

EXAMINATION REPORT

OF

AMERICAN FAMILY HOME INSURANCE COMPANY

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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June 3, 2016

David Altmaier
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 Family Home Insurance Company
1301 River Place Blvd., Suite 1300
Jacksonville, Florida 32207

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, 2010 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2005 through December 31, 2009. This examination commenced with planning at the Office on August 10, 2015 to August 14, 2015. The fieldwork commenced on August 17, 2015 and concluded as of June 3, 2016.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the 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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes 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 report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material financial findings or exceptions noted during the examination as of December 31, 2014.

Prior Examination Findings

There were no material financial findings or exceptions noted during the examination as of December 31, 2009

COMPANY HISTORY

General

The Company was incorporated in Florida on January 28, 1965, and commenced business on July 1, 1965 as American Family Home Insurance Company.

The Company was authorized to transact insurance coverage in Florida on December 31, 2009 and continued to be authorized for the following coverage(s) as of December 31, 2014.

Fire	Workers' Compensation
Allied Lines	Other Liability
Homeowners Multiple-Peril	Credit
Commercial Multiple-Peril	Livestock
Accident and Health	Fidelity
Ocean Marine	Surety
Inland Marine	Glass
Earthquake	Burglary and Theft

Mobile Home Multi-Peril	Boiler and Machinery
Mobile Home Physical Damage	Miscellaneous Casualty
Home Warranties	Commercial Auto Liability
Service Warranties	Commercial Auto Physical Damage
Farmowners Multi-Peril	Private Passenger Auto Liability
	Private Passenger Auto Physical Damage

Dividends

The Company paid no dividends in 2014. In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder(s) in 2013, 2012, and 2011 in the amounts of \$11,000,000, \$6,000,000, and \$18,000,000 respectively.

Capital Stock and Capital Contributions

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

Number of authorized common capital shares	250,000
Number of shares issued and outstanding	250,000
Total common capital stock	\$4,200,000
Par value per share	\$16.80

Control of the Company was maintained by its parent, American Modern Insurance Group, an Ohio Corporation, who owned 100% of the stock issued by the Company, who in turn was 100% owned by the Midland-Guardian Company, an Ohio Corporation, who in turn was 100% owned by The Midland Company, an Ohio Corporation, who in turn was 100% owned by Munich American Holding Corporation, a Delaware Corporation who in turn was 100% owned by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft ("Munich Re"), a joint-stock company in Munich, Germany.

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

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(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, 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, 2014 are shown below.

Directors

Name and Location

Principal Occupation

Anthony Joseph Kuczinski
Princeton, New Jersey

President & CEO
Munich Re America

René Anton Gobonya
Amelia , Ohio

Chief Financial Officer
American Modern Insurance
Group

Charles Arthur Bryan
Columbus, Ohio

Consulting Actuary

James Joseph Butler
Avon, Connecticut

Retired

George Terrence Van Gilder
Morristown, New Jersey

Retired

Murray Steven Levy
Colts Neck, New Jersey

Director

Robin Harriet Wilcox
Princeton, New Jersey

General Counsel, Secretary
Munich Re America

Manuel Zuniga Rios
Amelia, Ohio

President & CEO
American Modern Insurance
Group

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

Senior Officers

Name	Title
Manuel Zuniga Rios (a)	President and CEO
James Paul Tierney	Senior Vice President
Rene Gobonya	Senior Vice President
James Edward Hinkle III	Treasurer
Charles Schuster Griffith III	Secretary

(a) Resigned in August 2015 and Anthony Kuczinski, President & CEO Munich Reinsurance American, assumed the CEO position until a replacement was found. On March 1, 2016, the Company announced that Andreas Kleiner will become the President & CEO effective May 1, 2016.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2014:

Executive Committee

Manuel Z. Rios¹
Anthony J. Kuczinski
Rene A. Gobonya

Audit Committee

James J. Butler¹
Charles, A. Bryan
George T. Van Gilder

Investment Committee

Paul Wolfe¹
Michael Bős
René A. Gobonya
Peter Richter

Risk Management Committee

Anthony J. Kuczinski¹
Gregory M. Barats
Steven Morello
Manuel Z. Rios
Melissa Salton
Werner Simon
Robin H. Willcox

¹ Chairman

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

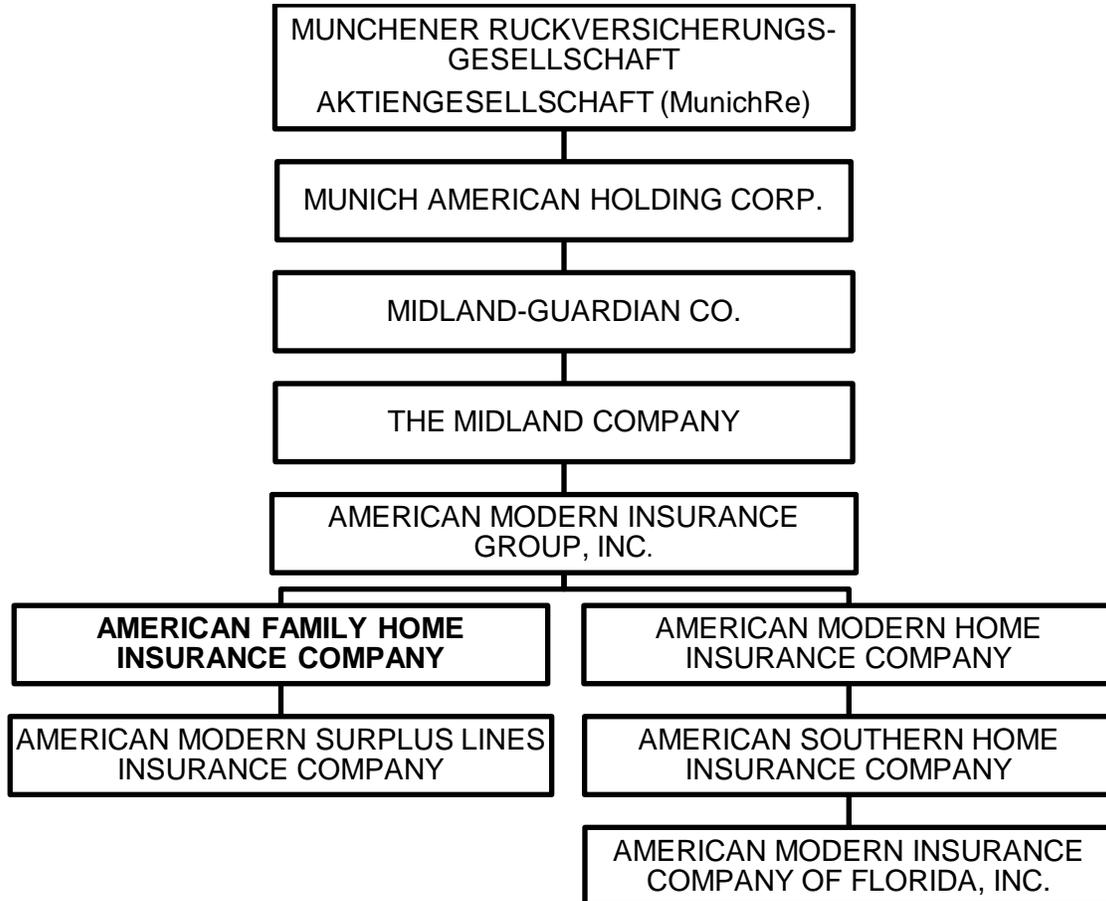
Affiliated Companies

The most recent holding company registration statement was filed with the Office on February 27, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

American Family Home Insurance Company

Organizational Chart

December 31, 2014



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

Tax Allocation Agreement

The Company is a member of the Munich American Holding Corporation consolidated federal income tax return group and part of the amended and restated tax allocation agreement effective March 2, 2012. The tax provision is calculated in accordance with GAAP and allocated to separate companies on the basis of separate return computations. Settlements are performed quarterly, with the final amount settled once the tax return is filed.

General Services and Cost Allocation Agreement

The Company entered into a General Services and Cost Allocation Agreement on September 1, 2009 with Munich-American Holding Corporation to provide certain management services. The agreement continues in force for a term of one year and will automatically renew for successive one-year periods, unless otherwise terminated within the guidelines of the agreement. The Group members agreed that the costs should be actual costs for services and capital under the agreement. Fees incurred under this agreement during 2014 amounted to \$21,293,082.

