

REPORT ON EXAMINATION
OF
FIRST FLORIDIAN AUTO AND HOME
INSURANCE COMPANY
TAMPA, FLORIDA

AS OF
DECEMBER 31, 2010

BY THE
OFFICE OF INSURANCE REGULATION

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June 21, 2011

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 Rule 69O-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, 2010, of the financial condition and corporate affairs of:

**FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
7840 WOODLAND CENTER BOULEVARD
TAMPA, FLORIDA 33614**

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, 2006, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office on March 14, 2011, to March 18, 2011. The fieldwork commenced on March 28, 2011, and concluded as of June 21, 2011.

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.

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 this examination.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2005, along with resulting action taken by the Company in connection therewith.

Custodial Agreement

The Company's Global Custodial Services Agreement was not in compliance with Rule 69O-143.042(2)(j), Florida Administrative Code.

Resolution:

On January 19, 2010, the Office determined that the Company was in compliance with Rule 69O-143.042(2)(j), Florida Administrative Code.

HISTORY

General

The Company was incorporated in Florida on April 10, 1996 and commenced business on June 1, 1996 as First Floridian Auto and Home Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Homeowner's Multi Peril	Inland Marine
Earthquake	Other Liability
Private Passenger Auto Liability	PPA Physical Damage

There were no changes to the Articles of Incorporation or Bylaws during the period covered by this examination.

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholders in 2006, 2007, 2008, 2009 and 2010 in the following amounts:

- 2006 - \$21,000,000
- 2007 - \$21,500,000
- 2008 - \$37,000,000
- 2009 - \$50,000,000
- 2010 - \$62,200,000

Capital Stock and Capital Contributions

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	\$5,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, The Travelers Indemnity Company, who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Travelers Insurance Group Holdings Inc., a Delaware corporation, who in turn was 100 percent owned by Travelers Property Casualty Corp., a Connecticut corporation. The ultimate parent is a publicly traded company, The Travelers Companies, Inc (TRV), a Minnesota corporation.

Surplus Debentures

The Company did not have any surplus debentures 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, 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 accordance with Section 607.1601, Florida Statutes, 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 Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

Directors

Name and Location	Principal Occupation
Hector Alaniz Palm Harbor, Florida	President & CEO First Floridian Auto & Home Insurance Company
Douglas Russell South Windsor, Connecticut	Business Executive The Travelers Companies, Inc.
Gregory Toczydlowski N. Granby, Connecticut	Chairman of the Board First Floridian Auto & Home Insurance Company
Stephanie Bush Avon, Connecticut	Business Executive The Travelers Companies, Inc.
Doreen Spadorcia Avon, Connecticut	Business Executive The Travelers Companies, Inc.
Richard Welch, Jr. Holden, Massachusetts	Business Executive The Travelers Companies, Inc.
Brian MacLean Vernon, Connecticut	Business Executive The Travelers Companies, Inc.
Kenneth Spence, III Edina, Minnesota	Business Executive The Travelers Companies, Inc.

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

Senior Officers

Name	Title
Gregory Toczydlowski	Chairman of the Board
Hector Alaniz	President & CEO
Rene Hernandez	Secretary & Sr. VP General Counsel
James White	CFO & Treasurer
Glenn McNamara	Assistant Secretary
David Bearl	Assistant Treasurer
Todd Ellingson	Assistant Treasurer
Paul Munson	Assistant Treasurer

The Company's Board appointed an Audit Committee in accordance with Section 607.0825, Florida Statutes. Following was the audit committee members as of December 31, 2010:

Audit Committee

Brian W. MacLean*
Doreen Spadorcia
Kenneth F Spence, III

* Committee Chairman

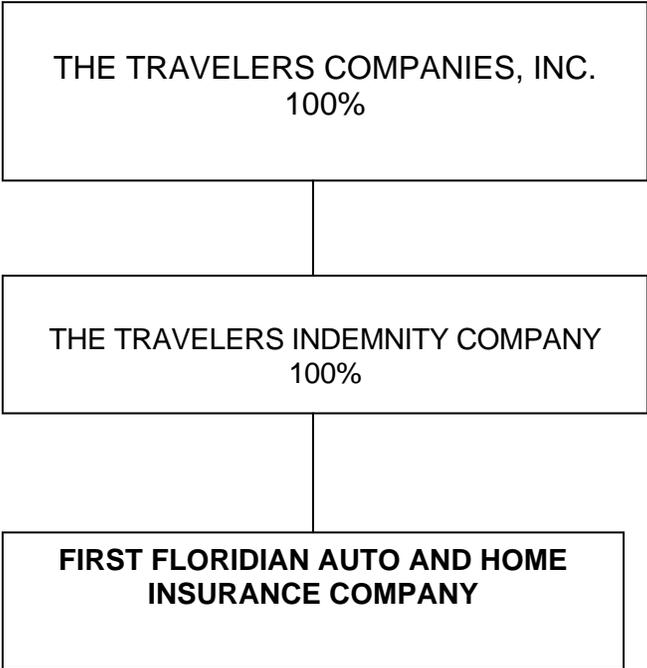
Affiliated Companies

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 26, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

**FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2010



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

Tax Allocation Agreement

The Company, along with its ultimate parent, TRV, and other affiliated companies filed a consolidated federal income tax return. On December 31, 2010, the method of tax allocation between the companies was based upon calculations on a separate return basis.

Corporate Services Agreement

The Company and its parent had a Corporate Services Agreement approved September 25, 2006, to perform services for each other. The services provided include policy processing, claims, accounting, actuarial, customer, human resources, information technology, legal, compliance, and operations services. Determination of the actual costs of charges and fees for services performed shall be reasonable. The fees for the services are the actual costs with the intention of no party realizing a profit or incurring a loss as a result of this agreement. Fees incurred under this agreement during 2010 amounted to \$553,678.

Reinsurance Allocation Agreement

The Company and its parent had a reinsurance allocation agreement effective June 1, 2006 retroactive to January 1, 2006. The agreement was not a reinsurance agreement; rather the agreement was an allocation agreement that specified allocation principles that were followed when an external reinsurance agreement did not include an allocation by and between the St. Paul Travelers Reinsurance Pool, led by Travelers Indemnity Company, and the non-member insurers.

FIDELITY BOND AND OTHER INSURANCE

Fidelity Bond Coverage was maintained by the Company's Parent with the Company included as a named insured. The Parent maintained fidelity bond coverage up to \$30,000,000 with a deductible of \$5,000,000 which reached the suggested minimum as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participated in a qualified defined benefit pension plan for its employees sponsored by TRV. The Company also participated in a 401(K) retirement plan, a deferred compensation plan, stock option incentive awards, health care and life insurance benefit plans sponsored by TRV for the employees of the Company. The Company accounted for pension and postretirement benefit expenses as consolidated/holding company plans under SSAP 89, Accounting for Pensions.

TERRITORY AND PLAN OF OPERATIONS

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 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 had not been actively writing new business since 2006, with the exception of umbrella insurance. The Company continues to renew existing policyholders at an 85-90% retention level annually. The loss of renewals in the normal course of business contributed to the steady decline in written and earned premium experienced by the Company over the examination period. However, the Company has adjusted its operating expenses in line with its relative operating size as its business written declines. Despite the decline in premiums earned and total assets, the Company continues to be profitable and maintain adequate surplus.

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

	2010	2009	2008	2007	2006
Premiums Earned	109,875,520	130,049,499	156,964,221	218,554,134	259,870,234
Net Underwriting Gain/(Loss)	21,222,700	46,997,512	63,913,895	18,297,002	77,663,150
Net Income	26,323,814	45,131,148	57,412,052	29,704,447	70,502,750
Total Assets	307,052,305	361,549,995	402,274,014	450,742,118	496,096,521
Total Liabilities	112,202,653	130,477,220	166,879,803	233,363,173	285,205,003
Surplus As Regards Policyholders	194,849,651	231,072,775	235,394,211	217,378,945	210,891,518

LOSS EXPERIENCE

During the examination period, the prior year-end total loss and loss adjustment expense reserves experienced no material adverse development.

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 any reinsurance during the period of this examination.

Ceded

The Company ceded risk on an excess of loss basis to its Parent and participated in the Florida Hurricane Catastrophe Fund at the 90% participation level for the mandatory layer of coverage.

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 Tampa, Florida, where this examination was conducted.

An independent CPA firm audited the Company's statutory basis financial statements annually for the years 2006, 2007, 2008, 2009 and 2010 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 on TRV's internally developed systems. The accounting and financial reporting function operated primarily at the Travelers' Headquarters in Hartford, Connecticut.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company joined its parent and other affiliates in an existing Global Custodial Services Agreement with Citibank executed November 2, 1999. The Company's Global Custodial Services agreement was in compliance with Rule 69O-143.042, Florida Administrative Code, with the exception of (2)... *The terms of the agreement shall comply with the following (o) The Custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.*

Subsequent event: The Company's custodial agreement was amended on July 29, 2011, in compliance with all of the requirements of Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

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

INFORMATION TECHNOLOGY REPORT

ParenteBeard LLC performed a limited evaluation of the information technology and computer systems of the Company. Results of the evaluation were provided to the Examiner In Charge for the purpose of assisting in identifying risks and internal controls at 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	USTBLS, 5%, 07/01/26	<u>350,000</u>	<u>353,640</u>
TOTAL FLORIDA DEPOSITS		<u><u>\$350,000</u></u>	<u><u>\$353,640</u></u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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 FLORIDIAN AUTO AND HOME INSURANCE COMPANY

Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$273,081,487		\$273,081,487
Cash and Short-Term Investments	4,422,297		4,422,297
Investment income due and accrued	3,610,233		3,610,233
Agents' Balances:			
Uncollected premium	1,437,992		1,437,992
Deferred premium	18,951,869		18,951,869
Reinsurance recoverable	873,265		873,265
Net deferred tax asset	4,675,203		4,675,203
Aggregate write-in for other than invested assets	(40)		(40)
Totals	<u>\$307,052,305</u>	<u>\$0</u>	<u>\$307,052,305</u>

FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$50,352,784		\$50,352,784
Loss adjustment expenses	13,767,940		13,767,940
Commissions Payable	2,814,519		2,814,519
Other expenses	1,258,081		1,258,081
Taxes, licenses and fees	404,000		404,000
Current federal and foreign income taxes	73,359		73,359
Unearned premium	40,172,406		40,172,406
Advance premium	542,585		542,585
Ceded reinsurance premiums payable	183,115		183,115
Amounts withheld	358,339		358,339
Remittances and items no allocated	8,329		8,329
Payable to parent, subsidiaries and affiliates	1,125,623		1,125,623
Aggregate write-ins for liabilities	1,141,573		1,141,573
Total Liabilities	\$112,202,653		\$112,202,653
Aggregate write-ins for special surplus funds	668,575		668,575
Common capital stock	\$5,000,000		\$5,000,000
Gross paid in and contributed surplus	129,350,000		129,350,000
Unassigned funds (surplus)	59,831,076		59,831,076
Surplus as regards policyholders	\$194,849,651	\$0	\$194,849,651
Total liabilities, surplus and other funds	\$307,052,305	\$0	\$307,052,305

FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned		\$109,875,520
	Deductions:	
Losses incurred		\$52,263,993
Loss adjustment expenses incurred		13,588,425
Other underwriting expenses incurred		22,800,403
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$88,652,821</u>
Net underwriting gain or (loss)		\$21,222,699

Investment Income

Net investment income earned		\$12,810,115
Net realized capital gains or (losses)		1,060,025
Net investment gain or (loss)		<u>\$13,870,140</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$174,918)
Finance and service charges not included in premiums		686,082
Aggregate write-ins for miscellaneous income		108,944
Total other income		<u>\$620,108</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$35,712,948
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$35,712,948
Federal & foreign income taxes		<u>9,389,134</u>
Net Income		<u><u>\$26,323,814</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$231,072,775
Net Income		\$26,323,814
Net unrealized capital gains or losses		55,574
Change in Net deferred income tax		(583,037)
Change in nonadmitted assets		131,243
Change in provision for reinsurance		89,433
Dividends to stockholders		(62,200,000)
Aggregate write-ins for gains and losses in surplus		(40,152)
Examination Adjustment		
Change in surplus as regards policyholders for the year		<u>(\$36,223,125)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$194,849,651</u></u>

A comparative analysis of changes in surplus is shown below.

FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

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, 2010, per Annual Statement \$194,849,651

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>	
ASSETS:				
No Adjustment				
LIABILITIES:				
No Adjustment				
Net Change in Surplus:				<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination				<u><u>\$194,849,651</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$64,120,724

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, 2010, 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, Gail Flannery, FCAS, MAAA of AMI Risk Consultants, reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$194,849,651 exceeded the minimum of \$10,616,040 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 Floridian Auto and Home Insurance Company, Inc.** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$194,849,651, which exceeded the minimum of surplus of \$10,616,040, as required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, Examiner-In-Charge; Jennifer Cox, Participating Examiner; Jen Walker, CPA, CISA, IT Manager; and Chad Schieken, CISA IT Director of ParenteBeard LLC participated in the examination. In addition, Gail Flannery, FCAS MAAA, consulting actuary of AMI Risk Consultants; and Basilios Poulos, CIA, CGAP Reinsurance/Financial Specialist, and Kyra Brown, Financial Specialist, of the Office also participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation