

**REPORT ON EXAMINATION**

**OF**

**AMERICAN COLONIAL INSURANCE  
COMPANY**

**LONGWOOD, FL**

**AS OF**

**DECEMBER 31, 2014**

**BY THE**

# FLORIDA OFFICE OF INSURANCE REGULATION

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November 12, 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 69O-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, 2014, of the financial condition and corporate affairs of:

**American Colonial Insurance Company**  
**260 Wekiva Springs Road, Suite 2060**  
**Longwood, Florida 32779**

hereinafter referred to as the "Company" or "American Colonial". Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2010, through December 31, 2014. The Company was previously examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on April 13, 2015, to April 17, 2015. The fieldwork commenced on April 20, 2015, and concluded as of November 12, 2015.

This financial examination was an associated 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 Company is part of a holding company system and the examination was coordinated with the Michigan Department of Insurance and Financial Services (DIFS), with Michigan operating as the lead state.

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**

The findings noted during the examination period have been resolved by the Company subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

### **Prior Exam Findings**

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2009.

## **SUBSEQUENT EVENTS**

Effective March 4, 2015, Andrew Daniel Petcoff replaced Brian Joseph Roney as President of the Company.

The Company received notice April 7, 2015 from the Office approving the Company's proposed plan to run-off all of its Private Passenger Automobile insurance policies in 2015. The Company instituted measures to expedite closure of all open claims by December 2015.

The Company entered into a Producer Agreement with an affiliate, Sycamore Insurance Agency, Inc. (Sycamore) dated April 1, 2015. Sycamore acts as a surplus lines broker for retail agents writing business for the Company. For these services, the Company pays Sycamore 5% more than it pays its retail agents, not to exceed 30%. The Agreement was approved by the Office on April 22, 2015. Per schedule T of the June 30, 2015 Quarterly Financial Statement, the Company began writing surplus lines business in Texas under the agreement. Correspondence with the Office indicated that the Company plans to expand its surplus lines eligibility into other states, including Louisiana, Mississippi, North Carolina, and South Carolina.

After adding the homeowners' line of business in late 2014, the Company entered into a Reinsurance Intermediary Authorization Agreement (RIAA) with Guy Carpenter effective June 23, 2015. The agreement was reviewed for the contract provisions required by Section 626.7492, Florida Statutes, which is the Reinsurance Intermediary Act.

Effective August 21, 2015, Jason Brawner was added as the Company's Chief Information Officer.

## COMPANY HISTORY

### General

The Company was organized in Alabama on August 27, 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.

Conifer Holdings, Inc. (CHI) owns 100% of the Company and White Pine Insurance Company (White Pine).

In September 2014, the Office authorized the Company's addition of Fire, Allied Lines, Homeowners Multi-Peril, and Other Liability lines of insurance, and the Company continues to be authorized for these coverage's as of December 31, 2014. The Office also approved the discontinuance of the Private Passenger Auto Liability and the Private Passenger Physical Damage lines of business.

Per Consent Order #161331-14, on August 21, 2014, the Company requested to remove selected personal residential policies from Citizens. The plan provides for an assumption of up to 22,050 policies beginning December 16, 2014. Per Consent Order #164564-14, on November 4, 2014, the Company requested to remove additional selected personal residential policies from Citizens. The plan provides for an assumption of up to 5,441 policies to start February 17, 2015. The Company is presently in compliance with these consent orders.

On February 2, 2010, the Articles of Incorporation were amended to change the address of the principal office and to add provisions for directors and Bylaws. On December 8, 2010, the

Articles of Incorporation were amended to change the name of the Company to American Colonial Insurance Company from American Colonial Insurance Company, Inc.

On December 8, 2010 the Bylaws were amended to make provisions for the annual shareholder meeting; the number, tenure, qualifications and election of directors; committees; stock certificates and corporate actions. On December 1, 2013, the Bylaws were amended to change the annual Shareholder meeting from the first Monday in March to no later than June 30<sup>th</sup> of each year.

