

**REPORT ON EXAMINATION**

**OF**

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

**JACKSONVILLE, FLORIDA**

**AS OF**

**DECEMBER 31, 2009**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

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**Tallahassee, Florida**

March 23, 2011

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Sections 624.316 and 628.041, Florida Statutes, and 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, 2009, 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 from January 01, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. The examination commenced with planning at the Office on August 08, 2010, to August 13, 2010. The fieldwork commenced on August 16, 2010, and concluded as of March 23, 2011.

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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

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

### **Prior Exam Findings**

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

## **HISTORY**

### **General**

The Company was incorporated in Florida on April 29, 2005, and commenced business on July 31, 2007, as American Modern Insurance Company of Florida, Inc.

On April 03, 2008, The Midland Company, which was the prior ultimate parent company, consummated a previously announced merger with Munich-American Holding Company, a subsidiary of Munich Re Group and the Company is now a wholly owned subsidiary of Munich Re.

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

Homeowners Multi Peril	Auto Warranties
Commercial Multi Peril	Home Warranties
PPA Physical Damage	Accident and Health
Other Liability	Mobile Home Multi Peril
Commercial Auto Liability	Fire
Inland Marine	Private Passenger Auto Liability
Service Warranties	Commercial Auto Physical Damage
Credit	Allied Lines
Mobile Home Physical Damage	Surety
Earthquake	

The Articles of Incorporation and Bylaws were reviewed during the period covered by this examination. No changes to the Articles of Incorporation or Bylaws were made during this period.

### **Dividends to Stockholders**

The Company did not declare or pay a dividend to its stockholder in 2009.

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

As of December 31, 2009, 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 immediate parent company; American Southern Home Insurance Company, a Florida Corporation, who owned 100% of the stock issued by the Company.

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

On April 03, 2008, the Midland Company, which was the prior ultimate parent company of American Southern Home Insurance Company, consummated a previously announced merger with Munich-American Holding Company, a subsidiary of Munich Re Group, and the Company is now a wholly owned subsidiary of Munich Re.

### **CORPORATE RECORDS**

The recorded minutes of the Shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes. The Board and internal committees are the same for the parent company and affiliates, and the minutes of all meetings are maintained at the parent company.

### **Conflict of Interest**

The Company adopted a policy statement requiring the annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook, as adopted by rule 69O-138.001, Florida Administrative Code. The Directors and Officers are the same for the parent company and affiliates, and the conflict of interest policy and statements are maintained by the parent company.

## MANAGEMENT AND CONTROL

### Management

The annual Shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Anthony Joseph Kuczinski Princeton, New Jersey	President/CEO Munich Re America
John Weber Hayden Amelia, Ohio	Vice Chairman/CEO Midland Company
Paul Frederick Gelter Amelia, Ohio	Senior Vice President Midland Company
William Todd Gray Amelia, Ohio	President Midland Company
Michael Lynn Flowers Amelia, Ohio	Vice President/Secretary Tater Farms, LLC
James Paul Tierney Amelia, Ohio	Senior Vice President American Family Home
Jurgen Erwin Kammerlohr Amelia, Ohio	CFO Midland Company
Charles Arthur Bryan Columbus, Ohio	Consulting Actuary Self Employed
James Joseph Butler Avon, Connecticut	Retired Audit Partner
George Terrence Van Gilder Morristown, New Jersey	Retired TOA Reinsurance Company

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

### Senior Officers

<b>Name and Location</b>	<b>Principal Occupation</b>
John Weber Hayden	Vice Chairman/CEO
William Todd Gray	President
James Paul Tierney	Senior Vice President
Jurgen Erwin Kammerlohr	Senior Vice President
Matthew Joseph McConnell	Senior Vice President/Treasurer
Michael Lynn Flowers	Vice President/Secretary
Craig Richard Smiddy	Vice President

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and its members as of December 31, 2009.

### Executive Committee

John Weber Hayden  
William Todd Gray  
Michael Lynn Flowers

### Audit Committee

John Weber Hayden\*  
Paul Frederick Gelter  
William Todd Gray  
Charles Arthur Bryan  
James Joseph Butler  
George Terrence Van Gilder

### Finance Committee

William Todd Gray  
Michael Lynn Flowers  
Paul Frederick Gelter

\*Chairman

### 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 consolidated holding company registration statement was filed with the State of Florida on February 26, 2010 for the year

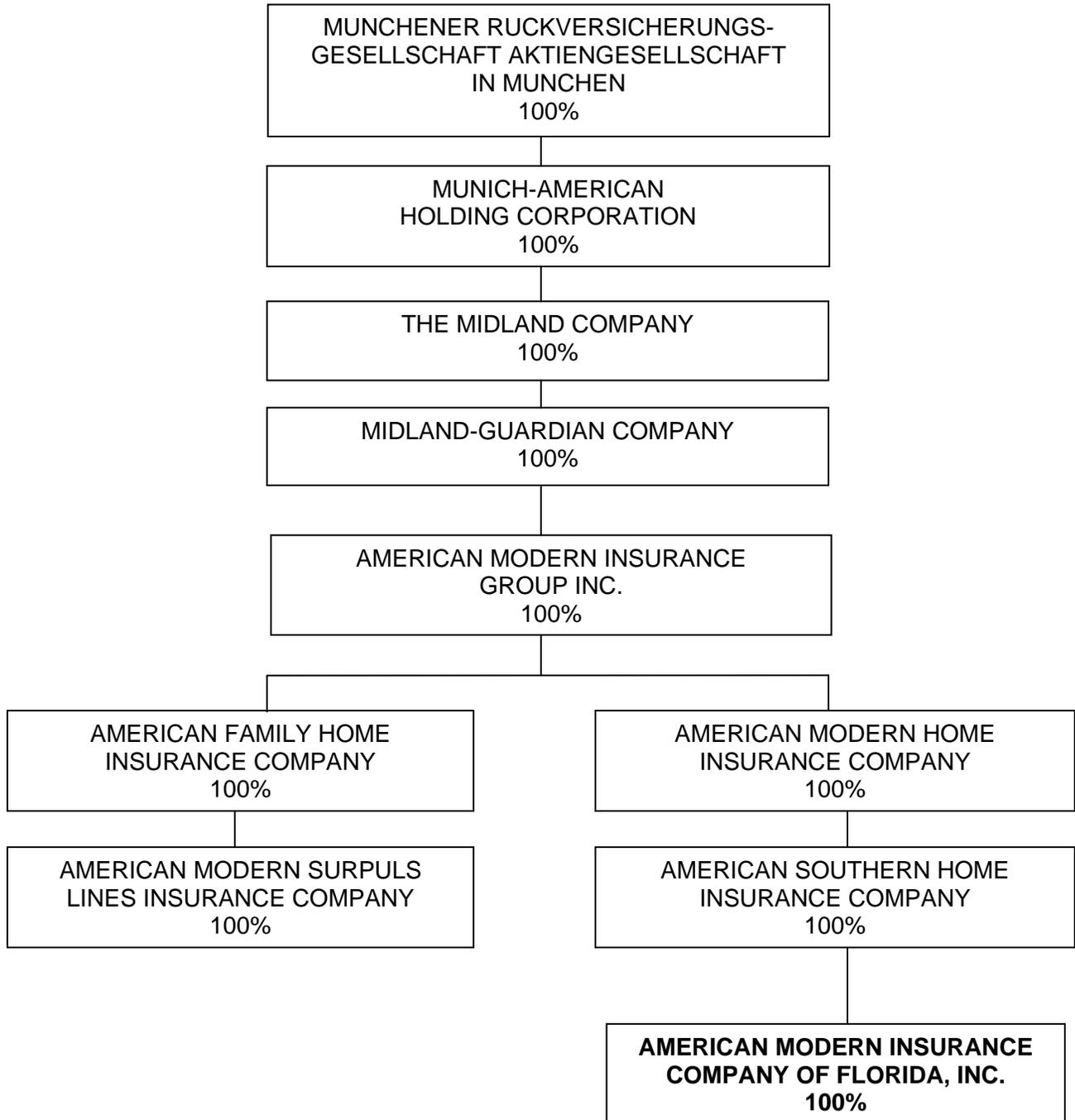
ending December 31, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**Subsequent event:** The Company filed an amended consolidated holding company registration statement on July 6, 2010. This amended statement included the required Form (C) filing information.

A simplified organizational chart as of December 31, 2009, reflecting the holding company system is shown below. Schedule Y of the Company's 2009 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, 2009**



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

### **Management Company Contract**

The Company entered into a Service Agreement effective August 01, 2005 with its parent, Midland-Guardian Company, to provide certain managerial, administrative and professional services. The agreement continues in force until cancelled by either party subject to the cancellation provisions of the Agreement. The management fee paid by the Company each month is based upon the actual cost for providing the stipulated services and materials under the Agreement. Fees incurred under this Agreement during 2009 amounted to \$363,680.

The Company was also party to a Subservice Agreement amendment effective August 01, 2005, between Midland-Guardian Company and American Modern Insurance Group, Inc. Under this Agreement, Midland-Guardian Company subcontracts specified bill payment services on behalf of the Company to American Modern Insurance Group.

### **Tax Allocation Agreement**

The Company is included in the consolidated federal income tax return of Munich American Holding Corporation. The consolidated tax provision or credit, calculated in accordance with generally accepted accounting principles, is allocated to the separate companies on the basis of separate return computations. If the current year results in a reported profit for the Company, the tax provision recorded is currently payable to the parent company. Likewise, if the current year results in a reported loss for the Company, the tax credit recorded is currently payable from the parent company to the Company. Estimated settlements are performed quarterly, with the final amount settled once the tax return is filed.

### **Lease Allocation Agreement**

The Company, along with other pool members, entered into a Lease Sharing Agreement with Midland Company, effective August 01, 1995. The lease agreement allocation is calculated and reimbursed each month based on the square footage utilized for office and storage space. Fees incurred under this agreement during 2009 amounted to \$24,613.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company was a named insured under a Financial Institutions Bond covering the Munich-American Holding Corporation and approximately one hundred and five other pooled affiliates and entities. The aggregate liability of this bond was \$50,000,000, with a single loss limit of \$25,000,000 and \$1,000,000 deductible. The bond adequately covered the suggested minimum as recommended by the NAIC and Section 628.171, Florida Statutes. The Company was also a named insured along with Munich-American Holding Corporation and the other pooled affiliates and entities to a Directors and Officers (D&O) liability policy in the amount of \$15,000,000.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees and was not responsible for any employee pension, stock ownership or other insurance plans.

### **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact the business of insurance only 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 Adjuster Handbook that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

## COMPANY GROWTH

### Profitability of Company

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Premiums Earned	16,720,699	15,870,602	14,781,707	13,187,686	-0-
Net Underwriting Gain/(Loss)	918,552	(413,418)	785,650	(873,129)	-0-
Net Income	657,838	(50,012)	662,181	(876,001)	80,892
Total Assets	21,006,546	20,068,168	18,450,196	16,098,296	6,285,946
Total Liabilities	13,863,210	13,511,450	11,854,385	10,239,712	5,054
Policyholders Surplus	7,143,335	6,556,718	6,595,811	5,858,584	6,280,892

## LOSS EXPERIENCE

The Company's Losses and Loss Adjustment Expenses incurred to Premiums Earned ranged from 35.7 percent to 46.0 percent during the period from 2005 to 2009. Loss incurred increased approximately 8.6 percent from year 2007 to 2008, related to hurricanes Ike and Gustav, which impacted the Company's books in the third quarter of 2008.

## 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. The second amendment to the agreement effective January 01, 2006, added the company to the 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 Southern Home Insurance Company	4%
American Modern Select Insurance Company	5%
American Modern Surplus Lines Ins. Company	5%
American Modern Insurance Company of Florida	2%
First Marine Insurance Company	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 \$15,496,136 from affiliates during the year 2009.

### **Ceded**

Under the intercompany pooling arrangement, the Company ceded \$3,707,495 to affiliates during the year 2009.

## **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 years 2005, 2006, 2007, 2008 and 2009 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 Office granted approval for the Company to file combined CPA audited financial statements with other affiliates and subsidiaries of the American Modern Home Group.

The Company's accounting records were maintained on a computerized system with the parent company and other affiliates, and several subsystems and software applications were utilized. Accounting services are provided to the Company under the management agreement with Midland-Guardian. The Ohio Information Technology (IT) Department disclosed several systems related deficiencies which the lead state will address with the parent company.

**The Company and non-affiliates had the following agreements:**

**Custodial Agreement**

The Company maintained a custodial agreement with the State Street Bank and Trust Company, entered into on May 23, 2008. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code, which stipulates the requirements for a custodial agreement.

**Independent Auditor Agreement**

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

**Information Technology Report**

Tracy Gates, CISA of Highland Clark, LLC, performed an evaluation of the IT and computer systems of the Company in coordination with the IT examination work performed by the Ohio examination team.

## 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	US Treasury Notes 3.875%	\$310,000	\$314,154
FL	US Treasury Notes 4.500%	20,000	21,573
TOTAL FLORIDA DEPOSITS		<u>\$330,000</u>	<u>\$335,727</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$330,000</u></u>	<u><u>\$335,727</u></u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

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

**DECEMBER 31, 2009**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 7,365,224	\$ -	\$ 7,365,224
Cash and S/T Investments	467,442	-	467,442
Investment Income			
Due and Accrued	38,233	-	38,233
Premiums and considerations:			
Uncollected premiums	704,984	-	704,984
Deferred premiums	1,221,212	-	1,221,212
Reinsurance			
Amounts recoverable from reins	132,008	-	132,008
Funds held/deposited with reins	10,609,006	-	10,609,006
Taxes:			
Net Deferred Tax Asset	468,437	-	468,437
	<hr/>		
Total	\$ 21,006,546	\$ -	\$ 21,006,546

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

**DECEMBER 31, 2009**

	Per Company	Examination Adjustments	Per Examination
Losses	\$3,054,137		\$3,054,137
Reinsurance Payable on Paid Losses	536,166		536,166
Loss adjustment expenses	399,405		399,405
Commissions payable	60,807		60,807
Other expenses	301		301
Taxes, licenses and fees	73,799		73,799
Current Federal & Foreign Income Taxes	(9,396)		(9,396)
Unearned premiums	7,155,464		7,155,464
Ceded reinsurance premiums payable	152,105		152,105
Funds withheld or retained by company	2,363,494		2,363,494
Payable to parent, subsidiaries and affiliates	74,433		74,433
Aggregate write-ins for liabilities	2,496		2,496
Total Liabilities	<u>\$13,863,210</u>		<u>\$13,863,210</u>
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	5,200,000		5,200,000
Unassigned funds (surplus)	943,335		943,335
Suplus as regards policyholders	<u>\$7,143,335</u>		<u>\$7,143,335</u>
Totals	<u>\$21,006,545</u>	-	<u>\$21,006,545</u>

**AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.**  
**Statement of Income**

**DECEMBER 31, 2009**

**UNDERWRITING INCOME**

Premiums earned	\$16,720,699
<b>DEDUCTIONS</b>	
Losses incurred	\$7,699,290
Loss adjustment expenses incurred	926,537
Other underwriting expenses incurred	7,176,321
Total underwriting deductions	\$15,802,148
 Net underwriting gain (loss)	 \$918,552

**INVESTMENT INCOME**

Net investment income earned	\$121,315
Net realized capital gains	(110,300)
Total investment income (loss)	\$11,015

**OTHER INCOME**

Finance and service charges not included in premiums	\$468
Total other income (loss)	\$468

Net income before dividends to policyholders	\$930,035
Dividends to policyholders	-
Net income after dividends to policyholders	\$930,035
Federal and foreign income taxes incurred	272,197
Net income	\$657,838

**CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders December 31 prior year	\$6,556,718
 Net income	 \$657,838
Change in deferred income tax	(86,022)
Change in non-admitted assets	14,801
Change in Surplus as regards policyholders	\$586,617
 Surplus as regards policyholders December 31 current year	 \$7,143,335

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, 2009**

Surplus as regards policyholders  
December 31, 2009 per Annual Statement \$7,143,335

	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			\$ -
Surplus as regards policyholders December 31, 2009 per Examination			<u>\$7,143,335</u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

**\$ 3,453,542**

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, 2009, met the requirements of the insurance laws of Florida, were consistent with reserves computed in accordance with accepted actuarial standards and principals, and made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent examination actuary Dennis R. Henry, FCAS, MAAA of the Actuarial Advantage Inc., to review the statutory loss and loss adjustment expense reserves carried in the Company's balance sheet as of December 31, 2009. He was in concurrence with the external actuary's opinion.

#### Capital and Surplus

**\$7,143,335**

The amount reported by the Company of \$7,143,335, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Modern Insurance Company of Florida, Inc.** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,143,335, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Coleman, CFE, and Tracy Gates, CISA, of Highland Clark, LLC participated in the examination. Dennis Henry, FCAS, MAAA, consulting actuary of Actuarial Advantage Inc. and James Pafford, Financial Examination/Analyst Supervisor of the Office also participated in the examination.

Respectfully submitted,

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