

REPORT ON EXAMINATION

OF

AMERICAN GENERAL PROPERTY

INSURANCE COMPANY OF FLORIDA

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

September 16, 2009

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, 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, 2008, of the financial condition and corporate affairs of:

AMERICAN GENERAL PROPERTY INSURANCE COMPANY OF FLORIDA
American General Center-Nashville
Nashville, TN 37250

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, 2004, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced with planning at the Office on June 18, 2009 and all fieldwork was performed at the Office and concluded on September 16, 2009.

This financial examination was a 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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company.

Custodial Agreement

The Company's Custodial Agreement did not comply with Rule 69O-143.042 (2) (c), Florida Administrative Code with regards to terminating the contract. **Resolution:** On June 30, 2004 the custodial agreement was amended and is now in compliance with Rule 69O-143.042 (2) (c), Florida Administrative Code.

HISTORY

General

The Company was incorporated as a wholly-owned subsidiary of Independent Fire Insurance Company on April 20, 1970, under the laws of the State of Florida as a stock property and casualty insurer. They commenced business on July 1, 1970 under the name of Herald Fire Insurance Company. Effective January 1, 1981, through a corporate reorganization, Independent Insurance Group, Inc., of Jacksonville, Florida, a holding company, became the parent company of the Independent Life and Accident Insurance Company and its wholly-owned subsidiaries, including the Company. The Company's name was changed during this process to Independent Fire Insurance Company of Florida.

On April 14, 1997 the name of the Company was changed from Independent Fire Insurance Company of Florida to American General Property Insurance Company of Florida.

On May 30, 1997 the Articles of Incorporation and By-Laws were amended to reflect the Company's name change from Independent Fire Insurance Company of Florida to American General Property Insurance Company of Florida.

On August 3, 2001, the Office approved the acquisition of American General Corporation which included its subsidiary, American General Property Insurance Company of Florida, by the American International Group, Inc (the ultimate parent).

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact Fire and Allied Lines insurance coverage in the State of Florida on December 31, 2008.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	150,000
Total common capital stock	\$1,500,000
Per value per share	\$ 10.00

Profitability of Company

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

	2008	2007	2006	2005	2004
Premiums Earned	15,707	301,388	3,217,582	3,554,852	3,829,647
Net Underwriting Gain/(Loss)	28,698	(227,107)	869,000	-1,504,021	-4,083,559
Net Income	546,675	354,346	804,529	-462,541	-1,808,716
Total Assets	12,908,268	12,666,720	12,303,091	11,470,284	15,576,157
Total Liabilities	403,054	722,966	691,278	667,654	4,272,053
Surplus As Regards Policyholders	12,505,214	11,943,754	11,611,813	10,802,630	11,304,114

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company had not declared or paid dividends during the period of this examination.

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, 2008, were:

Directors

Name and Location

Merton B. Aidinoff,
New York, NY

Gregory A. Hayes,
Nashville, TN

Principal Occupation

Attorney

Treasurer, American General Property Insurance
Company of Florida

David I. Herzog, New York, NY	Insurance Executive, American International Group, Inc.
Rodney O. Martin, Jr., Houston, TX	Insurance Executive, American International Group, Inc.
Mary Jane Fortin, New York, NY	Executive Vice President, American General Property Insurance Company of Florida
James A. Mallon, New York, NY	President & CEO, American General Property Insurance Company of Florida
Gary D. Reddick, Houston, TX	Executive Vice President & CAO, American General Property Insurance Company of Florida
Matthew E. Winter, New York, NY	Insurance Executive, American International Group, Inc.
Christopher J. Swift, Houston, TX	Insurance Executive, American International Group, Inc.

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

Senior Officers

Name	Title
James A. Mallon	President and CEO
Gregory A. Hayes	Treasurer
Kyle L. Jennings	Secretary

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2008:

Executive Committee	Audit Committee	Investment Committee
Rodney O. Martin, Jr. ¹	Christopher S. Lynch ¹	Robert M. Beuerlein ¹
Matthew E. Winter	Dennis D. Dammerman	Mary Jane Fortin
Mary Jane Fortin	Arthur C. Martinez	Gregory A. Hayes

James A. Mallon

Glen Keller
Craig A. Mitchell

¹ Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

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 accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

The Company was party to Consent Order 97799-08-CO approved October 2, 2008, with the Office regarding the application for merger with American General Property Insurance Company. At that time there was only six policies in-force for the Company. Due to the Company's inability to affect the merger within the requisite time period the request was withdrawn on November 5, 2008. Subsequently, on July 14, 2009, the Company re-submitted their request to the Office to reinstate the consent order, and allow the merger to proceed.

Surplus Debentures

There were no surplus debentures reported by the Company.

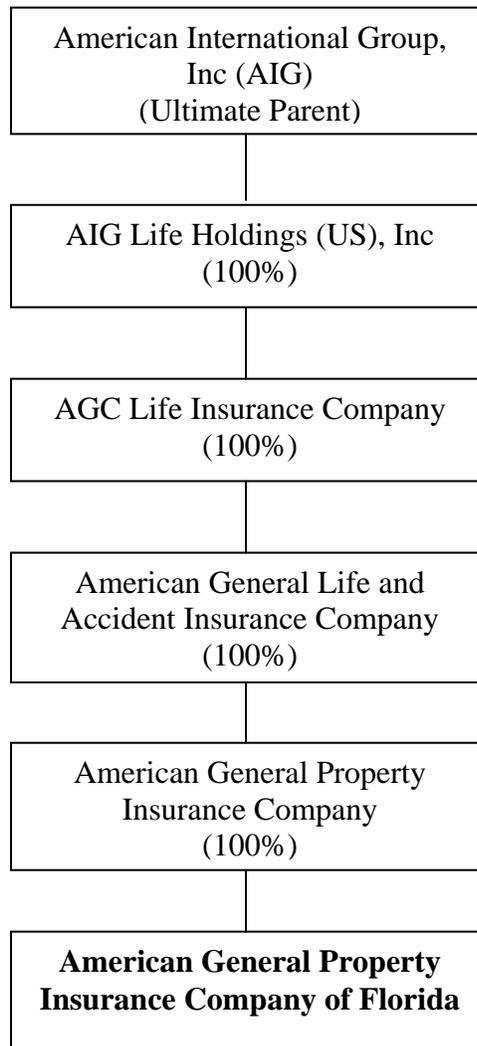
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on April 29, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

**AMERICAN GENERAL PROPERTY INSURANCE COMPANY OF FLORIDA
ORGANIZATIONAL CHART**

DECEMBER 31, 2008



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

Tax Allocation Agreement

The Company filed a consolidated Federal Income Tax return with its ultimate parent, American International Group, Inc (ultimate parent). On December 31, 2008, the method of allocation between the Company and its ultimate parent was such that the Company paid what would have been required if they paid their tax liabilities on a separate basis.

Investment Management Agreement

The Company had an investment management agreement with AIG Global Investment Corporation (Advisor). The general terms of the Agreement were for the Advisor to invest and manage the assets of the Company.

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2008, the Company in conjunction with its affiliates maintained fidelity bond coverage up to \$100,000,000 with a maximum deductible of \$5,000,000 each claim. This policy adequately covered the suggested minimum amount as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

The following securities were deposited with the various states as required by Section 624.411, Florida Statutes:

State	Description	Par Value	Market Value
GA	US Treasury Bonds, 5.250%, 11/15/28	\$ 36,000	\$ 36,945
LA	US Treasury Notes, 3.625%, 5/15/13	105,000	101,522
SC	US Treasury Notes, 3.625%, 5/15/13	150,000	164,812
VA	US Treasury Notes, 3.625%, 5/15/13	315,000	346,106
FL	US Treasury Notes, 3.625%, 5/15/13	<u>420,000</u>	<u>463,452</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 1,026,000</u>	<u>\$ 1,112,837</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company is currently in run-off. They only wrote renewal business in 2003 and notified the Office of Insurance Regulation on January 30, 2004 of its intent to discontinue writing the two lines of business remaining on their Certificate of Authority, Fire and Allied Lines. The last market conduct examination was performed in 2003.

Territory and Plan of Operation

The Company was inactive, however it was authorized to transact insurance in the following states:

Arkansas	Florida	Georgia
Indiana	Oklahoma	South Carolina
Virginia		

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.

Assumed

The Company assumed no risks.

Ceded

Due to the run-off status of the Company ceded risks were immaterial with only \$26,000 of ceded premium; \$41,000 of paid losses and ceded loss adjustment expenses; and \$53,000 of known case reserves and IBNR at year end 2008. There was no business ceded to unauthorized reinsurers during 2008.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida. Due to the limited scope of the examination and run-off status of the Company the examination was performed in the Office in Tallahassee, Florida.

The Company was in compliance with Section 624.424(8), Florida Statutes. There was no independent CPA audited financial report required or performed due to the Company having less than \$1,000,000 in premium and 1,000 policyholders' in-force at year end 2008.

The Company's accounting records were maintained on a computerized system and their 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 had an agreement with State Street Bank and Trust Company, Boston Massachusetts. The Agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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 General Property Insurance Company of Florida
Assets**

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$9,821,013		\$9,821,013
Cash:	2,233,347		2,233,347
Receivable from securities	522,594		522,594
Investment income due and accrued	189,998		189,998
Agents' Balances:			
Uncollected premium	28		28
Reinsurance recoverable	41,350		41,350
Net deferred tax asset	255		255
Receivable from parents, subsidiaries and al	99,683		99,683
Totals	<u>\$12,908,268</u>	<u>\$0</u>	<u>\$12,908,268</u>

**American General Property Insurance Company of Florida
Liabilities, Surplus and Other Funds**

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$50,000		\$50,000
Loss adjustment expenses	9,000		9,000
Other expenses	919		919
Taxes, licenses and fees	3,720		3,720
Current federal and foreign income taxes	151,908		151,908
Unearned premium	8		8
Ceded reinsurance premiums payable	9,192		9,192
Payable to parent, subsidiaries and affiliates	27,763		27,763
Aggregate write-ins for liabilities	150,544		150,544
Total Liabilities	\$403,054	\$0	\$403,054
Common capital stock	\$1,500,000		1,500,000
Gross paid in and contributed surplus	2,500,000		2,500,000
Unassigned funds (surplus)	8,505,214		8,505,214
Surplus as regards policyholders	\$12,505,214		\$12,505,214
Total liabilities, surplus and other funds	\$12,908,268	\$0	\$12,908,268

American General Property Insurance Company of Florida
Statement of Income
DECEMBER 31, 2008

Underwriting Income

Premiums earned		\$15,707
	Deductions:	
Losses incurred		29,455
Loss expenses incurred		38,300
Other underwriting expenses incurred		(80,746)
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>(\$12,991)</u>
Net underwriting gain or (loss)		\$28,698

Investment Income

Net investment income earned		\$543,766
Net realized capital gains or (losses)		14,024
Net investment gain or (loss)		<u>\$557,790</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		104
Total other income		<u>\$104</u>

Net income before dividends to policyholders and before federal & foreign income taxes		\$586,592
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$586,592</u>
Federal & foreign income taxes		<u>39,917</u>
Net Income		\$546,675

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$11,943,754
Net Income		\$546,675
Net unrealized capital gains or losses		0
Change in net deferred income tax		(14,097)
Change in non-admitted assets		28,882
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
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$561,460</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$12,505,214</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds

\$9,821,013

Bonds reported as \$9,821,013 at year end 2008, were a significant decrease of \$2,174,897 and eighteen percent less than the 2007 reported bond amount. The Company decreased long-term securities and converted them to cash equivalents due to the current economic conditions.

Capital and Surplus

The amount reported by the Company of \$12,505,214, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**AMERICAN GENERAL PROPERTY INSURANCE COMPANY OF FLORIDA
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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, 2008, per Annual Statement	\$12,505,214
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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:			0	
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$12,505,214	

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

SUBSEQUENT EVENTS

Merton B. Aidinoff resigned his position on the Board effective January 1, 2009. As of the end of July 2009 Mr. Aidinoff had not been replaced.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American General Property Insurance Company of Florida** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$12,505,214, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Fidel S. Gonzalez, Financial Examiner/Analyst Supervisor and Oswaldo Herrera, Financial Examiner/Analyst Supervisor, participated in the examination.

Respectfully submitted,

Richard A. Shaffer
Financial Specialist
Florida Office of Insurance Regulation