### **Dividends to Stockholders**

The Company did not declare or pay any dividends during the period of this examination, (January 1, 2010 thru December 31, 2014).

### **Capital Stock and Capital Contributions**

As of December 31, 2014, the Company's capitalization was as follows:

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

Control of the Company was maintained by its parent, CHI, who owned 100% of the stock issued by the Company. CHI in turn was owned by James G. Petcoff (45.6%) and three investment funds: Strength Capital Partners II, LP (3.8%); Strength Capital Partners III, LP – Special Situations, LP (10.4%); Strength Capital Partners III, Special Situations, (AIV), LP;

Special Situations (AIV), III LP (8.0%); The remaining ownership (32.2%) is held by various individuals, with no individual or couple holding more than 4.5% ownership.

The Company received a \$20,000,000 capital contribution from its parent, CHI, in September 2014 to meet the Company's minimum surplus requirements for adding the homeowner's lines of business and support the Company's growth initiatives.

During the period under examination, the Company went through a merger with Echelon Insurance Company of America (Echelon) effective March 31, 2010 with the Company as the surviving entity. At the time of the merger, the Company had 5,000,000 authorized shares of common stock at \$1 per share, of which 1,500,723 shares were issued and outstanding. Echelon had 10,000,000 authorized shares of common stock at \$100 per share, of which 100,000 shares were issued and outstanding for \$10,000,000 of capital stock.

It was noted the Company incorrectly accounted for and reported the total number of issued and outstanding shares of capital common stock at the time of merger with Echelon. Each share of \$100 common stock of Echelon issued and outstanding was converted into fifty (50) shares of the \$1 common stock of the Company, or \$5,000,000 of capital stock. The original shares 1,500,723 plus the 5,000,000 shares issued pursuant to the plan of merger resulted in 6,500,723 shares issued and outstanding, exceeding the authorized limit of 5,000,000 total shares in accordance to the Articles of Merger.

**Subsequent Event:** The Company corrected the error and restated the stock certificates for the corrected 5,000,000 shares and reorganized the stock ledger to agree. The 1,500,723

excess shares were cancelled as of the effective date of the merger and a new stock certificate was issued to American Colonial Holdings, Inc. for 5,000,000 shares of capital stock.

### **Surplus Notes**

The Company did not have any surplus notes during the period of this examination.

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

Effective March 31, 2010, the Company merged with Echelon, with the Company as the surviving entity. The Articles of Incorporation and Bylaws of the surviving company were amended to become identical to the Articles and Bylaws of the absorbed corporation, Echelon, with the exception that the Company retained its authorized shares at 5,000,000 of common stock at \$1 per share. The merger transaction qualified as a reorganization within the meaning of the Internal Revenue Code.

In November 2013, White Pine acquired EGI Insurance Services, Inc., Georgia, which owned the Company and was writing personal automobile coverage exclusively in Florida, as well as EGI Insurance Services of Florida, a Florida managing general agency that services business exclusively in Florida. In January 2014, these Companies were renamed ACH, and American Colonial Insurance Services (ACIS), respectively. In May 2014, ACH merged into ACIS, resulting in White Pine being the parent of both the Company and ACIS.

On November 26, 2014, White Pine distributed 100% of its ownership interest in the Company to CHI by declaring an extraordinary dividend of the entire stock and book value of both the Company and ACIS, to CHI, making both wholly owned subsidiaries of CHI.

## **CORPORATE RECORDS**

The recorded minutes of the Shareholder(s), 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 compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

### **Conflict of Interest**

The Company did not adopt 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, 2014, were:

#### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
James George Petcoff Birmingham, Michigan	CEO and Chairman Conifer Holdings, Inc.
Brian Joseph Roney Bloomfield Hills, Michigan	President, COO Conifer Holdings, Inc.
Bradford Thomas Lyons Troy, Michigan	Senior Vice President of Underwriting Conifer insurance Company
Nicholas James Petcoff Birmingham, Michigan	Executive Vice President Conifer Holdings, Inc.

