

**REPORT ON EXAMINATION**  
**OF**  
**THE RESPONSIVE AUTO**  
**INSURANCE COMPANY**  
**PLANTATION, FLORIDA**

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

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

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Tallahassee, Florida

February 26, 2010

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:

**THE RESPONSIVE AUTO  
INSURANCE COMPANY  
8151 PETERS ROAD  
PLANTATION, FLORIDA 33324**

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

## **SCOPE OF EXAMINATION**

This examination covered the period of February 14, 2008, through December 31, 2008. This was the first time the Company was examined by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office on January 4, 2010, to January 8, 2010. The fieldwork commenced on January 11, 2010, and concluded as of February 26, 2010.

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**

This is the first examination of the Company.

## **HISTORY**

### **General**

The Company was incorporated in Florida on February 14, 2008, and commenced business on May 1, 2008, as The Responsive Auto Insurance Company.

The Company was party to Consent Order 93957-08-CO-04, filed January 28, 2008, with the Office regarding the application for the issuance of a Certificate of Authority. The Company complied with all provisions of this consent order.

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

- Private passenger auto
- Physical damage
- Private passenger auto liability

The articles of incorporation and bylaws were not amended during the course of the examination.

## Capital Stock

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

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

Control of the Company was maintained by its parent, Responsive Holdings, LLC, (a Delaware Limited Liability Company) who owned 100% of the stock issued by the Company.

## Profitability of Company

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

	<b>2008</b>
Premiums Earned	798,730
Net Underwriting Gain/(Loss)	(1,853,436)
Net Income	(1,744,119)
Total Assets	9,362,339
Total Liabilities	3,606,403
Surplus As Regards Policyholders	5,755,936

## Dividends to Stockholders

The Company declared and paid no dividends to its stockholder in 2008.

## 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>
Victor Anthony Arocho Pembroke Pines, Florida	The Responsive Auto Insurance Company President
John Dennis Machul Aventura, Florida	The Responsive Auto Insurance Company CEO and Chairman of the Board
Philip Whitley Stewart Ft. Myers, Florida	Retired
William Edmund Fritz Bonita Springs, Florida	Chicago Board of Trade Member
John Michael Cox, Jr. Oakbrook Terrace, Illinois	Chicago Board of Trade Commodities Trader

The Board of Directors (Board) in accordance with the Company's bylaws appointed the following senior officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
Victor Anthony Arocho	President
John Dennis Machul	CEO
Hector Manual Estrada	Treasurer/Secretary

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:

### **Tax Election Committee**

John Dennis Machul  
John Michael Cox, Jr.

### **Investment Committee**

John Dennis Machul  
William Edmund Fritz

### **Audit Committee**

The Company did not maintain an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

**Subsequent Event:** On May 12, 2010, the Board established an audit committee.

### **Conflict of Interest Procedure**

The Company did not adopt a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. **Subsequent Event:** The Company adopted the necessary conflict of interest policy and procedures in May, 2010.

### **Corporate Records**

The recorded minutes of the shareholder, Board of Directors, 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, merger, disposals, dissolutions, and purchase or sales through reinsurance.

## **Surplus Debentures**

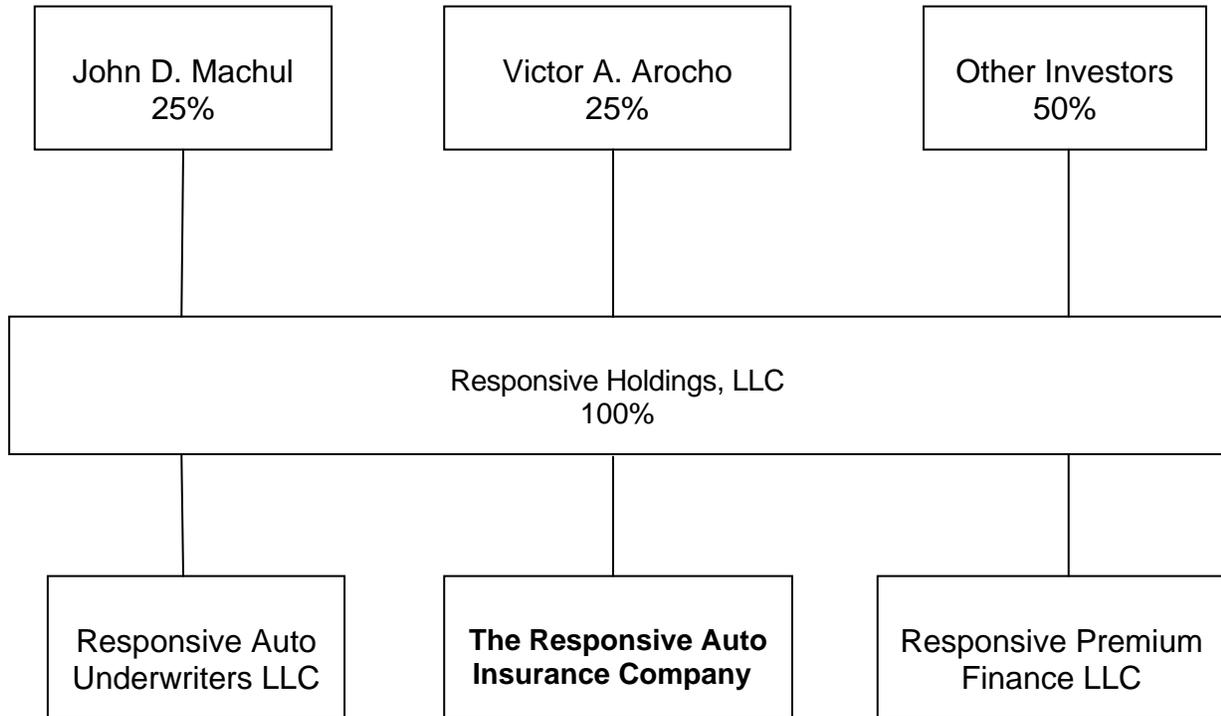
The Company did not have any Surplus Debentures.

