

**REPORT ON EXAMINATION**

**OF**

**AMERICAN MODERN INSURANCE**

**COMPANY OF FLORIDA, INC.**

**JACKSONVILLE, FLORIDA**

**AS OF**

**DECEMBER 31, 2007**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL</b> .....	-
<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION .....	2
<b>HISTORY</b> .....	<b>3</b>
GENERAL .....	3
CAPITAL STOCK .....	3
PROFITABILITY OF COMPANY .....	4
MANAGEMENT .....	4
CONFLICT OF INTEREST PROCEDURE.....	6
CORPORATE RECORDS .....	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES .....	6
<b>AFFILIATED COMPANIES</b> .....	<b>7</b>
<b>ORGANIZATIONAL CHART</b> .....	<b>8</b>
TAX ALLOCATION AGREEMENT .....	9
COST SHARING AGREEMENT.....	9
POOLING AGREEMENT .....	9
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	<b>9</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	<b>10</b>
<b>STATUTORY DEPOSITS</b> .....	<b>10</b>
<b>PLAN OF OPERATIONS</b> .....	<b>10</b>
TERRITORY .....	10
TREATMENT OF POLICYHOLDERS.....	10
<b>REINSURANCE</b> .....	<b>11</b>
ASSUMED.....	11
CEDED .....	11
<b>ACCOUNTS AND RECORDS</b> .....	<b>12</b>
CUSTODIAL AGREEMENT .....	12
INDEPENDENT AUDITOR AGREEMENT.....	14
INFORMATION TECHNOLOGY REPORT.....	14
<b>FINANCIAL STATEMENTS PER EXAMINATION</b> .....	<b>14</b>
ASSETS .....	15
LIABILITIES, SURPLUS AND OTHER FUNDS .....	16
STATEMENT OF INCOME.....	17

**COMMENTS ON FINANCIAL STATEMENTS..... 18**  
    **LIABILITIES ..... 18**  
**COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 19**  
**SUMMARY OF FINDINGS ..... 20**  
**CONCLUSION ..... 21**

Tallahassee, Florida

September 19, 2008

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, 2007, 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, 2007 through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced, with planning at the Office on July 8, 2008 to July 10, 2008. The fieldwork commenced on July 14, 2008, and concluded on September 19, 2008.

This financial examination was a statutory financial examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (NAIC 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 NAIC Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks 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.

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 is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are 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, 2006, along with resulting action taken by the Company in connection therewith:

#### **Corporate Records**

The minutes of the Board of Directors meetings did not indicate that the Board appointed or hired the CPA to prepare the audit of the Company. Section 624.424 (8)(c), Florida Statutes, requires that the Board of Directors hire the CPA to perform the audit, and document that action in the Board minutes.

#### **Resolution**

In a special meeting of the Board of Directors on August 14, 2008, a CPA was appointed to perform the audit of the Company.

## HISTORY

### General

The Company was incorporated in Florida on April 29, 2005. It began participating in an inter-company 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 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, 2007:

Allied lines	Other liability
Homeowners multi peril	Surety
Commercial multi peril	Fire
Private passenger auto physical damage	Accident and health
Private passenger auto liability	Mobile home physical damage
Commercial automobile liability	Ocean marine
Commercial auto physical damage	Inland marine
Mobile home multi peril	

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

### Capital Stock

As of December 31, 2007, 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, which owned 100% of the stock issued by the Company, which in turn was 100% owned by American Modern Home Insurance Company, which in turn was 100% owned by

American Modern Insurance Group, Inc., which in turn was 100% owned by Midland Guardian Company, which in turn was 100% owned by The Midland Company, an Ohio corporation.

### **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>2007</b>	<b>2006</b>	<b>2005</b>
Premiums Earned	14,781,707	13,187,686	0
Net Underwriting Gain/(Loss)	785,650	(873,129)	0
Net Income (Loss)	662,181	(876,001)	80,892
Total Assets	18,450,196	16,098,296	6,285,946
Total Liabilities	11,854,385	10,239,712	5,054
Surplus As Regards Policyholders	6,595,811	5,858,5846	6,280,892

### **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, 2007, were:

#### **Directors**

##### **Name and Location**

##### **Principal Occupation**

John Weber Hayden  
Cincinnati, OH

President and CEO of American Modern Insurance Company of Florida

Joseph Page Hayden III  
Cincinnati, OH

Chairman and COO of The Midland Company

Paul Frederick Gelter  
Cincinnati, OH

Executive Vice President of The Midland  
Company

William Todd Gray  
Cincinnati, OH

Senior Vice President of American Modern  
Insurance Company of Florida

Michael Lynn Flowers  
Cincinnati, OH

Vice President and Secretary of American  
Modern Insurance Company of Florida

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

### Senior Officers

<b>Name</b>	<b>Title</b>
John Weber Hayden	President and CEO
James Paul Tierney	Senior Vice President
Michael Lynn Flowers	Vice President and Secretary
William Todd Gray	Senior Vice President
Matthew Joseph T. McConnell	Treasurer

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes.

Following are the principal internal board committees and their members as of December 31, 2007:

#### **Executive Committee**

John W. Hayden\*  
Joseph P. Hayden III  
W. Todd Gray

#### **Audit Committee**

John W. Hayden\*  
Paul F. Gelter  
W. Todd Gray

#### **Finance Committee**

W. Todd Gray\*  
Paul F. Gelter  
Michael Flowers

\* Chairman

## **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with NAIC Handbook.

## **Corporate Records**

The recorded minutes of the Shareholders, Board of Directors, and audit committee adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, with the following exception:

Minutes of the Board of Directors meetings did not indicate that it had appointed or hired the CPA to prepare the audit of the Company as required by Section 624.424 (8)(c), Florida Statutes,

## **Subsequent Event**

In a special meeting of the Board of Directors on August 14, 2008, a CPA was appointed to prepare the Company's audit.

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

On October 17, 2007, the ultimate parent of the Company, The Midland Company, signed a definitive merger agreement with Munich Re, whereby Munich Re acquired all of Midland's outstanding stock. This transaction was completed during 2008.

## **Surplus Debentures**

The Company had no surplus debentures.

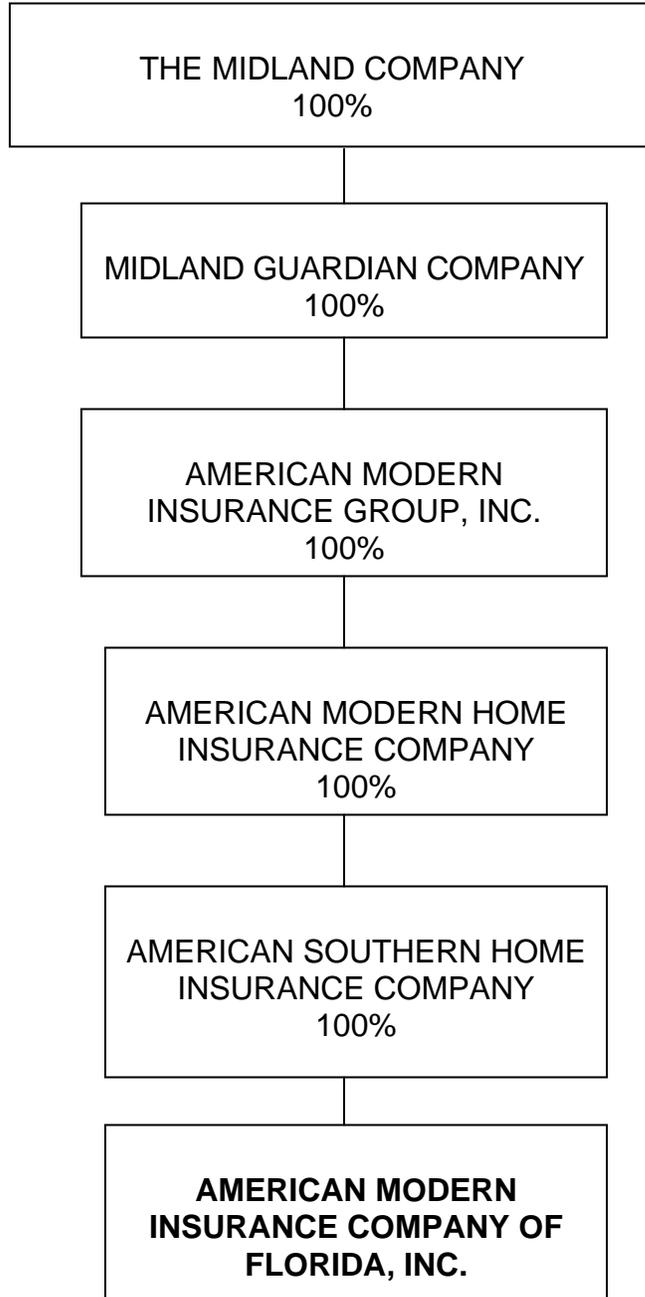
## **AFFILIATED COMPANIES**

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

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 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, 2007**



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 The Midland Company 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 the conduct of its business. The Company agreed to reimburse Midland for the actual costs of providing such services and materials.

### **Pooling Agreement**

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

## **FIDELITY BOND AND OTHER INSURANCE**

The Company, as a named insured, and its affiliates were afforded fidelity bond coverage up to \$12,000,000 with a deductible of \$100,000. The fidelity bond provided was sufficient to meet the suggested minimum amount of coverage recommended by the NAIC.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership, or insurance plans as of December 31, 2007.

### 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	Certificate of Deposit- US Bank	\$ 310,000	\$ 317,595
FL	US Treasury Note	<u>20,000</u>	<u>20,856</u>
TOTAL FLORIDA DEPOSITS		\$ <u>330,000</u>	\$ <u>338,451</u>
TOTAL SPECIAL DEPOSITS		\$ <u>330,000</u>	\$ <u>338,451</u>

### PLAN OF OPERATIONS

#### 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 adopted and implemented procedures for proper investigation of claims as required by 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, 2007, the companies that comprised this pool, along with their participation percentages, were as follows:

American Modern Home Insurance Company (lead company)	48%
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 Insurance Company	5%
American Modern Insurance Company of Florida, Inc.	2%

Six 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.

## **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 for the year 2007, in accordance with Section 624.424(8), Florida Statutes. The CPA audit was performed on a consolidated basis for the combined financial statements of the American Modern Home Group, of which the Company was a member. 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 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 PNC Bank, NA, effective May 26, 2005, which did not contain all of the required terms of Rule 69O-143.042(2), (b), (c), (d), (e), (g), (m), (n), Florida Administrative Code, summarized as follows:

- (b) Securities held indirectly by the custodian and in clearing corporations shall be separately identified as being owned by the insurance company.
  
- (c) All custodied securities be registered in the name of the company, a nominee name of the Company or the name of the custodian or its nominee, or the name of the clearing

corporation or its nominee.

- (d) Custodied securities held subject to instructions of the insurance company and withdrawal upon demand, except for those required as statutory deposits.
  
- (e) Custodian is to send confirmation of all transactions to or from accounts of the insurance company. In addition, reports must be furnished no less than monthly with reports of holdings of custodied securities.
  
- (g) The Custodian and its agents to send all reports received from clearing corporations, their respective systems of internal accounting control and reports prepared by outside auditors that the insurance company may reasonably request.
  
- (m) The agreement may provide that the custodian will not be liable for failure to take any action required under the agreement in the event and to the extent that taking such action is prevented or delayed.
  
- (n) In the event that the custodian gains entry in a clearing corporation through an agent, there shall be an agreement between the custodian and the agent subjecting the agent to the same liability for loss of custodied securities as the custodian.

**Subsequent Event:**

The Company entered into a custodial agreement on May 23, 2008 with State Street Bank and Trust Company, which was in compliance 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 years 2007 and 2006 of American Modern Home Group, of which the Company was a member.

### **Information Technology Report**

INS Services, Inc. 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, 2007, statutory examination. The information technology report was presented to Company management.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, 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 the report captioned, "Comparative Analysis of Changes in Surplus."

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

**DECEMBER 31, 2007**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$7,013,600		\$7,013,600
Cash and short-term investments	969,993		969,993
Investment income due and accrued	82,409		82,409
Premiums and considerations:			
Uncollected premiums and agents' balances	635,760		635,760
Deferred premiums and installments	377,110		377,110
Amounts recoverable from reinsurers	9,798		9,798
Funds held by or deposited with reinsured companies	8,832,786		8,832,786
Net deferred tax asset	528,740		528,740
Totals	\$18,450,196	\$0	\$18,450,196

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

**DECEMBER 31, 2007**

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,624,455		\$2,624,455
Reinsurance payable on paid losses and loss adjustment expenses	510,635		510,635
Loss adjustment expenses	358,651		358,651
Commissions payable, contingent commissions and other similar charges	6,705		6,705
Other expenses	4,137		4,137
Taxes, licenses and fees	23,411		23,411
Current federal and foreign income taxes	197,909		197,909
Unearned premiums	7,795,074		7,795,074
Ceded reinsurance premiums payable	(46,646)		(46,646)
Funds held by Company under reinsurance treaties	351,446		351,446
Payable to parent, subsidiaries and affiliates	28,608		28,608
Total Liabilities	\$11,854,385	\$0	\$11,854,385
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	5,200,000		5,200,000
Unassigned funds (surplus)	395,811		395,811
Surplus as regards policyholders	\$6,595,811	\$0	\$6,595,811
Total Liabilities, Surplus and Other Funds	\$18,450,196	\$0	\$18,450,196

**AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.**  
**Statement of Income**  
**DECEMBER 31, 2007**

<b>Underwriting Income</b>	
Premiums earned	\$14,781,707
DEDUCTIONS:	
Losses incurred	5,609,418
Loss expenses incurred	805,257
Other underwriting expenses incurred	7,581,382
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$13,996,057</u>
Net underwriting gain or (loss)	\$785,650
<b>Investment Income</b>	
Net investment income earned	\$348,391
Net realized capital gains or (losses)	25,758
Net investment gain or (loss)	<u>\$374,149</u>
<b>Other Income</b>	
Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	\$1,159,799
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$1,159,799
Federal & foreign income taxes incurred	<u>497,618</u>
Net Income	\$662,181
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$5,858,586
<b>Gains and (Losses) in Surplus</b>	
Net Income	\$662,181
Change in net deferred income tax	167,347
Change in non-admitted assets	(92,303)
Examination adjustment	0
Change in surplus as regards policyholders for the year	<u>\$737,225</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$6,595,811</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

**\$2,983,106**

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, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

INS Consultants, Inc. (INS) was retained by the Office to conduct a review of the Company's loss and loss adjustment expense reserves as of December 31, 2007, in conjunction with the financial condition examination.

INS reported that the Company's gross and net loss and loss adjustment expense reserves at December 31, 2007 were reasonably stated.

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, 2007**

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, 2007, per Annual Statement			\$ 6,595,811
	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment necessary			\$0
LIABILITIES:			
No adjustment necessary			\$0
Net Change in Surplus:			<u>\$0</u>
Surplus as Regards Policyholders December 31, 2007, Per Examination			<u>\$ 6,595,811</u>

## **SUMMARY OF FINDINGS**

### **Compliance with Previous directives**

The Company has taken the necessary action to comply with previous directives.

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

There are no items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

## CONCLUSION

The customary 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, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was **\$6,595,811**, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, the following participated in the examination:

Jerry T. Golden, Financial Examiner/Analyst II, of the Florida Office of Insurance Regulation; Barry Armstrong, CPA, CFE, Supervising Insurance Examiner, INS Regulatory Insurance Services, Inc.; James Russo, CFE, CFE, CPCU, FLMI, CIE, CFSA, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Beverly Dale, CFE, CPA, FLMI, CIE, Insurance Examiner, INS Regulatory Insurance Services, Inc.

We also recognize the participation of Eugene G. Thompson, ACAS, MAAA, Actuary, INS Consultants, Inc., with the actuarial evaluation, and Lawrence R. Lentini, CPA, President, INS Services, Inc., with the information technology evaluation.

Respectfully submitted,

---

Kethessa Carpenter, CPA  
Examination Manager  
Florida Office of Insurance Regulation