

**REPORT ON EXAMINATION**  
**OF**  
**AMERICAN SOUTHERN HOME**  
**INSURANCE COMPANY**  
**JACKSONVILLE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2004**

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

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Tallahassee, Florida

September 8, 2005

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 (FS), 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, 2004, of the financial condition and corporate affairs of:

**AMERICAN SOUTHERN HOME INSURANCE COMPANY  
1301 RIVER PLACE BLVD.  
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, 2002 through December 31, 2004. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2001. This examination commenced, with planning at the Office, on May 9, 2005, to May 13, 2005. The fieldwork commenced on May 15, 2005, and was concluded as of September 8, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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 (FAC), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

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 report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the State of Ohio, which is the domiciliary state of the parent company, American Modern Home Insurance Company and the Company's CPAs, after verifying the statutory requirements, for the following cycles:

- Premium
- Losses
- Reinsurance

### **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, 2001, along with resulting action taken by the Company in connection therewith.

#### **General**

The Company had not written insurance coverage in certain lines of business for a period of two years. The Company was directed to comply with Section 624.430, FS, and request these lines of insurance be removed from its certificate of authority. **Resolution:** The Company has complied with the above recommendation.

### **Accounts and Records**

The Company had regularly transacted commercial paper with The Midland Company and Midland Guardian Company, both affiliates. **Resolution:** Pursuant to clarification from the Office, the Company has discontinued these transactions in accordance with Section 625.332, FS. The Company has agreed to request prior approval from the Office before initiating this type of transaction in the future.

The Company must maintain Company records and assets in the State of Florida pursuant to Section 628.271, FS, unless otherwise approved by the Office. The Company was directed to annually request approval to maintain records outside the State of Florida. **Resolution:** The Company has complied with the above directive.

### **Income Tax Affiliated Agreements**

The Company's tax agreement did not state a methodology for settlement of any receivable/payable balance, nor was there a stated time certain for completing the settlement. **Resolution:** The Company has complied with this recommendation by amending the contract and stating that settlement must be completed on a quarterly basis.

### **Management**

The Company maintained an audit committee consisting of three directors who were also officers of the Company. The Company was directed to review the membership of the audit committee to ensure that members are independent in accordance with Section 624.424(8), FS. **Resolution:** The Company has complied with this recommendation.

The Company failed to provide any Board of Director's or any committee minutes that documented the review of a prior examination report or the appointment of an independent actuary. It was recommended that the Company review all future examination reports and note the review in the Board minutes. The Company was directed to appoint a qualified actuary by December 31 for all future years. **Resolution:** The Company has complied with both the above recommendations and directive.

### **Drafts Outstanding**

The Company did not escheat drafts in excess of five years old as is required by Section 717.105, FS. The Company was directed to escheat these drafts and provide evidence of compliance to the Office by March 31, 2003. **Resolution:** The Company has complied with this directive.

## **HISTORY**

### **General**

The Company was incorporated in Florida on June 2, 1982 and commenced business on November 15, 1982 as American Southern Home Insurance Company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2004:

Homeowners Multi Peril  
Commercial Multi Peril  
PPA Physical Damage  
Other liability  
Commercial Auto Liability  
Inland Marine  
Service Warranties

Accident and Health  
Mobile Home Multi Peril  
Fire  
Private Passenger Auto Liability  
Commercial Auto Physical Damage  
Allied Lines  
Mobile Home Physical Damage

Credit  
Auto Warranties  
Home Warranties

Surety  
Earthquake

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

## Capital Stock

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, American Modern Home Insurance Company, who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by American Modern Insurance Group, Inc., a holding company, and an Ohio corporation. The ultimate parent was 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.

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Premiums Earned	19,847,364	18,719,304	16,970,268
Net Underwriting Gain/(Loss)	711,142	(430,722)	(360,897)
Net Income	2,182,651	1,655,810	1,321,824
Total Assets	61,545,590	54,228,493	53,482,124
Total Liabilities	43,457,356	40,996,813	40,608,453
Surplus As Regards Policyholders	18,088,234	13,231,680	12,873,671

## **Dividends to Stockholders**

In accordance with Section 628.371, FS, the Company declared and paid dividends to its stockholder in 2002, 2003 and 2004 in the amounts of \$351,000, \$1,232,000 and \$1,323,000, respectively.

