550	251,002	293,027	279,504	305,905
Surplus As Regards Policyholders	4,348,537	4,371,682	4,298,445	4,201,859	4,082,268

LOSS EXPERIENCE

There were no changes in the loss experience due to the run off status of the Company as of December 31, 2009.

REINSURANCE

The Company terminated its automobile reinsurance treaty on December 28, 2000, with General Re, the Company's reinsurer due to the run off basis of the Company. As a result of the termination, the Company elected to cease writing new policies and renewing existing policies and intends to wind down its automobile insurance operations in force run off. Subsequent event: As of September 30, 2010, the Company resumed writing automobile insurance and reported a reinsurance agreement with Echelon General Insurance Company, an affiliate. A copy of the agreement has been requested by the Office.

Assumed

The Company assumed no risk.

Ceded

The Company ceded no risk.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Longwood, Florida, where this examination was conducted.

Pursuant to Section 624.424 (8) (b), FS, the Company was not required to file an annual audit report by a CPA.

The Company's accounting records were maintained on a computerized system. There were no operating systems in place; most of the transactions were handled on a spreadsheet.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Wells Fargo Bank for the safekeeping of its investments. The Agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company employed the services of PriceWaterhouseCooper as their CPA even though they were exempt from filing an audit report from an independent CPA firm.

Information Technology Report

Computer Aid, Inc. performed an evaluation of the information technology and computer systems of the Company in effect in September, 2010. 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 and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Cash	<u>\$ 300,000</u>	<u>\$ 300,000</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 300,000</u>	<u>\$ 300,000</u>
GA		\$ 25,000	\$ 25,000
LA		<u>100,000</u>	<u>100,043</u>
	TOTAL OTHER DEPOSITS	<u>\$ 125,000</u>	<u>\$ 125,043</u>
	TOTAL SPECIAL DEPOSITS	<u>\$ 425,000</u>	<u>\$ 425,043</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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."

AMERICAN COLONIAL INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Stocks:			
Common	\$51,838		\$51,838
Cash:			
On deposit	409,000		409,000
Short term investments	4,118,249		4,118,249
	<hr/>		
Totals	\$4,579,087	\$0	\$4,579,087
	<hr/> <hr/>		

AMERICAN COLONIAL INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$120,800		\$120,800
Loss adjustment expenses	54,911		54,911
Other expenses	54,839		54,839
Total Liabilities	\$230,550	\$0	\$230,550
Common capital stock	\$1,500,723		\$1,500,723
Gross paid in and contributed surplus	918,550		918,550
Unassigned funds (surplus)	1,929,264		1,929,264
Surplus as regards policyholders	\$4,348,537	\$0	\$4,348,537
Total liabilities, surplus and other funds	\$4,579,087	\$0	\$4,579,087

AMERICAN COLONIAL INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned	\$0
Deductions:	
Other underwriting expenses incurred	49,678
Total underwriting deductions	\$49,678
Net underwriting gain or (loss)	(\$49,678)

Investment Income

Net investment income earned	\$22,018
Net realized capital gains or (losses)	0
Net investment gain or (loss)	\$22,018

Other Income

Net income before dividends to policyholders and before federal & foreign income taxes	(\$27,660)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$27,660)
Federal and foreign income taxes incurred	0
Net Income	(\$27,660)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$4,371,682
Net Income	(\$27,660)
Change in net unrealized capital gains or losses	4,515
Change in net deferred income tax	(330,329)
Change in non-admitted assets	330,329
Change in provision for reinsurance	0
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Change in surplus as regards policyholders for the year	(\$23,145)
Surplus as regards policyholders, December 31 current year	\$4,348,537

A comparative analysis of changes in surplus is shown below:

**AMERICAN COLONIAL INSURANCE COMPANY, INC.
Comparative Analysis of Changes in Surplus**

DECEMBER 31, 2009

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

Surplus as Regards Policyholders
December 31, 2009, per Annual Statement \$4,348,537

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination			<u><u>\$4,348,537</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Capital and Surplus

The amount reported by the Company, \$4,348,537, exceeded the minimum of \$4,000,000 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 **American Colonial Insurance Company, Inc.** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$4,348,537, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Vetrechia Smith, Financial Specialist, Examiner-In-Charge and James Pafford, Financial Examiner Analyst Supervisor of the Office and, Earl Garner, IT Examiner of Computer Aid, Inc. participated in the examination.

Respectfully submitted,

Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation