

REPORT ON EXAMINATION
OF
FIRST COLONIAL INSURANCE
COMPANY

JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2013

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS.....	2
PRIOR EXAM FINDINGS.....	2
SUBSEQUENT EVENTS	2
HISTORY	3
GENERAL	3
DIVIDENDS TO STOCKHOLDERS.....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	4
CORPORATE RECORDS	4
CONFLICT OF INTEREST.....	5
MANAGEMENT AND CONTROL	5
MANAGEMENT	5
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
TAX ALLOCATION AGREEMENT.....	9
SERVICE AND EXPENSE AGREEMENT	9
INVESTMENT MANAGEMENT AGREEMENT	9
FIDELITY BOND AND OTHER INSURANCE	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
TERRITORY AND PLAN OF OPERATIONS	10
TREATMENT OF POLICYHOLDERS	11
COMPANY GROWTH	11
PROFITABILITY OF COMPANY	12
LOSS EXPERIENCE	12
REINSURANCE	12
ASSUMED.....	13
CEDED	13
ACCOUNTS AND RECORDS	13
CUSTODIAL AGREEMENT	14
THIRD PARTY ADMINISTRATIVE SERVICES AGREEMENTS	14
INDEPENDENT AUDITOR AGREEMENT	14
INFORMATION TECHNOLOGY REPORT	14

STATUTORY DEPOSITS15

FINANCIAL STATEMENTS PER EXAMINATION.....16

ASSETS.....17

LIABILITIES, SURPLUS AND OTHER FUNDS18

STATEMENT OF INCOME19

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS20

COMMENTS ON FINANCIAL STATEMENTS.....21

LIABILITIES21

CAPITAL AND SURPLUS21

CONCLUSION.....22

October 17, 2014

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, Rule 690-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2013, of the financial condition and corporate affairs of:

**FIRST COLONIAL INSURANCE COMPANY
1776 AMERICAN HERITAGE LIFE DRIVE
JACKSONVILLE, FLORIDA 32224**

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, 2012, through December 31, 2013. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2011. This examination commenced with planning at the Office on May 26, 2014, to May 30, 2014. The fieldwork commenced on June 2, 2014, and concluded as of October 17, 2014.

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

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

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

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

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2013.

Prior Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2011.

SUBSEQUENT EVENTS

Subsequent to the examination period, Douglas Herberger resigned as President as of March 18, 2014. Mark Atchley Green was named the new President on July 2, 2014. Chief Executive Officer, Donald Bailey resigned his position on November 15, 2013. Katherine Mabe was named the new Chief Executive Officer on January 6, 2014.

HISTORY

General

The Company was incorporated in Florida on February 17, 1987, and commenced business on April 28, 1987, as First Colonial Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on various dates February 17, 1987, July 31, 2001 and November 16, 2009 and continued to be authorized as of December 31, 2013:

Ocean marine	Inland marine
Auto warranties	Other liability
Private passenger auto physical damage	Credit
Miscellaneous casualty	

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

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid an extraordinary dividend to its stockholder in 2014 in the amount of \$42,000,000 subsequent to the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2013, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

The Company was wholly owned and controlled by its parent, American Heritage Life Insurance Company, who was wholly owned by American Heritage Life Investment Corporation, who was wholly owned by Allstate Corporation, a Delaware corporation. The ultimate controlling parent was Allstate Corporation, a publicly traded company.

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2013, were:

Directors

Name and Location	Principal Occupation
Thomas Matthew Goldstein (a) Northbrook, Illinois	Senior Vice President Allstate Insurance Company
Douglas John Herberger (b) Jacksonville, Florida	President First Colonial Insurance Company
Katherine Anne Mabe (c) Glenview, Illinois	Chief Executive Officer First Colonial Insurance Company
Elizabeth Ann Mahin Jacksonville, Florida	Director First Colonial Insurance Company
Sharyn Patricia Micheli Northbrook, Illinois	Director First Colonial Insurance Company

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

Senior Officers

Name	Title
Douglas John Herberger (b)	President
Katherine Anne Mabe (c)	Chief Executive Officer
Mario Rizzo	Treasurer
Samuel Henry Pilch	Chief Financial Officer
Susan LeSueur Lees	Secretary
Teresa Jean Dalenta	Senior Vice President
Michael William Demetre	Senior Vice President
Thomas Matthew Goldstein	Senior Vice President
David Scott Harper	Senior Vice President
Jeffrey John McRae	Senior Vice President
Patrick Kelly Noll	Senior Vice President

- (a) Thomas Matthew Goldstein resigned as Director on June 30, 2014, and was replaced by Mario Rizzo on July 1, 2014.
- (b) Douglas Herberger resigned as President on March 18, 2014, and was replaced by Mark Atchley Green as Director on May 27, 2014 and as President on July 2, 2014.
- (c) Katherine Mabe was elected Director, Chairman of the Board and Chief Executive Officer on January 6, 2014 after the resignation of Donald Bailey on November 15, 2013.

The Company utilized the audit committee of the parent company in accordance with Section 624.424(8)(c), Florida Statutes. Following were members of the audit committee as of December 31, 2013:

Audit Committee

Don Civgin ¹
Gregory Guidos
Samuel Pilch

¹ Chairman

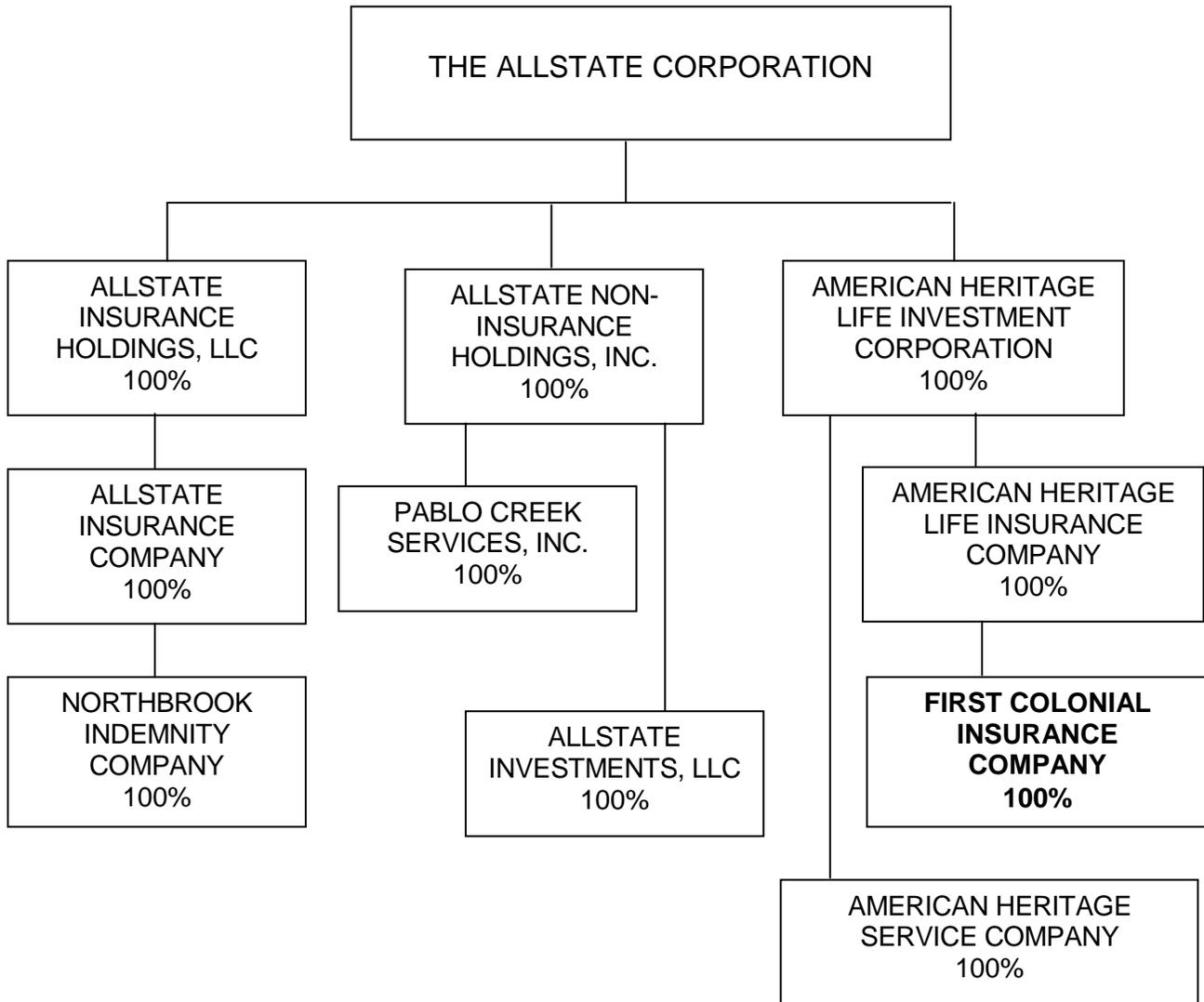
Affiliated Companies

The Company was a member of an insurance holding company system. The most recent holding company registration statement was filed with the Office on April 28, 2014, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2013, reflecting the holding company system, is shown below. Schedule Y of the Company's 2013 annual statement provided a list of all related companies of the holding company group.

**FIRST COLONIAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2013



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

Tax Allocation Agreement

The Company, along with its ultimate parent, the Allstate Corporation, and other affiliated companies, filed a consolidated federal income tax return. On December 31, 2013, the method of allocation between the companies was on a separate entity basis.

Service and Expense Agreement

The Company, its ultimate parent, the Allstate Corporation and the other affiliated companies were party to a service and expense agreement whereby Allstate Insurance Company provided service such as marketing, claims, underwriting and policyholder services. Fees incurred under this agreement for 2013 amounted to (\$1,457,527).

Investment Management Agreement

The Company and other affiliated companies have an investment management agreement with Allstate Investments, LLC to provide investment management services. Fees incurred under this agreement for 2013 amounted to \$271,162.

FIDELITY BOND AND OTHER INSURANCE

The Company was included in the American Heritage Life Insurance Company's fidelity bond coverage up to \$2,000,000 with a deductible of \$500,000, which reached the suggested minimum as recommended by the NAIC.

The Allstate Corporation also maintained Directors and Officers (D&O) liability insurance coverage with limits of up to \$10,000,000 for wrongful acts (fiduciary), up to \$15,000,000 for all other than wrongful acts, and an aggregate limit of liability of up to \$25,000,000 with \$0 retention. The Allstate Corporation provided other insurance coverage, such as automobile liability, workers' compensation, excess workers' compensation, property, general liability, and surety bonds.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company utilizes the services of Allstate Insurance Company employees. Allstate Insurance Company and the Allstate Corporation provide various benefits, including defined benefit pension plans, certain health care and life insurance benefits for certain eligible employees and retired employees and participation in the Allstate 401(k) Savings Plan. The Company was allocated an appropriate share of the costs associated with these benefits in accordance with the service and expense agreement.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states and the District of Columbia:

Alabama	Illinois	Minnesota	New York	South Dakota
Alaska	Indiana	Mississippi	North Carolina	Tennessee
Arizona	Iowa	Missouri	North Dakota	Texas
Arkansas	Kansas	Montana	Ohio	Utah
Colorado	Kentucky	Nebraska	Oklahoma	Vermont
Delaware	Louisiana	Nevada	Oregon	Virginia
Florida	Maine	New Hampshire	Pennsylvania	Washington
Georgia	Maryland	New Jersey	Rhode Island	West Virginia

Hawaii
Idaho

Massachusetts
Michigan

New Mexico

South Carolina

Wisconsin

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

The Company experienced a significant decrease in agents' balances in the course of collection as a result of growth in the reinsurance ceded program due to increased sales. The Company experienced an increase in gross written premium as a result of increase in warranty direct written premium while net written premium decreased as a result of increased reinsurance ceding. The decrease in net income in 2013 was due to the increase in incurred losses and loss adjustment expenses. Surplus continued to grow with positive, though declining net income.

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.

	2013	2012
Premiums Earned	68,510,907	70,983,366
Net Underwriting Gain/(Loss)	16,768,095	39,156,714
Net Income	17,830,309	42,266,812
Total Assets	380,763,369	350,843,740
Total Liabilities	186,937,979	167,248,671
Surplus As Regards Policyholders	193,825,390	183,595,068

LOSS EXPERIENCE

During the current examination period, the Company showed favorable development overall. The decrease from the prior examination was a result of increased incurred loss due to an increase in business. The one and two-year net loss developments at the end of the current examination period were both favorable at \$3.5 million and \$6.1 million, respectively.

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 assumed risk on a quota share basis from affiliated and non-affiliated insurance companies.

Ceded

The Company ceded risk on a quota share basis to authorized and unauthorized reinsurers. The Company ceded to numerous producer owned reinsurance companies on a 100% quota share basis. The reserves were collateralized by trust and/or letters of credit.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2012 and 2013, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained in the financials module of an enterprise application developed and licensed from a third party software developer. The Company also licensed a variety of other modules from the same enterprise software developer. These modules, as well as other licensed third party and internally developed applications, systematically interfaced

with the financials module, to provide the data necessary to create the Company's financial statements.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Citibank, N.A. executed on February 3, 2011. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Third Party Administrative Services Agreements

The Company utilized eight non-affiliated third party administrators (TPAs) to produce a portion of its insurance business. The TPAs were responsible for services that included development, marketing and administration of programs including procurement of contractual liability and service contract reimbursement insurance policies, premium collection, policy maintenance, and claims administration.

Independent Auditor Agreement

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

INFORMATION TECHNOLOGY REPORT

Philip McMurray, CISSP, CISA, AES, IT Director of Risk & Regulatory Consulting, 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.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	USTBDS, 7.13%,02/15/2023	\$ 1,050,000	\$ 1,416,105
FL	USTBDS, 8.13%, 08/15/2021	800,000	1,112,938
FL	USTBDS, 7.63%, 11/15/2022	500,000	692,930
FL	USTBDS, 7.25%, 08/15/2022	300,000	405,375
FL	USTBDS, 7.88%, 02/15/2021	<u>150,000</u>	<u>204,094</u>
TOTAL FLORIDA DEPOSITS		\$ 2,800,000	\$ 3,831,442
GA	USTBDS, 7.25%, 08/15/2022	\$ 35,000	\$ 47,294
MA	USTBDS, 8.12%, 05/15/2021	300,000	415,289
MA	USTBDS, 6.62%, 02/15/2027	200,000	270,250
NV	USTBDS, 8.25%, 08/15/2019	500,000	666,133
NH	USTBDS, 6.25%, 08/15/2023	500,000	642,266
NM	USTBDS, 8.13%, 08/15/2019	300,000	399,680
NC	USTBDS, 8.13%, 08/15/2019	175,000	233,145
NC	USTBDS, 8.00%, 11/15/2021	125,000	173,633
SC	USTBDS, 8.00%, 11/15/2021	175,000	243,086
VA	USTBDS, 7.25%, 08/15/2022	<u>450,000</u>	<u>608,063</u>
TOTAL OTHER DEPOSITS		<u>\$ 2,760,000</u>	<u>\$ 3,698,839</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 5,560,000</u>	<u>\$ 7,530,281</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2013, 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."