## **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 February 25, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. A simplified 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.

**RESPONSIVE AUTOMOTIVE INSURANCE  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2008**



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

### **Cost Sharing Agreement**

The Company had a Cost Sharing Agreement with Responsive Auto Underwriters for the sharing of certain administrative costs. The agreement had quarterly settlement terms.

### **Managing General Agent Agreement**

The Company had a managing general agent (MGA) agreement, in which the MGA's responsibilities are clearly delineated and authorized. The MGA is an affiliated Company, which is called Responsive Auto Underwriters. The agreement went into effect on February 18, 2008. The authorities of the MGA included marketing and production of policies and collection of and remittance to the Company of such premium payments. The MGA has no authority to bind reinsurance, appoint managing sub agents or commit the Company to agreements without the express written agreement of the Company.

## **FIDELITY BOND AND OTHER INSURANCE**

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

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$2,000,000 with a deductible of \$25,000.

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

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

## 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	Government Select Money Market Funds	<u>\$1,524,617</u>	<u>\$1,524,617</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 1,524,617</u>	<u>\$ 1,524,617</u>
TOTAL SPECIAL DEPOSITS		<u>\$1,524,617</u>	<u>\$1,524,617</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

The Company was authorized to write non standard lines of automobile insurance.

### 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 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.

## **REINSURANCE**

The Company had no reinsurance agreements in place.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Plantation, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the year 2008, 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 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 and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had an agreement with Northern Trust Bank in Miami, Florida regarding custody of investments. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

The Company had an agreement with DeMeo, Young and McGrath, Boca Raton, Florida to perform the 2008 audit.

### **Information Technology Report**

Robert Emrich, CISA, 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."

**THE RESPONSIVE AUTO INSURANCE COMPANY**  
**Assets**  
**December 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Cash and Short term Investments	7,574,991		7,574,991
Agents' Balances:			
Uncollected premium	823,634		823,634
Deferred premium	939,231		939,231
Interest and dividend			
income due & accrued	8,615		8,615
Receivable from parents, subsidiaries and affiliates	15,868		15,868
Totals	\$9,362,339	\$0	\$9,362,339

**THE RESPONSIVE AUTO INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2008**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$358,809		\$358,809
Loss adjustment expenses	48,176		48,176
Taxes, licenses and fees	46,758		46,758
Unearned premium	2,901,148		2,901,148
Advance premiums	1,772		1,772
Payable to parent, subsidiaries and affiliates	249,179		249,179
Aggregate write-ins for liabilities	561		561
<b>Total Liabilities</b>	<b>\$3,606,403</b>	<b>\$0</b>	<b>\$3,606,403</b>
Common capital stock	\$1,000		1,000
Gross paid in and contributed surplus	7,500,000		7,500,000
Unassigned funds (surplus)	(1,745,064)		(1,745,064)
<b>Surplus as regards policyholders</b>	<b>\$5,755,936</b>	<b>\$0</b>	<b>\$5,755,936</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$9,362,339</b>	<b>\$0</b>	<b>\$9,362,339</b>

**THE RESPONSIVE AUTO INSURANCE COMPANY**  
**Statement of Income**  
**December 31, 2008**

**Underwriting Income**

Premiums earned		\$798,730
	<b>Deductions:</b>	
Losses incurred		427,834
Loss expenses incurred		387,850
Other underwriting expenses incurred		1,836,482
Total underwriting deductions		\$2,652,166
Net underwriting gain or (loss)		(\$1,853,436)

**Investment Income**

Net investment income earned		\$109,317
Net investment gain or (loss)		\$109,317
Net income before dividends to policyholders and before federal & foreign income taxes		(\$1,744,119)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$1,744,119)
Federal & foreign income taxes		0
Net Income		(\$1,744,119)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		
Net Income		(\$1,744,119)
Change in non-admitted assets		(945)
Capital adjustments: Paid in		1,000
Surplus adjustments: Paid in		7,500,000
Change in surplus as regards policyholders for the year		\$5,755,936
Surplus as regards policyholders, December 31 current year		\$5,755,936

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

Losses and Loss Adjustment Expenses	<u>\$406,985</u>
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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 for the contractor performing the examination, reviewed work papers provided by the Company and was in concurrence with this opinion.

### Capital and Surplus

The amount reported by the Company of \$5,755,936 exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**THE RESPONSIVE AUTO INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2008**

Surplus as Regards Policyholders December 31, 2008, per Annual Statement	\$5,755,936
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No Adjustment			
<b>LIABILITIES:</b>			
No Adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$5,755,936

## **SUMMARY OF FINDINGS**

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

There are no items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2008.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC were followed in ascertaining the financial condition of **The Responsive Auto 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 \$5,755,936, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Robert Emrich, CPA, CISA, Examiner-in-Charge and IT Specialist, Daniel Kelleher, Participating Examiner, of GTM Risk Management, and Gail Flannery, FCAS, Contractor with AMI Risk Management, Inc., participated in the examination.

Respectfully submitted,

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