Andrew Daniel Petcoff  
Birmingham, Michigan

Vice President of Marketing  
Conifer Holdings, Inc.

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

### Senior Officers

<b>Name</b>	<b>Title</b>
Brian Joseph Roney (a)	President, Chief Operating Officer
Harold James Meloche	Chief Financial Officer, Treasurer
Rochelle Kaplan (b)	Secretary

(a) Effective March 4, 2015 Andrew Daniel Petcoff replaced Brian Joseph Roney as President of the Company. Mr. Roney remained as Chief Operating Officer. The Office received timely notice in accordance with Section 628.261, Florida Statutes.

(b) Rochelle Kaplan's surname was changed to Kaplan-Rudolph in the June 30, 2015 and September 30, 2015 Quarterly Statements.

The Company's Board appointed one internal committee. The following was the principal internal Board committee and its members as of December 31, 2014:

### Audit Committee

Brian Joseph Roney <sup>1</sup>  
Nicholas James Petcoff  
Andrew Daniel Petcoff

<sup>1</sup> Chairman

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

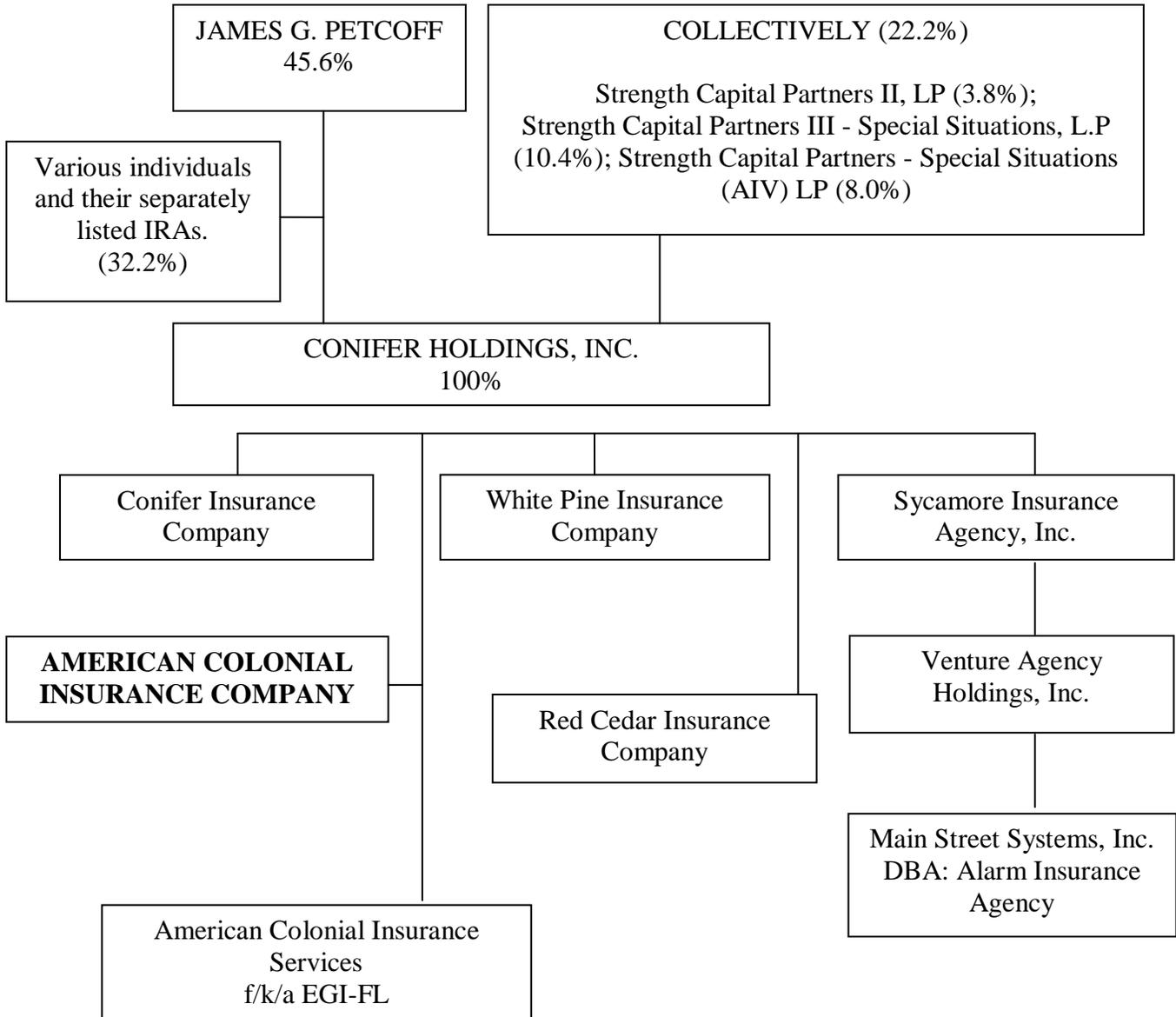
## **Affiliated Companies**

The most recent holding company registration statement was filed with Office on February 25, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2014, reflecting the holding company system, is shown on the following page.

**AMERICAN COLONIAL INSURANCE COMPANY  
Organizational Chart**

DECEMBER 31, 2014



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

### **Administration and Services Agreement**

Under an Administration and Services Agreement with ACIS dated November 30, 2013, ACIS provides the Company with management services, including: accounting, tax and auditing; information systems & technology, including programming of the policy issuance system and use of the hardware, which includes computers, servers, copiers, printers, and email servers. Also included is legal, human resources, and compensation for collection of premiums for a management fee of 1% of gross written premiums for each service provided, for a total of 5%. Under this agreement, the Company paid administrative and service fees of \$683,491 to ACIS in 2014.

**Subsequent Event:** The Agreement was amended effective January 1, 2015 to change the management fee for the Information and Technology services provided to 1% of gross written premiums on all automobile lines of business and 3.5% of gross written premiums on all non-automobile lines of business.

### **Managing General Agency Agreement**

Under a Managing General Agency (MGA) Agreement with ACIS dated November 30, 2013, the Company pays commission equal to 22% of direct written premiums written to ACIS for underwriting, marketing, claims and policy issuance services. An addendum dated December 1, 2014 revised terms of the commissions for assumed business from Citizens to 13% of assumed premiums. Under this agreement, the Company paid commission expenses of \$2,513,334 in 2014. Information technology services not related to the Managing General Agency Agreement are provided pursuant to the Administration and Services Agreement.

The \$25 per policy MGA fee was improperly recorded at the MGA level and not included as premiums or subject them to applicable premium taxes as required by Section 627.403, Florida Statutes.

**Subsequent Event:** Effective October 15, 2015, the Company submitted an amended 2014 premium tax filing to include the MGA per policy fees in the total premium and remitted applicable taxes thereon.

### **Tax Sharing Agreement**

The Company entered into a tax sharing agreement with its parent, Conifer Holdings, Inc., dated January 1, 2012. The method of allocation among affiliates is based upon separate return calculations with current credit for net losses to the extent the losses provide a benefit in the consolidated tax return.

### **Producer Agreement**

The Company entered into a Producer Agreement with an affiliate, Sycamore Insurance Agency, Inc. (Sycamore) dated April 1, 2015, whereby Sycamore acts as a surplus lines broker for retail agents writing Surplus Lines business for the Company.

## **TERRITORY AND PLAN OF OPERATIONS**

As of December 31, 2014, the Company was authorized to transact insurance in the following states:

Florida

Georgia

Alabama

Louisiana

The Company was also eligible or approved to write Surplus Lines insurance in Texas.

## **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (i) 3 a, 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) 3.a., Florida Statutes.

## **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**

In December 2014, the Company participated in the Citizens depopulation program, and assumed a related unearned premium reserve of approximately \$5,128,000.