FIRST COLONIAL INSURANCE COMPANY
Assets

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Bonds	\$343,296,250		\$343,296,250
Cash and Short-Term Investments	9,564,235		9,564,235
Other invested assets	431,735		431,735
Investment income due & accrued	2,142,354		2,142,354
Premiums and considerations:			
Uncollected premiums and agents balances	694,408		694,408
Reinsurance			
Amounts recoverable from reinsurers	3,198,358		3,198,358
Other amounts receivable	2,248,291		2,248,291
Net deferred tax asset	8,004,550		8,004,550
Receivable from parent, subsidiaries and affiliates	11,144,137		11,144,137
Aggregate write-in for other than invested assets	39,051		39,051
Totals	\$380,763,369	\$0	\$380,763,369

FIRST COLONIAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Losses	\$6,602,936		\$6,602,936
Loss adjustment expenses	229,856		229,856
Commissions payable	1,560,734		1,560,734
Other expenses	12,802,774		12,802,774
Taxes, licenses and fees	1,427,672		1,427,672
Current federal and foreign income taxes	8,772,445		8,772,445
Unearned premium	115,037,034		115,037,034
Ceded reinsurance premiums payable	20,394,790		20,394,790
Funds held under reinsurance treaties	138		138
Remittances and items not allocated	3,173		3,173
Provisions for reinsurance	9,153,262		9,153,262
Payable to parent, subsidiaries and affiliates	9,225,505		9,225,505
Aggregate write-ins for liabilities	1,727,660		1,727,660
Total Liabilities	\$186,937,979	\$0	\$186,937,979
Common capital stock	\$2,500,000		\$2,500,000
Gross paid in and contributed surplus	126,261,672		126,261,672
Unassigned funds (surplus)	65,063,718		65,063,718
Surplus as regards policyholders	\$193,825,390	\$0	\$193,825,390
Total liabilities, surplus and other funds	\$380,763,369	\$0	\$380,763,369

FIRST COLONIAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2013

Underwriting Income

Premiums earned		\$68,510,907
	Deductions:	
Losses incurred		\$22,673,238
Loss expenses incurred		601,439
Other underwriting expenses incurred		28,468,135
Total underwriting deductions		\$51,742,812
Net underwriting gain or (loss)		\$16,768,095

Investment Income

Net investment income earned		\$8,603,183
Net realized capital gains or (losses)		778,956
Net investment gain or (loss)		\$9,382,139

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$17,999)
Aggregate write-ins for miscellaneous income		(14,740)
Total other income		(\$32,739)
Net income before dividends to policyholders and before federal & foreign income taxes		\$26,117,495
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$26,117,495
Federal & foreign income taxes		8,287,186
Net Income		\$17,830,309

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$183,595,068
Net Income		\$17,830,309
Change in net unrealized capital gains or losses		824,058
Change in net deferred income tax		(290,754)
Change in non-admitted assets		(301,854)
Change in provision for reinsurance		(7,831,437)
Change in surplus as regards policyholders for the year		\$10,230,322
Surplus as regards policyholders, December 31 current year		\$193,825,390

A comparative analysis of changes in surplus is shown below.

FIRST COLONIAL INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2013

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, 2013, per Annual Statement	\$193,825,390
---	---------------

	<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, 2013, Per Examination			<u><u>\$193,825,390</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$6,832,792

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, 2013, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Lisa Chanzit, FCAS, MAAA, ARM of Risk & Regulatory Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and she was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$193,825,390, exceeded the minimum of \$15,314,568 or 10% of liabilities as required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **First Colonial Insurance Company** as of December 31, 2013, consistent with the insurance laws of the State of Florida.

The amount of capital and surplus reported by the Company of \$193,825,390, exceeded the minimum of \$15,314,568 as required by Section 624.408, Florida Statutes.

In addition to the undersigned, Alea P. Talbert-Pence, CFE, CIA, Examiner-In-Charge, of Risk & Regulatory Consulting, LLC participated in the examination. John Romano, CPA, CFE, Examination Manager, of Baker Tilly Virchow Krause, LLP also participated in the examination. In addition, Lisa Chanzit, FCAS MAAA, ARM, consulting actuary and Philip McMurray, CISSP, CISA, AES, IT Director of Risk & Regulatory Consulting, LLC and Kyra Brown, APIR, Financial Specialist of the Office participated in the examination.

Respectfully submitted,

Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation