

**REPORT ON EXAMINATION**  
**OF**  
**AMERICAN MODERN INSURANCE**  
**COMPANY OF FLORIDA, INC.**  
**JACKSONVILLE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2008**

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

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Tallahassee, Florida

November 13, 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 MODERN INSURANCE COMPANY OF FLORIDA, INC.  
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, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on July 27, 2009 to July 31, 2009. The fieldwork commenced on August 10, 2009 and concluded as of November 13, 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 Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) 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

There were no exceptions or findings in the examination as of December 31, 2007.

## HISTORY

### General

The Company was incorporated in Florida on April 29, 2005. It began participating in an intercompany pooling agreement with its affiliates during the first quarter of 2006. The Company's first year of writing direct business was in 2007. The Company was party to Consent Order 83043-05-CO filed September 8, 2005, with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the licensing consent order issued by the Office.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Allied lines	Other liability
Homeowners multi peril	Surety
Commercial multi peril	Fire
Private passenger auto no-fault	Accident and health
Private passenger auto liability	Mobile home physical damage
Commercial automobile liability	Ocean marine
Commercial auto no-fault	Inland marine
Mobile home multi peril	Private passenger auto physical damage
Commercial auto physical damage	

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

## Capital Stock

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

Number of authorized common capital shares	500,000
Number of shares issued and outstanding	500,000
Total common capital stock	\$1,000,000
Par value per share	\$2.00

Control of the Company was maintained by its parent, American Southern Home Insurance Company, who owned 100% of the stock issued by the Company, who in turn was 100% owned by American Modern Home Insurance Company, who in turn was 100% owned by American Modern Insurance Group, Inc., who in turn was 100% owned by Midland Guardian Company, who in turn was 100% owned by The Midland Company, who in turn was 100% owned by Munich American Holding Corp., a Delaware corporation, who in turn was 100% owned by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Re) (Germany).

## Profitability of Company

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Premiums Earned	15,870,602	14,781,707	13,187,686
Net Underwriting Gain/(Loss)	(413,418)	785,650	(873,129)
Net Income	(50,011)	662,181	(876,001)
Total Assets	20,068,168	18,450,196	16,098,296
Total Liabilities	13,511,450	11,854,385	10,239,712
Surplus As Regards Policyholders	6,556,718	6,595,811	5,858,584

## Dividends to Stockholders

The Company did not pay any dividends to its stockholder during 2008.

## 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

<b>Name and Location</b>	<b>Principal Occupation</b>
Anthony J. Kuczinski (a) Princeton, New Jersey	Chairman of the Board
John W. Hayden (b) Amelia, Ohio	Vice Chairman and Chief Executive Officer
Paul F. Gelter Amelia, Ohio	Director
W. Todd Gray (c) Amelia, Ohio	Director and President
James P. Tierney (d) Amelia, Ohio	Director and Senior Vice President
Jurgen E. Kammerlohr (e) Amelia, Ohio	Director and Senior Vice President
Michael Flowers Amelia, Ohio	Director and Senior Vice President

(a) Anthony J. Kuczinski was elected Chairman of the Board effective October 1, 2008.

(b) John W. Hayden was elected Vice Chairman and Chief Executive Officer effective October 1, 2008.

(c) W. Todd Gray was elected President effective October 1, 2008.

(d) James P. Tierney was elected Director effective June 3, 2008 to fill the position vacated by Joseph P. Hayden III.

(e) Jurgen E. Kammerlohr was elected Senior Vice President and Director effective October 1, 2008.

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

**Senior Officers**

<b>Name</b>	<b>Title</b>
Anthony J. Kuczinski (a)	Chairman of the Board
John W. Hayden (b)	Vice Chairman and Chief Executive Officer
W. Todd Gray (c)	President
James P. Tierney	Senior Vice President
Jurgen E. Kammerlohr (d)	Senior Vice President
Michael Flowers	Vice President & Secretary
Craig R. Smiddy (e)	Vice President
Matthew J. McConnell	Treasurer

- (a) Anthony J. Kuczinski was elected Chairman of the Board effective October 1, 2008.
- (b) John W. Hayden was elected Vice Chairman and Chief Executive Officer effective October 1, 2008.
- (c) W. Todd Gray was elected President effective October 1, 2008.
- (d) Jurgen E. Kammerlohr was elected Senior Vice President and Director effective October 1, 2008.
- (e) Craig R. Smiddy was elected Vice President effective October 1, 2008.

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:

<b>Executive Committee</b>	<b>Audit Committee</b>	<b>Finance Committee</b>
John W. Hayden <sup>1</sup>	John W. Hayden <sup>1</sup>	W. Todd Gray <sup>1</sup>
Michael Flowers	Paul F. Gelter	Michael Flowers
W. Todd Gray	W. Todd Gray	Paul F. Gelter

<sup>1</sup> 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 and adopted by Rule 69O-138.001, Florida Administrative Code.

### **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**

Effective April 3, 2008, Munich-American Holding Corporation acquired 100% of the outstanding stock of The Midland Company, the Company's ultimate parent.

### **Surplus Debentures**

The Company had no surplus debentures.

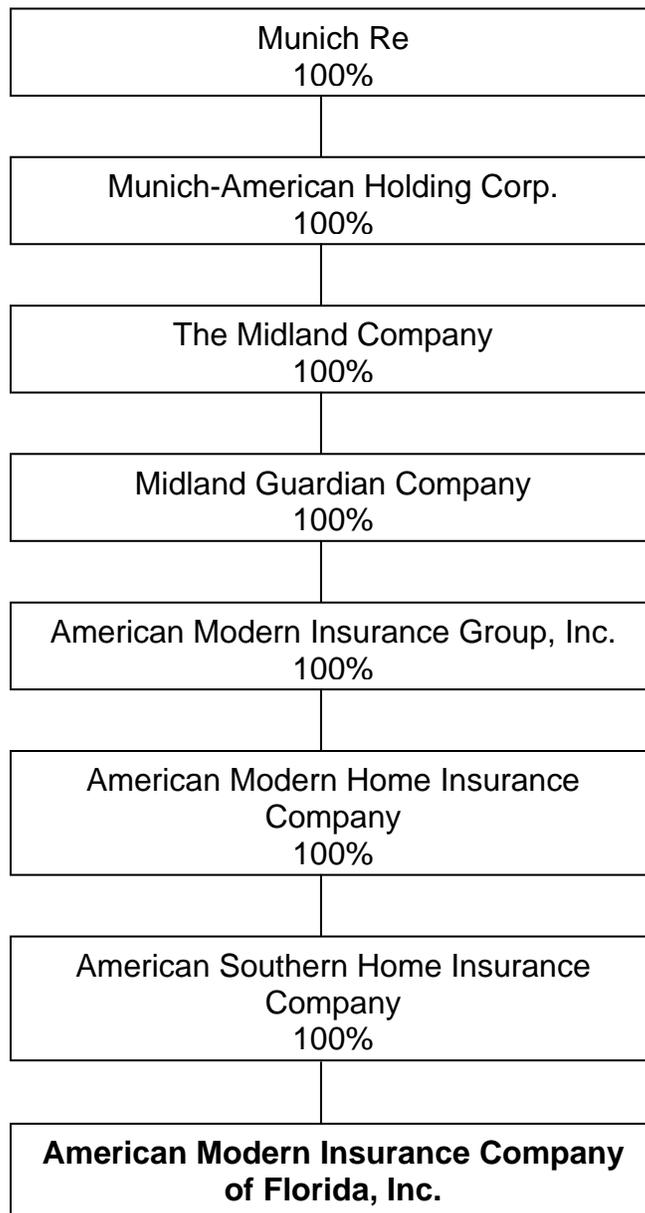
## **AFFILIATED COMPANIES**

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 2, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An 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 MODERN INSURANCE COMPANY OF FLORIDA, INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2008**



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

### **Tax Allocation Agreement**

The Company's federal income tax return was combined with Munich-American Holding Corp. and its affiliates, whereby all taxes and credits were allocated among the individual members of the consolidated group on a quarterly basis.