### **Ceded**

The Company participated in a property excess of loss treaty in which substantially all lines are 100% reinsured for specific losses in excess of \$300,000 up to \$3 million. For specific property risks that exceed the \$3 million layer, the Company obtained facultative reinsurance through General Reinsurance Corporation (Gen Re).

An \$18 million in excess of \$2 million reinsurance casualty clash agreement was in place for homeowner's liability coverage. The Company also had property catastrophe excess of loss reinsurance with retention of \$1 million for losses up to \$70 million as of January 1, 2015.

The Company had a Reimbursement Contract with the Florida State Board of Administration (SBA), which administered the Florida Hurricane Catastrophe Fund (FHCF), for policies assumed from Citizens as part of the depopulation plan. As part of the Citizens depopulation plan, the Company is required to purchase reinsurance from the FHCF.

## **ACCOUNTS AND RECORDS**

The Company's statutory home office is located in Longwood, Florida. However, this office acts more in the capacity of customer service for the policyholders in Florida as the majority of the accounting functions are performed in the Birmingham, Michigan office, where the senior officers are located.

The Company had the following agreements with non-affiliated entities or with third party entities:

### **Independent Auditor Agreement**

Deloitte & Touche, LLP, an independent CPA, audited the Company's statutory basis financial statements annually for all years under examination, 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.

### **Custodial Agreement**

The Company maintained a custodial agreement with Wells Fargo Bank, N.A., which was entered into on March 1, 2010 when the Company was under prior ownership of EGI Insurance

Services, Inc. The review of the Board minutes did not reflect authorization of the custody agreement with Wells Fargo Bank, pursuant to Rule 69O-143.042 (2), Florida Administrative Code.

**Subsequent Event:** By resolution of the Board, the custodial agreement was approved July 15, 2015.

### **Investment Agreement**

Effective December 16, 2013, the Company was added to the Investment Management Agreement between the Conifer Group, Inc. and General Re to provide asset management and investment accounting services, subject to the same investment guidelines and fees in effect for CHI. The Company paid a fee based on a percentage of the value of the assets on a monthly basis.

### **Reinsurance Intermediary Authorization Agreement (RIAA)**

Prior to December 31, 2014, the Company was only writing auto business and was not specifically engaged with an intermediary.

**Subsequent Event:** After adding the homeowner's line of business in late 2014, the Company entered into an RIAA with Guy Carpenter effective June 23, 2015. The agreement was reviewed for the contract provisions required by the Reinsurance Intermediary Act without issue.

## **INFORMATION TECHNOLOGY REPORT**

Tracy Gates, CFE, CISA of Highland Clark, LLC 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, and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Freddie Mac 5.68% 02/03/27	\$ 500,000	\$ 548,855
FL	USTN 2.25% 11/30/17	300,000	310,260
TOTAL FLORIDA DEPOSITS		\$ 800,000	\$ 859,115
GA	Treasury MM Fund	\$ 25,016	\$ 25,016
LA	CD 1.15% 11/10/19	99,950	99,950
TOTAL OTHER DEPOSITS		\$ 124,966	\$ 124,966
TOTAL SPECIAL DEPOSITS		\$ 924,966	\$ 984,081

## **FINANCIAL STATEMENTS PER EXAMINATION**

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. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

**American Colonial Insurance Company  
Assets**

**December 31, 2014**

	Per Company Examination	Examination Adjustments	Per Examination
Bonds	\$26,551,275		\$26,551,275
Stocks:			
Cash and Short-Term Investments	7,533,418		7,533,418
Investment income due and accrued	143,904		143,904
Agents' Balances:			
Uncollected premium	178,431		178,431
Deferred premium	958,077		958,077
Current federal and foreign income tax and interest thereon	37,061		37,061
Receivable from parents, subsidiaries and affiliates	108,195		108,195
			<hr/>
Totals	<u>\$35,510,361</u>	\$0	<u>\$35,510,361</u>

**American Colonial Insurance Company  
Liabilities, Surplus and Other Funds**

**December 31, 2014**

	Per Company	Examination Adjustments	Per Examination
Losses	\$3,251,065		\$3,251,065
Loss adjustment expenses	891,577		891,577
Other expenses	12,986		12,986
Taxes, licenses and fees	41,784		41,784
Unearned premium	6,694,100		6,694,100
Ceded reinsurance premiums payable	50,762		50,762
Amounts withheld	11,902		11,902
Payable to parent, subsidiaries and affiliates	702		702
Aggregate write-ins for liabilities	94,498		94,498
Total Liabilities	\$11,049,376	\$0	\$11,049,376
Common capital stock	\$5,000,000		\$5,000,000
Gross paid in and contributed surplus	23,409,640		23,409,640
Unassigned funds (surplus)	(3,948,655)		(3,948,655)
Surplus as regards policyholders	\$24,460,985	\$0	\$24,460,985
Total liabilities, surplus and other funds	\$35,510,361	\$0	\$35,510,361

**American Colonial Insurance Company  
Statement of Income**

**December 31, 2014**

	Per Company	Examination Adjustments	Per Examination
Losses	\$3,251,065		\$3,251,065
Loss adjustment expenses	891,577		891,577
Other expenses	12,986		12,986
Taxes, licenses and fees	41,784		41,784
Unearned premium	6,694,100		6,694,100
Ceded reinsurance premiums payable	50,762		50,762
Amounts withheld	11,902		11,902
Payable to parent, subsidiaries and affiliate	702		702
Aggregate write-ins for liabilities	94,498		94,498
<b>Total Liabilities</b>	<b>\$11,049,376</b>	<b>\$0</b>	<b>\$11,049,376</b>
Common capital stock	\$5,000,000		\$5,000,000
Gross paid in and contributed surplus	23,409,640		23,409,640
Unassigned funds (surplus)	(3,948,655)		(3,948,655)
<b>Surplus as regards policyholders</b>	<b>\$24,460,985</b>	<b>\$0</b>	<b>\$24,460,985</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$35,510,361</b>	<b>\$0</b>	<b>\$35,510,361</b>

**American Colonial Insurance Company  
Comparative Analysis of Changes in Surplus**

**December 31, 2014**

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, 2014, per Annual Statement	\$24,460,985
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
<b>No Adjustment</b>			
<b>LIABILITIES:</b>			
<b>No Adjustment</b>			
 Net Change in Surplus:			0
 Surplus as Regards Policyholders December 31, 2014, Per Examination			\$24,460,985

## **COMMENTS ON FINANCIAL STATEMENTS**

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

Deloitte Consulting LLP, 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, 2014, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Michigan Department of Insurance and Financial Services (DIFS) retained a property casualty consulting actuary for this examination to opine on the loss reserves of Conifer Insurance Company (CIC), White Pine and American Colonial as of December 31, 2014 for this coordinated examination. D. Patrick Glenn, ACAS, MAAA, FCAS of Lewis & Ellis, Inc., was the lead actuary on this examination. He reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$24,460,985, exceeded the minimum of \$5,000,000, as 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 as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$24,460,985, which exceeded the minimum of \$5,000,000 required per entity by Section 624.408, Florida Statutes.

In addition to the undersigned, Mark Jaster, CFE, Examiner in Charge, Tracy Gates, CFE, CISA, IT specialist, Travis Harrison, CPA, and Sam Hebert, Participating Examiners, of Highland Clark, LLC, participated in the examination. We also recognize, D. Patrick Glenn, ACAS, MAAA, FCAS, consulting actuary of Lewis & Ellis, Sarah Lucibello, CPA, CFE, CIA, Examination Manager, of Lewis & Ellis, and Jeff Rockwell, Participating Examiner of the Office, participated in the examination.

Respectfully submitted,

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Lamar Downs, CPA  
Deputy Chief Examiner  
Florida Office of Insurance Regulation