

REPORT ON EXAMINATION
OF
AMERICAN VEHICLE INSURANCE
COMPANY, INC.
PLANTATION, FLORIDA

AS OF
DECEMBER 31, 2002

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

| | |
|--|----|
| LETTER OF TRANSMITTAL | - |
| SCOPE OF EXAMINATION..... | 1 |
| Status of Adverse Findings from Prior Examination..... | 2 |
| HISTORY | 3 |
| General | 3 |
| Capital Stock..... | 4 |
| Profitability..... | 4 |
| Dividends to Stockholders..... | 4 |
| Management | 4 |
| Conflict of Interest Procedure..... | 5 |
| Corporate Records..... | 6 |
| Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance | 6 |
| Surplus Debentures | 6 |
| AFFILIATED COMPANIES | 7 |
| Tax Allocation Agreement | 7 |
| Cost Sharing Agreement..... | 7 |
| MGA Agreement | 7 |
| ORGANIZATIONAL CHART | 8 |
| FIDELITY BOND AND OTHER INSURANCE | 9 |
| PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS..... | 9 |
| STATUTORY DEPOSITS | 9 |
| INSURANCE PRODUCTS AND RELATED PRACTICES..... | 9 |
| Territory and Plan of Operation | 10 |
| Treatment of Policyholders | 10 |
| REINSURANCE | 10 |
| Assumed | 10 |
| Ceded | 10 |
| ACCOUNTS AND RECORDS | 11 |

| | |
|---|----|
| Custodial Agreement..... | 11 |
| CPA Agreement | 11 |
| Risk-Based Capital..... | 11 |
| | |
| FINANCIAL STATEMENTS PER EXAMINATION..... | 12 |
| Assets | 13 |
| Liabilities, Surplus and Other Funds | 14 |
| Statement of Income | 15 |
| | |
| COMMENTS ON FINANCIAL STATEMENTS..... | 16 |
| Assets..... | 16 |
| Liabilities | 16 |
| Other Expenses | 16 |
| | |
| COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... | 17 |
| | |
| SUMMARY OF FINDINGS | 18 |
| | |
| SUBSEQUENT EVENTS..... | 18 |
| | |
| CONCLUSION..... | 19 |

Tallahassee, Florida
March 12, 2004

Kevin M. McCarty
Director
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, 2002, of the financial condition and corporate affairs of:

**AMERICAN VEHICLE INSURANCE COMPANY, INC.
4161 NW 5TH ST.
PLANTATION, FLORIDA 33317**

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, 2000 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1999. This examination commenced with planning at the Office on November 24, 2003 to November 26, 2003. The fieldwork commenced on December 1, 2003, and was concluded as of March 12, 2004. 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 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 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, 2002. Transactions subsequent to year-end 2002 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 Company's CPAs after verifying the statutory requirements for the following accounts:

Taxes, Licenses and Fees

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, 1999, along with resulting action taken by the Company in connection therewith.

The Company did not have at least three members on the Audit Committee in violation of Section 624.424(8) (c), FS.

Resolution: The Company has since added an Audit Committee with at least three members formed under the parent company, 21st Century Holding Company.

The Company did not have the minimum amount of fidelity bond coverage as recommended by the NAIC.

Resolution: The Company has obtained an adequate amount of fidelity bond coverage.

The Company overstated the actual amount on the schedule for special deposits in the 1999 Annual Statement.

Resolution: Currently, the Company is accurately reporting the amounts for special deposits.

HISTORY

General

The Company was incorporated in Florida on November 23, 1983 and commenced business on March 1, 1984 as American Vehicle 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, 2002:

Private Passenger Auto Physical Damage
Commercial Auto Physical Damage

Private Passenger Auto Liability
Commercial Auto Liability

The Company has not written insurance coverage in the last two years in the lines of business of commercial auto liability and 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, 2002, 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 | \$1,500,000 |
| Par value per share | \$3.00 |

Control of the Company was maintained by its parent, 21st Century Holding Company, who owned 100 percent of the stock issued by the Company.

Surplus

The parent company contributed approximately \$3,000,000 into the surplus of the Company in 2003.

Profitability of Company

The Company had an underwriting gain of \$52,182 for the current year and net income of \$134,671.

Dividends to Stockholders

The Company did not declare or pay dividends to stockholders in 2000, 2001, or 2002.

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, 2002, were:

Directors

| Name and Location | Principal Occupation |
|---|--|
| Richard Widdicombe Plantation, Florida | Director; American Vehicle Insurance Co. |
| Edward Joseph Lawson Plantation, Florida | Director; American Vehicle Insurance Co. |
| Michelle Vi Lawson Plantation, Florida | Director; American Vehicle Insurance Co. |
| Bruce F. Simberg Plantation, Florida | Director; American Vehicle Insurance Co. |

The Company is required to have no less than five directors pursuant to Section 628.231, F.S. The Company added two additional directors in 2003.

In accordance with the Company's bylaws, the board of directors appointed the following senior officers:

Senior Officers

| Name | Title |
|--------------------|--------------|
| Richard Widdicombe | President |
| Michelle Vi Lawson | Treasurer |
| James Epstein | Secretary |

The Company does not have any internal committees. All committees are formed under the parent company, 21st Century Holding Company.

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 board of directors were reviewed for the period under examination. The recorded minutes adequately documented the meetings and the approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

Documentation did not exist in the minutes that the Company's directors reviewed the previous examination report in accordance with the NAIC requirements.

The Company did not file an unclaimed property report annually as required in Section 717.117, FS.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the period covered by this examination.

Surplus Debentures

The Company had \$4,800,000 in surplus notes reported in its annual statement. These notes were issued to the previous owners of the Company before the purchase by 21st Century Holding Company.

AFFILIATED COMPANIES

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

Tax Allocation Agreement

The parent of the Company, 21st Century Holding Company, filed a consolidated federal income tax return. On December 31, 2002, the method of allocation between the Company and its parent was that the parent would be responsible for all income tax payments and each company in the group would file an inter-company income tax receivable or payable with the parent. Payments would have to be remitted within 90 days of the income tax payment being made by the parent.

Cost Sharing Agreement

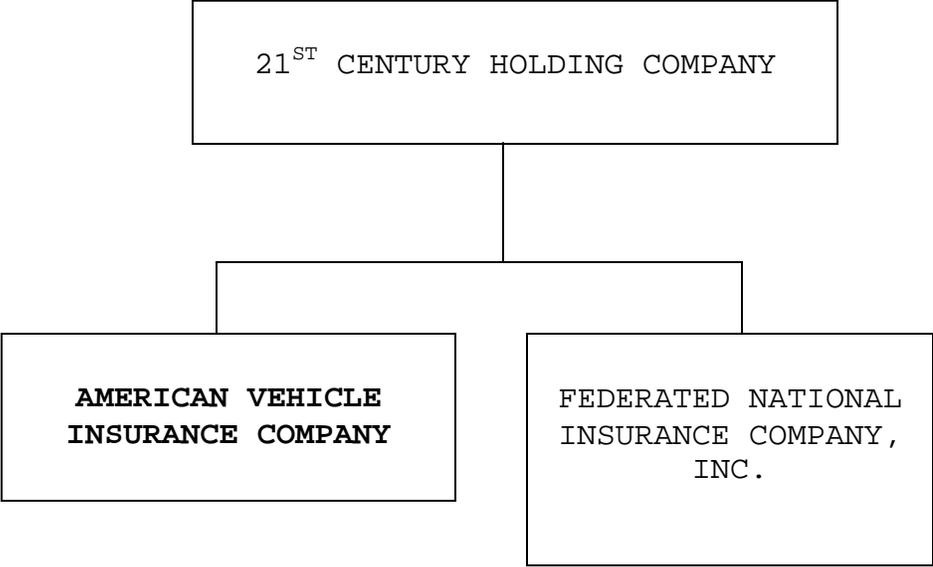
The Company and its affiliates anticipate that, from time to time, either party may pay expenses on behalf of the other such as payroll, supplies, etc. Reimbursement of expenses were paid within 90 days after expenses were incurred.

MGA Agreement

The Company had a managing general agent agreement with its affiliate, Assurance Managing General Agents. The Company grants the affiliate the authority to quote rate and issue policies based on underwriting guidelines, rates and insurance contracts approved by the Company. They could also file these with the Office.

A simplified organizational chart as of December 31, 2002 reflecting the holding company system is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group.

**AMERICAN VEHICLE INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART
DECEMBER 31, 2002**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000. This adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no pension, stock ownership, or insurance plans.

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 | FL ST BD, 4.6%, 06/01/03 | \$ 100,000 | \$ 101,429 |
| FL | GMAC, 5.75%, 11/10/03 | 550,000 | 559,114 |
| FL | USTNTS, 5.875%, 02/15/04 | 100,000 | 105,156 |
| FL | Goldman Sachs | <u>200,000</u> | <u>200,000</u> |
| TOTAL FLORIDA DEPOSITS | | \$ 950,000 | \$ 965,699 |
| LA | Bank One CD, 1.88%, 05/24/03 | <u>100,000</u> | <u>100,000</u> |
| TOTAL OTHER DEPOSITS | | \$ 100,000 | \$ 100,000 |
| Total Special Deposits | | <u>\$1,050,000</u> | <u>\$1,065,699</u> |

Territory and Plan of Operation

The Company was authorized to transact insurance in the State of Florida in accordance with Section 624.401(2), FS.

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 were found to comply with NAIC standards in respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed risk on an excess of loss basis from its affiliate, Federated National Insurance Company in the amount of 10%.

Ceded

The Company ceded risk on a quota share and excess of loss basis to Transatlantic Reinsurance Company.

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

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2000, 2001 and 2002, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 690-137.002, 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 offices in Plantation, Florida. This examination was conducted in Lauderdale Lakes, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had custodial agreements with Salem Trust and Merrill Lynch. The agreements were in compliance with Rule 690-143.042 (1), FAC.

Independent Auditor Agreement

The Company hired the firm of DeMeo, Young, and McGrath as its independent auditors in compliance with Section 624.424 (8), FS.

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, 2002, 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 VEHICLE INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2002

| Classification | Per Company | Examination Adjustments | Per Examination |
|---|---------------------|----------------------------|---------------------|
| Bonds | \$5,484,652 | | \$5,484,652 |
| Cash: | | | |
| On deposit | 736,568 | | 736,568 |
| Short-term investments | 205,625 | | 205,625 |
| Agents Balances: | | | |
| Uncollected premium | 4,411,301 | | 4,411,301 |
| Deferred premium | 4,285,901 | | 4,285,901 |
| Reinsurance recoverable | 653,772 | | 653,772 |
| Interest and dividend income due & accrued | 71,656 | | 71,656 |
| Federal income tax recoverable | 982,109 | \$644,839 | 337,270 |
| Totals | <u>\$16,831,584</u> | <u>\$644,839</u> | <u>\$16,186,745</u> |

AMERICAN VEHICLE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

| Liabilities | Per Company | Examination Adjustments | Per Examination |
|---|---------------------|----------------------------|---------------------|
| Losses | \$2,125,775 | | \$2,125,775 |
| Loss adjustment expenses | 316,442 | | \$316,442 |
| Other expenses | 1,506 | | \$1,506 |
| Taxes, licenses and fees | 346,777 | | \$346,777 |
| Unearned premium | 6,294,018 | | \$6,294,018 |
| Reinsurance payable on paid loss and loss adjustment expenses | 570,210 | | \$570,210 |
| Ceded reinsurance premiums payable | 1,407,027 | | \$1,407,027 |
| Drafts outstanding | 21,142 | | \$21,142 |
| Payable to parent, subsidiaries and affiliates | 1,102,229 | | \$1,102,229 |
| Advance Premiums | 261,615 | | \$261,615 |
| Commissions Payable | <u>411,640</u> | | <u>\$411,640</u> |
| Total Liabilities | \$12,858,381 | | \$12,858,381 |
| Common capital stock | 1,500,000 | | 1,500,000 |
| Surplus Notes | 4,800,000 | | 4,800,000 |
| Gross paid in and contributed surplus | 10,731,537 | | 10,731,537 |
| Unassigned funds (surplus) | <u>(13,058,334)</u> | \$644,839 | <u>(13,703,173)</u> |
| Surplus as regards policyholders | <u>3,973,203</u> | \$644,839 | <u>3,328,364</u> |
| Total liabilities, capital and surplus | <u>\$16,831,584</u> | \$644,839 | <u>\$16,186,745</u> |

AMERICAN VEHICLE INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2002

Underwriting Income

| | |
|---|--------------------|
| Premiums earned | \$6,294,997 |
| DEDUCTIONS: | |
| Losses incurred | 3,608,839 |
| Loss expenses incurred | 912,748 |
| Other underwriting expenses incurred | 1,721,228 |
| Aggregate write-ins for underwriting deductions | 0 |
| Total underwriting deductions | <u>\$6,242,815</u> |
| Net underwriting gain or (loss) | \$52,182 |

Investment Income

| | |
|--|-------------------|
| Net investment income earned | \$254,589 |
| Net realized capital gains or (losses) | (352,937) |
| Net investment gain or (loss) | <u>(\$98,348)</u> |

Other Income

| | |
|---|------------------|
| Net gain or (loss) from agents' or premium balances charged off | \$0 |
| Finance and service charges not included in premiums | 313,847 |
| Aggregate write-ins for miscellaneous income | 22,698 |
| Total other income | <u>\$336,545</u> |

| | |
|---|----------------|
| Net income before dividends to policyholders and before federal & foreign income taxes | \$290,379 |
| Dividends to policyholders | 0 |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | \$290,379 |
| Federal & foreign income taxes | <u>155,708</u> |
| Net Income | \$134,671 |

Capital and Surplus Account

| | |
|--|-------------|
| Surplus as regards policyholders, December 31 prior year | \$3,064,362 |
|--|-------------|

Gains and (Losses) in Surplus

| | |
|--|---------------------------|
| Net Income | \$134,671 |
| Net unrealized capital gains or losses | (48,292) |
| Change in non-admitted assets | (2,675) |
| Change in net deferred income tax | (174,863) |
| Change in excess statutory over statement reserves | 0 |
| Surplus adjustments: Paid in | 1,000,000 |
| Aggregate write-ins for gains and losses in surplus | 0 |
| Examination Adjustment | (644,839) |
| Change in surplus as regards policyholders for the year | <u>\$264,002</u> |
| Surplus as regards policyholders, December 31 current year | <u><u>\$3,328,364</u></u> |

COMMENTS ON FINANCIAL STATEMENTS

Assets

Federal Income Taxes Recoverable - Parent \$337,270

The Company CPAs made an audit adjustment of \$644,839 to correctly account for federal income taxes incurred. This audit adjustment by the CPA was necessary because the Company did not correctly calculate and report the federal income tax liability in its Annual Statement.

Liabilities

Losses and Loss Adjustment Expenses \$2,442,217

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, 2002, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The consulting actuary retained by the Office reviewed work papers provided by the Company and was in concurrence with this opinion.

AMERICAN VEHICLE INSURANCE COMPANY, INC.
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2002

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, 2002, Annual Statement | \$3,973,203 |
|---|-------------|

| | <u>PER</u> <u>COMPANY</u> | <u>PER</u> <u>EXAM</u> | INCREASE (DECREASE) <u>IN SURPLUS</u> |
|--|------------------------------|---------------------------|---|
| ASSETS: | | | |
| Federal and foreign income tax recoverable | \$982,109 | \$337,270 | (\$644,839) |
| LIABILITIES: | | | |
| No adjustment required. | | | |
| Net Change in Surplus: | | | (644,839) |
| Surplus as Regards Policyholders December 31, 2002, Per Examination | | | \$3,328,364 |

SUMMARY OF FINDINGS

Compliance with previous directives

The Company had taken the necessary actions to comply with the comments made in the 1999 examination report issued by the Office.

Current examination comments and corrective action

General

The Company had not written insurance coverage in certain lines of business for a period of two years. **The Company is directed to comply with Section 624.430, FS, and request from the Office that these lines of insurance be removed from its certificate of authority. The Company is to make this request to the Office within 90 days after the report is issued.**

The Company was not filing an unclaimed property report, which is in violation of Section 717.117, FS. **The Company is directed to file an unclaimed property report annually to comply with Section 717.117, FS., and to provide evidence of compliance to the Office within 90 days after the report is issued.**

There was no documentation in the board of director's minutes that the Company's directors reviewed the previous examination report. **It is recommended that the Company document the review of the examination report in their board minutes.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Vehicle Insurance Company, Inc.** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$3,328,364, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CFE, CPA, DABFA, CFE, Financial Examiner/Analyst Supervisor and Mercer, Oliver, Wyman Actuarial Services, Inc. participated in the examination.

Respectfully submitted,

Maurice Fuller
Financial Examiner/Analyst II
Florida Office of Insurance Regulation