### **Cost Sharing Agreement**

The Company was party to an agreement with Midland Guardian Company (Midland), whereby Midland provided to the Company such services and materials as the Company deemed necessary to conduct its business. The Company agreed to reimburse Midland for the actual costs of providing such services and materials.

### **Lease Agreement**

The Company was party to a lease agreement with The Midland Company, whereby The Midland Company provided to the Company and seven of the Company's affiliates office space and storage space. The Company agreed to pay The Midland Company base rent and reimbursement of utilities, maintenance, insurance and taxes on a monthly basis.

### **Pooling Agreement**

The Company was party to a reinsurance pooling agreement with seven affiliates. The Reinsurance section of this report provides further detail.

## FIDELITY BOND

The Company maintained fidelity bond coverage up to \$50,000,000 in aggregate (\$25,000,000 single loss occurrence) with a deductible of \$1,000,000, which adequately covered the suggested minimum as recommended by the NAIC.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership, or insurance plans as of December 31, 2008.

## 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	US Treas. Note, 3.875%, 05/15/10	310,000	321,687
FL	US Treas. Note, 4.500%, 02/15/16	<u>20,000</u>	<u>23,112</u>
TOTAL FLORIDA DEPOSITS		\$ 330,000	\$ 344,799
TOTAL SPECIAL DEPOSITS		<u>\$ 330,000</u>	<u>\$ 344,799</u>

## INSURANCE PRODUCTS

### Territory

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

## Treatment of Policyholders

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

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

## REINSURANCE

Effective January 1, 2006, the Company entered into a pooling agreement with an affiliated group of companies. At December 31, 2008, the companies that comprised this pool, along with their participation percentages, were as follows:

American Modern Home Insurance Company (lead company)	47.5%
American Family Home Insurance Company	27.0%
First Marine	0.5%
American Western Home Insurance Company	9.0%
American Southern Home Insurance Company	4.0%
American Modern Select Insurance Company	5.0%
American Modern Surplus Lines Insurance Company	5.0%
American Modern Insurance Company of Florida, Inc.	2.0%

Seven of the affiliates agreed to cede 100% of their direct and assumed insurance to American Modern Home Insurance Company, the lead company. American Modern Home Insurance Company agreed to cede back its net business (after other unaffiliated reinsurance) to the companies in the pool in the percentages noted above. The reinsurance agreement reviewed complied with NAIC standards with respect to the insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

## **Assumed**

In accordance with the pooling agreement noted above, the Company assumed 2% of the combined retained net business of the pool.

## **Ceded**

In accordance with the pooling agreement noted above, the Company ceded 100% of its direct premiums written to American Modern Home Insurance Company.

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

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Amelia, Ohio, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the year 2008, 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.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts, with the exception of uncollected Premiums and Funds Held (Reinsurance) were verified with the line items of the annual statement submitted to the Office. These two accounts had a non material difference of \$281,815 which did not affect net assets, liabilities or reinsurance.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with State Street Bank and Trust Company effective May 23, 2008, which was in compliance with Rule 69O-143.042(2), Florida Administrative Code.

### **Independent Auditor Agreement**

The Company had an agreement with Deloitte and Touche, LLP, to perform a combined audit of the statutory financial statements for the year 2008 of American Modern Home Group, of which the Company was a member.

### **Information Technology Report**

Thomas Howell Ferguson P.A. performed a limited-scope review of Exhibit C, the Evaluation of Controls in Information Systems Questionnaire, prepared by the Company in conjunction with its December 31, 2008, statutory examination. The information technology report was provided to the Company.

## **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 MODERN INSURANCE COMPANY OF FLORIDA, INC.**  
**Assets**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$5,764,960		\$5,764,960
Cash:	2,624,775		2,624,775
Agents' Balances:			
Uncollected premium	765,658	(281,815)	483,843
Deferred premium	829,802		829,802
Reinsurance			
Amounts recoverable	49,236		49,236
Funds held	9,433,635	281,815	9,715,450
Interest and dividend income due & accrued	60,443		60,443
Net deferred tax asset	539,659		539,659
Totals	\$20,068,168	\$0	\$20,068,168

**AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2008**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$2,696,470		\$2,696,470
Reinsurance payable on paid losses and LAE	641,677		641,677
Loss adjustment expenses	417,869		417,869
Commissions payable	42,088		42,088
Other expenses	1,288		1,288
Taxes, licenses and fees	117,312		117,312
Current federal and foreign income taxes	112,009		112,009
Unearned premium	8,380,027		8,380,027
Ceded reinsurance premiums payable	(52,700)		(52,700)
Funds held under reinsurance treaties	1,109,528		1,109,528
Payable to parent, subsidiaries and affiliates	45,852		45,852
Aggregate write-ins for liabilities	30		30
<b>Total Liabilities</b>	<b>\$13,511,450</b>	<b>\$0</b>	<b>\$13,511,450</b>
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	5,200,000		5,200,000
Unassigned funds (surplus)	356,718		356,718
<b>Surplus as regards policyholders</b>	<b>\$6,556,718</b>		<b>\$6,556,718</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$20,068,168</b>	<b>\$0</b>	<b>\$20,068,168</b>

**AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.**

**Statement of Income**

**DECEMBER 31, 2008**

**Underwriting Income**

Premiums earned		\$15,870,602
	<b>Deductions:</b>	
Losses incurred		7,382,286
Loss expenses incurred		1,029,391
Other underwriting expenses incurred		7,872,343
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$16,284,020</u>
Net underwriting gain or (loss)		(\$413,418)

**Investment Income**

Net investment income earned		\$356,915
Net realized capital gains or (losses)		<u>(99,785)</u>
Net investment gain or (loss)		\$257,130

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		
Finance and service charges not included in premiums		7
Aggregate write-ins for miscellaneous income		
Total other income		<u>\$7</u>

Net income before dividends to policyholders and before federal & foreign income taxes		(\$156,281)
Dividends to policyholders		
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$156,281)
Federal & foreign income taxes		<u>(106,270)</u>
Net Income		(\$50,011)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$6,595,811
Net Income		(\$50,011)
Net unrealized capital gains or losses		
Change in non-admitted assets		30,955
Change in provision for reinsurance		
Change in excess statutory over statement reserves		
Change in nonadmitted assets		(20,037)
Surplus adjustments: Paid in		
Aggregate write-ins for gains and losses in surplus		
Examination Adjustment		
Change in surplus as regards policyholders for the year		<u>(\$39,093)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$6,556,718</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$3,114,339

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, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Thomas Howell Ferguson P.A.'s consulting actuaries reported that the Company's gross and net loss and loss adjustment expense reserves as of December 31, 2008 were reasonably stated.

### Capital and Surplus

The amount reported by the Company of \$6,556,718, 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 MODERN INSURANCE COMPANY OF FLORIDA, INC.**

**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	\$6,556,718
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	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
<b>ASSETS:</b>			
Premiums and considerations	\$765,658	\$483,843	(\$281,815)
Reinsurance	\$9,433,635	\$9,715,450	\$281,815
<b>LIABILITIES:</b>			
No Adjustment.			\$0
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2008, Per Examination			<u>\$6,556,718</u>

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2007.

### **Current examination comments and corrective action**

There are no findings, exceptions or corrective action to be taken by the Company resulting from the examination as of December 31, 2008.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Modern Insurance Company of Florida, Inc.** 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 \$6,556,718, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Andrew Woodward, CPA, Michael Rosciam, CPA, CITP, Angela Sanders, and Daniel Anderson, contractors for Thomas Howell Ferguson P.A., as well as Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, with the Office participated in the examination. We also recognize the participation of Terry Godbold, ACAS, MAAA, FCA, of Godbold Malpere & Co., and Anthony Grippa, FCAS, MAAA, of Strategic Actuarial & Risk Consultants, LLC, in the examination.

Respectfully submitted,

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James M Pafford, Jr  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation