

**REPORT ON EXAMINATION**  
**OF**  
**APOLLO CASUALTY COMPANY OF**  
**FLORIDA**  
**POMPANO BEACH, FLORIDA**

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

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

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Tallahassee, Florida

October 6, 2009

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008, of the financial condition and corporate affairs of:

**APOLLO CASUALTY COMPANY OF FLORIDA  
1280 SW 36<sup>th</sup> AVENUE  
POMPANO BEACH, FLORIDA 33069**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on July 20, 2009. The fieldwork commenced on August 26, 2009, and concluded as of October 6, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

### **Status of Adverse Findings from Prior Examination**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2007, along with resulting action taken by the Company.

#### **General**

The Company did not disclose in the notes to the financial statements or in Schedule Y that commissions of \$578,480 were paid to an affiliated company, New River General Agency, Inc. the Company's MGA, (New River), nor did it disclose that the premiums were written through New River as an intermediary nor that agents' balances in the course of collection, totaling \$748,364, were receivable from New River as of December 31, 2007. **We recommend that the Company comply with the provisions of SSAP No. 25, paragraph 17, which requires disclosure of all related party transactions. Resolution:** The Company filed 2008 Annual Statement disclosed this information correctly and complied with SSAP No.25.

The Company did not have procedures in place to conform with the Executive Order (No. 13224) with respect to terrorism. **Resolution:** The Company has not implemented this directive.

**Subsequent Event:** The Company completed and filed Executive Order (No. 13224) with the Office February 11, 2010. The Terrorism Sanctions Questionnaire was completed and submitted to the Office dated March 9, 2010.

The Company's custody agreement with UBS Financial Services, Inc. did not comply in all respects with Rule 69O-143.042, Florida Administrative Code. **Resolution:** The Company changed their custodian bank during 2009. They executed a custodial agreement with Comerica to perform custodial functions which was in compliance with Rule 69O-143.042, Florida Administrative Code.

## HISTORY

### General

The Company was incorporated in Florida on September 23, 2005 and commenced writing premiums on January 17, 2007.

The Company was party to Consent Order 77469-04-CO filed June 29, 2006, with the Office regarding the application for the issuance of a Certificate of Authority. The Company was compliant with all aspects except for the requirements of Executive Order 13224.

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

Private Passenger auto liability

Private Passenger auto physical damage

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

## Capital Stock

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

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	10,000
Total common capital stock	\$1,000,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, American General Holdings, Inc, an Illinois company, which owned 100% of the issued stock.

## Profitability of Company

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

	<b>2008</b>	<b>2007</b>
Premiums Earned	8,232,419	974,675
Net Underwriting Gain/(Loss)	(1,230,849)	(1,707,191)
Net Income	(808,533)	(1,329,717)
Total Assets	14,525,939	10,030,014
Total Liabilities	8,374,341	3,284,486
Surplus As Regards Policyholders	6,151,598	6,745,528

## Dividends to Stockholders

The Company did not pay nor declare dividends during the period of this examination.

## Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Glenn S. Morris Deerfield, IL	CEO, Apollo Casualty Company
Marvin D. Himmelstein Riverwoods, IL	COO, Apollo Casualty Company
Ronald A. Cohen Northbrook, IL	President, Total Concepts, Inc.
Kalman Wenig Riverwoods, IL	Retired Certified Public Accountant
Ernest S. Levine Chicago, IL	President, Admiral Tool 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>
Marvin D. Himmelstein	President and COO
Ronald A. Cohen	Secretary
Philip Budervic	Vice-President
Charles Messina	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 their members as of December 31, 2008:

**Executive Committee**

Glenn S. Morris<sup>1</sup>  
Marvin D. Himmelstein

<sup>1</sup> Chairman

**Audit Committee**

Kalman Wenig <sup>1</sup>  
Ronald A. Cohen  
Ernest S. Levine

**Investment Committee**

None – all members of  
Board of Directors

The Company adopted the audit committee of the parent, American General Holdings, Inc., in compliance with Section 624.424(8), Florida Statutes. The Company does not have a formal Audit Committee Charter in place to govern the functions of the Audit Committee. **Subsequent Event:** The Company has written and the Board of Directors has unanimously approved the Audit Committee Charter as of October 7, 2009.

**Conflict of Interest Procedure**

The Company obtained annually signed conflict of interest statements for all Officers and Directors; however, they could not locate them when requested by the Examiners. **Subsequent Event:** The Company subsequently located the documents and provided them to the Examiners. The Conflict of Interest Statements were in accordance with the requirements in the NAIC Financial Condition Examiners Handbook.

**Corporate Records**

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

There were no acquisitions, mergers, disposals, dissolutions or purchases or sales through reinsurance during the period of the examination.