## **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2004, were:

### **Directors**

#### **Name and Location**

#### **Principal Occupation**

John W. Hayden  
Cincinnati, Ohio

President & Chief Executive Officer  
The Midland Company

Joseph P. Hayden III  
Cincinnati, Ohio

Chairman of the Board,  
Chief Operating Officer  
The Midland Company

John Ignatius Von Lehman  
Cincinnati, Ohio

Executive Vice President,  
Chief Financial Officer & Secretary  
The Midland Company

Paul Thomas Brizzolara  
Loveland, Ohio

Executive Vice President,  
Chief Legal Officer  
The Midland Company

Paul Francis Gelter  
Cincinnati, Ohio

Executive Vice President  
The Midland Company

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 & CEO
Kenneth Gerald Boberg	Executive Vice President & CFO
James Paul Tierney	Senior Vice President & Treasurer
Michael Lynn Flowers	Vice President & Secretary
William Todd Gray	Senior Vice President
John Ignatius Von Lehman	Senior Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following is the principal internal board committee and its members as of December 31, 2004:

### **Audit Committee**

John Weber Hayden 1  
John Ignatius Von Lehman  
Kenneth Gerald Boberg

1 Chairman

### **Conflict of Interest Procedure**

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

### **Corporate Records**

The recorded minutes of the shareholder, Board of Directors, and certain internal committee were reviewed for the period under examination. The recorded minutes of the Board

adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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

The Company had no mergers, disposals, Dissolutions, or purchase or sales through reinsurance during the period covered by this examination.

### **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), FAC. The latest holding company registration statement was filed with the State of Florida on April 5, 2005, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

### **Tax Allocation Agreement**

The Company, along with its ultimate parent, The Midland Company filed a consolidated federal income tax return. On December 31, 2004, the method of allocation between the Company and its parent was computed on a statutory basis and the Company paid its proportional share of tax

as if filed a separate return. All taxes and credits were allocated among the individual members of the consolidated group on a quarterly basis.

### **Cost Sharing Agreement**

The Company along with the other pool members was party to a 10 year, 2 month lease agreement with The Midland Company effective November 1, 1995. The lease agreement allocation was calculated each month based on year to date direct written premium. The Company paid \$4,358,068 and \$3,623,519, in 2004 and 2003 respectively.

### **Management Agreement**

The Company entered into a service agreement on June 3, 1982 and last amended on May 13, 1999 with the Midland-Guardian Company. The Company contracted for administrative services, professional services, postage, telephone and telegraph, light and heat, rent, printing and stationary, field expenses, and miscellaneous expenses as incurred in the conduct of Company's business. Reimbursement for services and expenses incurred were calculated on a monthly basis. The management services agreement allocation was based on the Company's pooling percentage.

### **Quota Share Agreements**

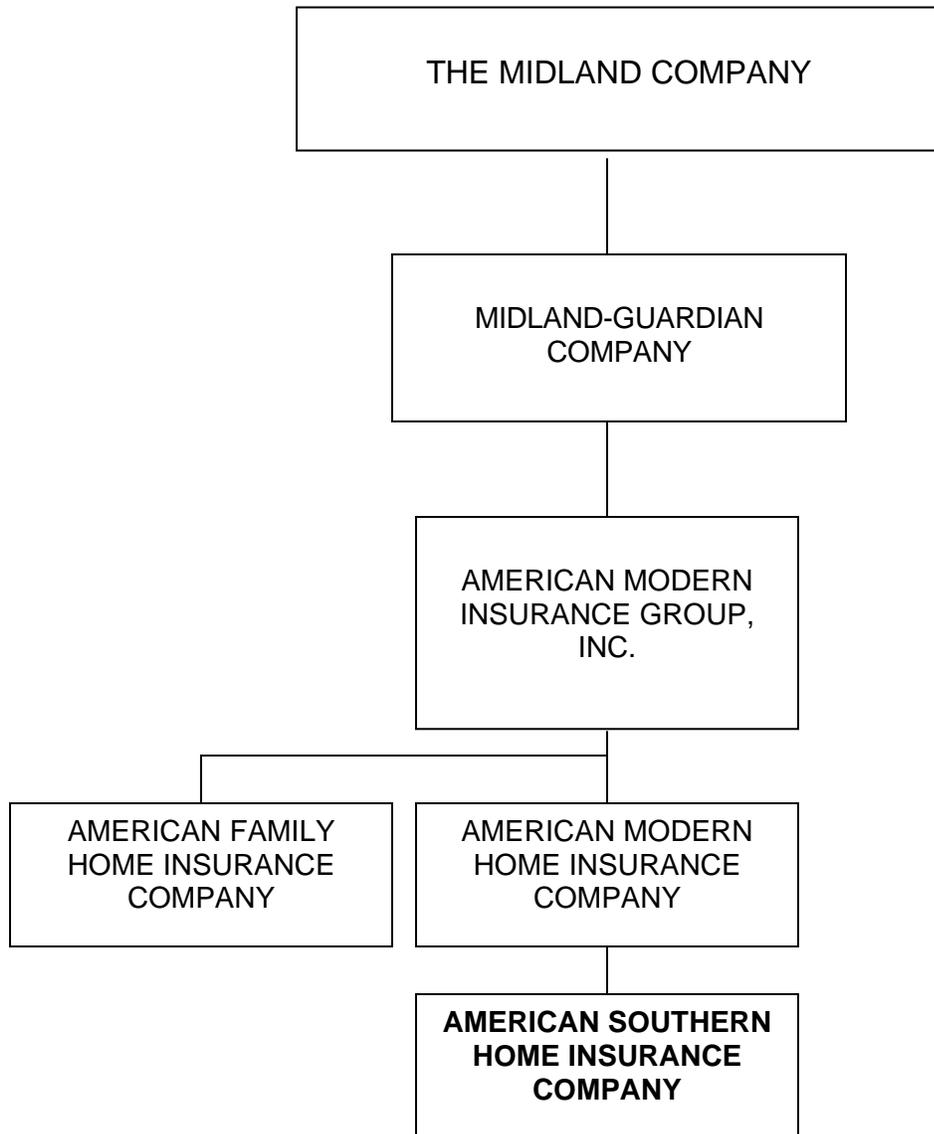
The Company had two quota share agreements, which ceded 100% of a block of primary flood insurance business produced by WNC Insurance Services, Inc., Pasadena, CA, to certain underwriters at Lloyd's London (60%) and Glencoe Insurance Ltd (Glencoe) (40%). The agreements limited premium volume to \$2,250,000 annually.

Glencoe is an unauthorized insurer in Florida. The flood quota share agreement with Glencoe required that an unauthorized reinsurer secure the reserve credits ceded to it by a letter of credit (LOC) that met the established standards of the NAIC. The Company provided no evidence that it had required Glencoe to provide an LOC to secure the balances ceded to it.

A simplified organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

**AMERICAN SOUTHERN HOME INSURANCE COMPANY, INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2004**



## FIDELITY BOND AND OTHER INSURANCE

The American Modern Home Group maintained fidelity bond coverage up to \$25,000,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC in the NAIC's Financial Condition Examiners Handbook.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	HONOLULU, HI, 5.75%, 04/01/10	\$ 100,000	\$ 113,991
FL	MADISON, WI, 4.30%, 05/01/06	300,000	308,079
FL	PENN ST GO, 5.0%, 07/01/08	250,000	271,368
FL	USTNTS, 5.625%, 05/15/08	1,050,000	1,126,209
FL	USTNTS, 5.625%, 05/15/08	<u>300,000</u>	<u>321,774</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 2,000,000</u>	<u>\$ 2,141,421</u>
LA	LA STATE GO, 5.25%, 04/15/11	100,000	108,835
LA	USTNTS, 5.625%, 05/15/08	<u>25,000</u>	<u>26,815</u>
TOTAL OTHER DEPOSITS		<u>\$ 125,000</u>	<u>\$ 135,650</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 2,125,000</u></u>	<u><u>\$ 2,277,071</u></u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory**

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

Colorado  
Maryland

Florida  
Missouri

Louisiana  
Ohio

### **Treatment of Policyholders**

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## **REINSURANCE**

The reinsurance agreements reviewed, as of December 31, 2004, were found to meet NAIC regulations with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines. The Company was a participant in a quota share reinsurance agreement with several affiliated companies. This agreement was effective January 1, 1983 and was a pooling arrangement. American Modern Home Insurance Company acted as the lead company in the pooling arrangement. The American Modern Insurance Group affiliates and pooling percentages which were reinsured 100% by the lead company were as follows:

American Modern Home Insurance Company	62%
American Family Home Insurance Company	30%
American Southern Home Insurance Company	3%
American Western Home Insurance Company	3%
G.U.I.C	2%

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

Ceding commissions were allocated at an amount equal to all expense incurred in writing the ceded premium. All parties of this agreement had the right to offset balances payable with balances receivable. The ceding parties withheld an amount equivalent to the net outstanding loss reserves and the net unearned premium reserve at inception, less the provisional commission thereon.

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

**Assumed**

The Company assumed no business except as a pool member.

**Ceded**

The Company ceded all of its direct business to the lead company of the pool.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2002, 2003 and 2004, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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 maintained its principal operational office in Amelia, Ohio, where this examination was conducted.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company entered into a custodial agreement on March 1, 1994 with PNC Trust Company of Florida, N.A. The custodial agreement was not in compliance with 690-143.042(L), FAC. The custodial agreement discussed the replacement of any security or securities that due to PNC's negligence or willful misconduct is lost, misplaced or stolen; it did not state that said security or securities will be replaced promptly with like security or cash.

## **Independent Auditor Agreement**

On the annual recommendation of the audit committee, the Company entered into an agreement with an independent auditor. For the period covered by this examination the audit firm has been Deloitte and Touche, LLP.

## **Risk-Based Capital**

The Company reported its risk-based capital at an adequate level.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2004, 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 SOUTHERN HOME INSURANCE COMPANY**  
**Assets**  
**December 31, 2004**

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$43,905,654		\$43,905,654
Cash:			
On deposit	(2,376,173)		(2,376,173)
Short-term investments	1,241,923		1,241,923
Agents' Balances:			
Uncollected premium	1,005,318	796,685	1,802,003
Deferred premium	4,544,815		4,544,815
Amounts recoverable from reinsurers	0	2,495,840	2,495,840
Funds held by or deposited with reinsurance companies	11,471,497		11,471,497
Net deferred tax asset	805,614		805,614
Interest and dividend income due & accrued	463,808		463,808
Receivable from parent, subsidiaries and affiliates	483,134		483,134
Guaranty funds receivable		205,976	205,976
Totals	\$61,545,590	3,498,501	\$65,044,091

**AMERICAN SOUTHERN HOME INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2004**

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$4,257,131		\$4,257,131
Reinsurance payable on paid losses	0	\$796,685	796,685
Loss adjustment expenses	711,194		711,194
Commissions payable	26,071	826,630	852,701
Other expenses	999,101	(959,197)	39,904
Taxes, licenses and fees	151,282	205,976	357,258
Current federal income taxes	175,209		175,209
Unearned premium	9,896,538		9,896,538
Ceded reinsurance premiums payable	1,026,505	2,495,840	3,522,345
Funds held under reinsurance treaties	26,100,443		26,100,443
Provision for reinsurance	69,000		69,000
Drafts outstanding	44,882		44,882
Aggregate write-ins for liabilities	0	132,567	132,567
<b>Total Liabilities</b>	<b>\$43,457,356</b>	<b>\$3,498,501</b>	<b>\$46,955,857</b>
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	5,800,000		5,800,000
Unassigned funds (surplus)	11,288,234		11,288,234
Surplus as regards policyholders	\$18,088,234		\$18,088,234
<b>Total liabilities, capital and surplus</b>	<b>\$61,545,590</b>	<b>\$3,498,501</b>	<b>\$65,044,091</b>

**AMERICAN SOUTHERN HOME INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2004**

<b>Underwriting Income</b>		
Premiums earned		\$19,847,364
DEDUCTIONS:		
Losses incurred		8,643,249
Loss expenses incurred		1,594,648
Other underwriting expenses incurred		8,898,325
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$19,136,222</u>
Net underwriting gain or (loss)		\$711,142
<b>Investment Income</b>		
Net investment income earned		\$1,710,237
Net realized capital gains or (losses)		56,542
Net investment gain or (loss)		<u>\$1,766,779</u>
<b>Other Income</b>		
Net gain or (loss) from agents' or premium balances charged off		
Finance and service charges not included in premiums		\$449,510
Aggregate write-ins for miscellaneous income		
Total other income		<u>\$449,510</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$2,927,431
Dividends to policyholders		
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$2,927,431</u>
Federal & foreign income taxes		<u>744,780</u>
Net Income		\$2,182,651
<b>Capital and Surplus Account</b>		
Surplus as regards policyholders, December 31 prior year		\$13,231,679
<b>Gains and (Losses) in Surplus</b>		
Net Income		\$2,182,651
Net unrealized capital gains or losses		0
Change in net deferred income tax		54,752
Change in non-admitted assets		11,152
Change in provision for reinsurance		(69,000)
Transferred To Capital (Stock Dividend)		4,000,000
Dividends to stockholders		(1,323,000)
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$4,856,555</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$18,088,234</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

**Guaranty Funds Receivable** \$205,976

The Company improperly included in taxes, licenses and fees an amount related to a deposit for guaranty funds. This amount was reclassified.