IT Framework Services Agreement

The Company entered into a IT Framework Services Agreement for the Group-wide provision of IT services on January 1, 2015 with Munich Re, where Munich Re is to provide certain IT services which may include applications, software, infrastructure and consulting services. The agreement continues in force unless otherwise terminated within the guidelines of the agreement. The Company may give written notice of termination within six (6) months prior to

the end of each calendar year. The fee paid by the Company is equal to the actual costs of service and capital. Fees incurred under this agreement during 2014 amounted to \$1,546,518.

Investment Management Agreement

The Company entered into an Investment Management Agreement on May 28, 2008 with MEAG New York Corporation. The agreement continues in force unless otherwise terminated within the guidelines of the agreement. The Company may give written notice of termination within six (6) months prior to the end of each calendar year. Fees incurred under this agreement during 2014 amounted to \$261,298.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in all states including Washington, D.C., except New Hampshire.

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.

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

The Company was a participant in a quota share reinsurance agreement with several affiliated companies. This agreement was effective January 01, 1983, and was in the form of a pooling arrangement. American Modern Home Insurance Company acted as the lead company in the pooling arrangement. The American Modern Insurance Group affiliates and pooling percentages which were reinsured 100% by the lead company were as follows:

American Modern Home Insurance Company	47.5%
American Family Home Insurance Company	27%
American Western Home Insurance Company	9%
American Modern Select Insurance Company	5%
American Modern Surplus Lines Ins. Company	5%
American Southern Home Insurance Company	4%
American Modern Insurance Company of Florida, Inc.	2%
American Modern Property and Casualty Ins. Co.	0.5%

After assuming 100% of the direct and assumed business from the affiliated members of the pool, the lead company cedes to the non-affiliated reinsurers its direct and assumed business in accordance with the terms of the respective reinsurance contracts. The retained business is then ceded to each affiliate according to its pooling percentage.

Assumed

Under the intercompany pooling arrangement, the Company assumed \$282,208,288 from affiliates during the year 2014. The Company also assumed \$60,754 from non-affiliates during 2014.

Ceded

Under the intercompany pooling arrangement, the Company ceded \$187,108,836 to affiliates during the year 2014. The Company also ceded \$2,599 to non-affiliates during 2014.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with State Street Bank and Trust Company executed on May 23, 2008. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Managing General Agent Agreement

The Company utilized a non-affiliated Managing General Agent (MGA) Arrowhead General Insurance Agency, Inc., effective August 11, 2011, to produce workers compensation insurance business. The MGA was responsible for quoting policies to customers, claims administration, billing, and collecting premiums on behalf of the insurer. The Company retained the right for binding authority and ensures all policies meet company underwriting guidelines.

Independent Auditor Agreement

An independent CPA, KPMG LLP, audited the Company's statutory basis financial statements annually for the years 2010 through 2014, 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

Mohammed Arif, AES, CFE, CIDM, CISA, CISSP, of the Ohio Department of Insurance, performed the review and 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 Value	Market Value
FL	USTNTS	0.750%	01/15/17	\$ 2,316,000	\$ 2,317,806
FL	USTBND	5.375%	02/15/31	\$ 525,000	\$ 732,438
TOTAL FLORIDA DEPOSITS				<u>\$ 2,841,000</u>	<u>\$ 3,050,244</u>
AR	USTNTS	0.750%	01/15/17	\$ 197,000	\$ 197,153
AZ	USTNTS	0.750%	01/15/17	\$ 111,000	\$ 111,087
CA	USTNTS	0.500%	06/15/17	\$ 125,000	\$ 125,074
DC	USTNTS	0.500%	06/15/17	\$ 700,000	\$ 700,413
DE	USTNTS	0.750%	01/15/17	\$ 101,000	\$ 101,079
GA	USTNTS	0.750%	01/15/17	\$ 86,000	\$ 86,067
ID	USTNTS	0.750%	01/15/17	\$ 252,000	\$ 252,197
MA	USTNTS	0.750%	01/15/17	\$ 716,000	\$ 716,560
NC	USTNTS	0.750%	01/15/17	\$ 303,000	\$ 303,643
NM	USTNTS	0.750%	01/15/17	\$ 126,000	\$ 126,098
NM	USTBND	5.375%	02/15/31	\$ 200,000	\$ 279,024
NV	USTNTS	0.500%	01/15/17	\$ 318,000	\$ 318,248
OH	USTBND	5.375%	02/15/31	\$ 50,000	\$ 69,756
OR	USTNTS	0.500%	06/15/16	\$ 305,000	\$ 305,180
OR	USTNTS	0.750%	01/15/17	\$ 111,000	\$ 111,087
VA	USTNTS	0.750%	01/15/17	\$ 101,000	\$ 101,079
TOTAL OTHER DEPOSITS				<u>\$ 3,802,000</u>	<u>\$ 3,903,745</u>
TOTAL SPECIAL DEPOSITS				<u>\$ 6,643,000</u>	<u>\$ 6,953,989</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, 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 Family Home Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$269,652,394		\$269,652,394
Stocks:			
Common	26,683,464		26,683,464
Real Estate:			
Properties occupied by Company			
Other properties			
Cash and Short-Term Investments	20,704,426		20,704,426
Receivable for securities	3,175		3,175
Aggregate write-in for invested assets			
Agents' Balances:			
Uncollected premium	17,376,504		17,376,504
Deferred premium	22,801,784		22,801,784
Reinsurance recoverable	7,596,614		7,596,614
Funds held by or deposited with reinsurance contracts	155,370,112		155,370,112
Interest and dividend income due & accrued	1,307,449		1,307,449
Net deferred tax asset	11,050,317		11,050,317
Receivable from parents, subsidiaries and affiliates	59,555		59,555
Equities and deposits in pools and associations			
Aggregate write-in for other than invested assets			
Totals	\$532,605,794	\$0	\$532,605,794

American Family Home Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$46,389,771		\$46,389,771
Reinsurance payable	10,680,502		10,680,502
Loss adjustment expenses	4,694,400		4,694,400
Commissions payable	8,268,991		8,268,991
Other expenses	3,460,728		3,460,728
Taxes, licenses and fees	1,215,952		1,215,952
Current federal and foreign income taxes	2,764,895		2,764,895
Unearned premium	138,131,975		138,131,975
Ceded reinsurance premium payable	9,746,613		9,746,613
Funds held under reinsurance treaties	123,640,707		123,640,707
Payable to parent, subsidiaries and affiliates	23,748,424		23,748,424
Aggregate write-ins for liabilities	4,202,397		4,202,397
Total Liabilities	\$376,945,355	\$0	\$376,945,355
Common capital stock	\$4,200,000		\$4,200,000
Gross paid in and contributed surplus	12,550,000		12,550,000
Unassigned funds (surplus)	138,910,440		138,910,440
Surplus as regards policyholders	\$155,660,440	\$0	\$155,660,440
Total liabilities, surplus and other funds	\$532,605,795	\$0	\$532,605,795

American Family Home Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2014

Underwriting Income

Premiums earned		\$260,476,008
	Deductions:	
Losses incurred		\$111,465,547
Loss expenses incurred		14,299,818
Other underwriting expenses incurred		134,731,059
Aggregate write-ins for underwriting deductions		177,449
Total underwriting deductions		<u>\$260,673,873</u>
Net underwriting gain or (loss)		(\$197,865)

Investment Income

Net investment income earned		\$5,940,430
Net realized capital gains or (losses)		<u>435,287</u>
Net investment gain or (loss)		\$6,375,717

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$12
Finance and service charges not included in premiums		2,694,424
Aggregate write-ins for miscellaneous income		<u>(873,910)</u>
Total other income		<u>\$1,820,526</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$7,998,378
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$7,998,378
Federal & foreign income taxes		<u>3,959,992</u>
Net Income		<u><u>\$4,038,386</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$149,784,814
Net Income		\$4,038,386
Net unrealized capital gains or losses		381,518
Change in non-admitted assets		179,125
Change in net deferred income tax		1,276,597
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$5,875,626</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$155,660,440</u></u>

American Family Home 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	\$155,660,440
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			_____
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$155,660,440

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm, Mercer Oliver Wyman Actuarial Consulting, Inc., appointed by the Board, 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.

Thomas Botsko, CAS, MAAA of the Ohio Department of Insurance, reviewed the loss and loss adjustment expense work papers provided by the Company and he, she or they was or were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$155,660,440, exceeded the minimum of \$32,773,975 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 Family Home 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 \$155,660,440, which exceeded the minimum of \$32,773,975 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CFE, CPA, CIA, Examiner-in-Charge, and James Bodalski, CPA and Robert Snyder, Participating Examiners, of Baker Tilly Virchow Krause, LLP, also participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, Financial Examiner/Analyst Supervisor, Examination Manager and Kyra Brown, Financial Specialist, Participating Examiner.

Respectfully submitted,

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