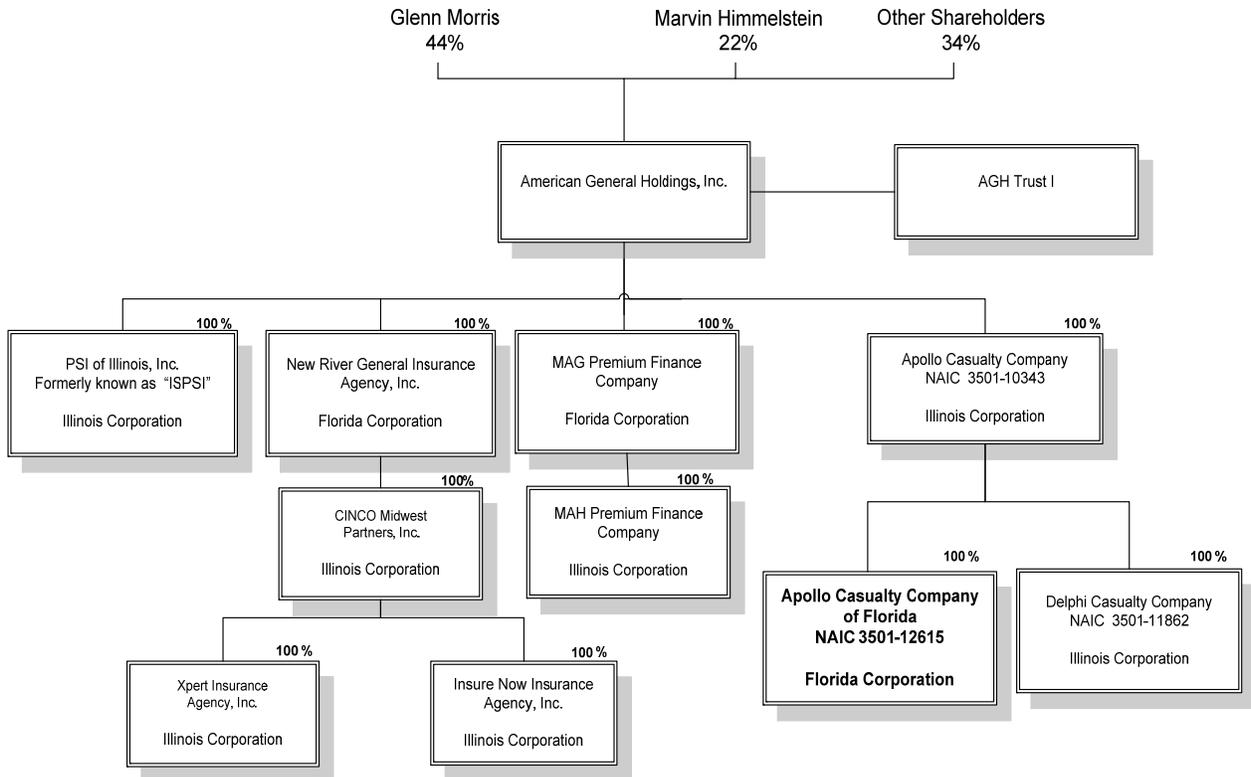
## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on April 13, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company's holding company registration statement filed did not report subsequent changes in affiliates, as required by Rule 69O-143.046 (4), Florida Administrative Code. **Subsequent Event:** The Company amended their holding company registration statement and filed it with the Office on September 24, 2009 in compliance with Rule 69O-143.046 (4), Florida Administrative Code.

An organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

# Apollo Casualty Company of Florida ORGANIZATIONAL CHART

DECEMBER 31, 2008



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

### **Tax Allocation Agreement**

The Company, entered into a tax allocation agreement with American General Holdings Inc. (AGH) and all affiliates effective as of January 1, 2006.

### **Expense Allocation Agreement**

The Company entered into an agreement dated January 1, 2006 with its parent company and its affiliated companies to share in the allocation of costs incurred by one affiliated company in the course of conducting business for another.

### **Investment Advisory Agreement**

The Company entered into an investment advisory agreement, dated January 1, 2006, with M & C Investments, Inc. (M & C), a company 100% owned and controlled by the Company's Chairman and Chief Executive Officer, Mr. Glenn S. Morris.

### **Managing General Agent Agreement**

The Company entered into an agreement with New River General Insurance Agency (New River), an affiliated company, on January 1, 2006. The Company amended their managing general agency agreement on June 30, 2009 with New River. The amendment changed the commission rate from of 17% of net premiums written to 18% of the net premiums written.

## **Software Licensing Agreement**

The Company entered into an agreement with PSI of Illinois, Inc., an affiliated company, on October 19, 2006, for the provision of software services, at a fee of 2% of net premiums written. The Company amended that agreement as of May 27, 2009, to change the fee structure from 2% of net premiums written to 1% of net premiums written.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$10,000, which met the suggested minimum as recommended by the NAIC. The Company was also named beneficiary on a commercial general liability policy, a commercial automobile policy and a workers' compensation policy.

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$4 million with a self-insured retention of \$75,000.

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

The Company did not maintain a pension plan for its employees although it did maintain a 401(k) savings plan, to which the Company's contributions are based on its profitability for the prior year. It also maintained a contributor major medical plan and a non-contributory long term disability plan.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	US T-Note, 3.875%, 05/15/2010	\$250,000	\$256,875
FL	US T-Note, 4.875%, 05/31/2011	\$250,000	\$267,425
FL	US T-Note, 1.375%, 05/15/2012	\$300,000	\$298,140
TOTAL STATUTORY DEPOSITS		<u>\$800,000</u>	<u>\$822,440</u>

## INSURANCE PRODUCTS

The Company is authorized to write private passenger auto liability and auto physical damage lines of business in Florida.

### Territory

The Company was authorized to transact 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 did not maintain a claims procedure manual that included detailed procedures for handling each type of claim and was not in accordance with Section 626.9541(1) (i) 3a, Florida Statutes. **Subsequent Event:** The Company wrote, approved and adopted a formal claims handling manual during this examination.

## **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.

### **Assumed**

The Company did not assume risk.

### **Ceded**

The Company entered into a reinsurance agreement during 2008. Total ceded premiums were approximately \$53,000.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Des Plaines, IL where this examination was conducted. The Company also maintained an office in Pompano Beach, FL for the underwriting and acceptance of premiums and for the processing of claims. Books and records were accessible from the Pompano Beach, FL office. Therefore, the company was in compliance with Section 628.271, Florida Statutes.

An independent CPA audited the Company's statutory basis financial statements for the year ended December 31, 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 690-137.002, Florida Administrative Code.

The Company's accounting records were maintained within Microsoft Excel spreadsheets. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

### **Rate Filing**

The company failed to recertify its rate filings with the Office for the year 2008, in violation of Section 627.0645, Florida Statutes.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had entered into a custody agreement with UBS Financial. This agreement was not in compliance with Rule 69O-143.042, Florida Administrative Code. **Subsequent Event:** The Company executed a custodial agreement with Comerica Bank during 2009. This agreement superseded the previously executed agreement with UBS and was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

The Company contracted with the Certified Public Accounting firm of Clifton Gunderson to perform the annual statutory audit of the Company.

### **Information Technology Report**

ParenteBeard, LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

### Apollo Casualty Company of Florida Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	3,019,680		3,019,680
Cash	9,795,070		9,795,070
Investment Income Due and Accrued	31,580		31,580
Agents' Balances:			
Uncollected Premium	785,012		785,012
Net Deferred Tax Asset	346,000		346,000
EDP Equipment	161,690		161,690
Receivable from parent, subsidiaries and affiliates	300,000		300,000
Aggregate write-in for other than invested assets	86,907		86,907
	<hr/>		<hr/>
<b>Totals</b>	14,525,939		14,525,939

**Apollo Casualty Company of Florida  
Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Losses	2,600,066		2,600,066
Loss adjustment expenses	539,654		539,654
Other Expenses	68,676		68,676
Taxes, licenses and fees	63,797		63,797
Unearned premiums	4,703,844		4,703,844
Drafts outstanding	338,158		338,158
Payable to parent, subsidiaries and affiliates	37,752		37,752
Aggregate write-ins for liabilities	22,394		22,394
<b>Total Liabilities</b>	<u>8,374,341</u>		<u>8,374,341</u>
Common Capital Stock	1,000,000		1,000,000
Gross paid in and contributed surplus	7,000,000		7,000,000
Unassigned funds(surplus)	(1,848,402)		(1,848,402)
Surplus as regards policyholders	6,151,598		6,151,598
<b>Totals</b>	<u><u>14,525,939</u></u>		<u><u>14,525,939</u></u>

**Apollo Casualty Company of Florida  
Statement of Income**

**DECEMBER 31, 2008**

<b>Underwriting Income</b>	
Premiums earned	8,232,419
Deductions:	
Losses incurred	5,270,080
Loss expenses incurred	1,261,901
Other underwriting expenses incurred	2,931,287
Total underwriting deductions	<u>9,463,268</u>
Net underwriting gain or (loss)	<u>(1,230,849)</u>
<b>Investment Income</b>	
Net investment income earned	116,922
Net realized capital gains or (losses)	246,394
Net investment gain or (loss)	<u>363,316</u>
<b>Other Income</b>	
Net income before dividends to policyholders and before federal and foreign income taxes	(867,533)
Federal and foreign income taxes incurred	<u>(59,000)</u>
<b>Net income</b>	<u><u>(808,533)</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$3,140,000

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

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

### Capital and Surplus

The amount reported by the Company of \$6,151,598, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**Apollo Casualty Company of Florida**  
**COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2008**

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2008, per Annual Statement	\$6,151,598
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2008, Per Examination			<u><u>\$6,151,598</u></u>

## SUMMARY OF FINDINGS

### **Compliance with previous directives**

The Company took the necessary actions to comply with comments made in the 2007 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, 2008.

### **General**

The Company had not recertified their rate filings annually with the Office per Section 627.0645, Florida Statutes. **We recommend that the Company comply with Section 627.0645, Florida Statutes.**

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Apollo Casualty Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$6,151,689, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael Brennan, CPA, EIC, Philip Schmoyer, PE/IT Specialist, and Gail Flannery, FCAS, MAAA, of ParenteBeard LLC, participated on the examination.

Respectfully submitted,

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James M. Pafford, Jr.  
Financial Exam Analyst Supervisor  
Florida Office of Insurance Regulation