**Uncollected Premiums and Agents Balances'** \$1,802,003

The Company improperly offset assumed losses payable and assumed LAE payable against uncollected premiums and agents balances in course of collection. The amount of \$796,685 was reclassified to reinsurance payable on paid losses and LAE, in accordance with SSAP 62. and the NAIC annual statement instructions.

**Amounts Recoverable from Reinsurers** \$2,495,840

The Company improperly included ceded losses recoverable and ceded LAE recoverable with ceded reinsurance premiums payable. Ceded losses recoverable and ceded LAE recoverable were reclassified to amounts recoverable from reinsurers, in accordance with SSAP 62 and the NAIC annual statement instructions.

### Liabilities

**Losses and Loss Adjustment Expenses** \$4,968,325

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, 2004, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and

agreements. The Office contracted with INS Regulatory Insurance Services, Inc., to review the work papers provided by the Company and was in concurrence with this opinion.

**Other Expenses**

\$39,904

The Company improperly accrued commissions payable and escheatable funds to other expenses.

A reclassification was made from other expenses for \$959,197 to commissions payable and aggregate write ins for liabilities.

**AMERICAN SOUTHERN HOME INSURANCE COMPANY, INC.  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2004**

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  
per December 31, 2004, Annual Statement \$18,088,234

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
Uncollected premium	1,005,318	1,802,003	796,685
Amounts rec. from reins.	0	2,495,840	2,495,840
Guaranty funds rec.	0	205,976	205,976
<b>LIABILITIES:</b>			
Reins. payable	0	796,685	(796,685)
Comm. payable	26,071	852,701	(826,630)
Other expenses	999,101	39,904	959,197
Tax, lic. & fees	151,282	357,258	(205,976)
Ceded reins. pay.	1,026,505	3,522,345	(2,495,840)
Agg. write-in	0	132,567	(132,567)
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2004, Per Examination			\$18,088,234

## SUMMARY OF FINDINGS

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2001 examination report issued by the Office.

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

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2004.

### **Management**

The Company's custodial agreement with PNC Trust Company of Florida, N.A. (PNC) is not in compliance with 690-143.042(L), FAC. **It is recommended that the Company amend and provide to the Office with 90 days of the issuance of this report, their custodial agreement with PNC Trust Company of Florida, N.A. to include that PNC will promptly replace any security or securities that due to their negligence or willful misconduct with like security or cash.**

### **Accounts and Records**

The Company incorrectly classified items in other expenses, commissions payable, taxes, licenses and fees, and escheatable funds. **It is recommended that the Company follow the NAIC annual statement instructions when completing future annual statements.**

Glencoe is an unauthorized insurer in Florida. The flood quota share agreement with Glencoe required that an unauthorized reinsurer secure the reserve credits ceded to it by a letter of credit that met the established standards of the NAIC. The Company provided no evidence that it had required Glencoe to provide a letter of credit to secure the balances ceded to it. **It is recommended that the Company operate in accordance with its reinsurance agreement with Glencoe and require that Glencoe provide an appropriate letter of credit to secure all future balances ceded to it.**

In its 2004 annual statement, the Company improperly offset ceded losses and LAE recoverable against ceded reinsurance premiums payable. **It is recommended that the Company comply with SSAP 62 and the NAIC annual statement instructions when completing future annual statements.**

The Company improperly offset assumed losses payable and assumed LAE payable against uncollected premiums and agents' balances in course of collection. It is recommended that the Company comply with SSAP 62 and the NAIC annual statement instructions when completing future annual statements.

## **SUBSEQUENT EVENTS**

American Modern Insurance Company of Florida, Inc., was incorporated subsequent to the examination date on April 29, 2005. Management stated that the Company will own 100% of the stock of AMICF and will fund AMICF's initial capital with \$6.2 million.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Southern Home Insurance Company** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$18,088,234, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael A. Davis, CFE, and Jeffery Jones, CPA, CFE, with INS Regulatory Insurance Services, Inc., participated in the examination.

Respectfully submitted,

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Financial Examiner/Analyst Supervisor  
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