

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

**AS OF**  
**DECEMBER 31, 2009**

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

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**TALLAHASSEE, FLORIDA**

March 9, 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, 2009, of the financial condition and corporate affairs of:

**THE RESPONSIVE AUTO INSURANCE COMPANY  
8151 PETERS ROAD, SUITE #1000  
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 January 1, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on December 13, 2010, to December 17, 2010. The fieldwork commenced on January 10, 2011, and concluded as of March 9, 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 adverse findings, significant non-compliance findings, or material changes in the financial statements 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, 2008, along with resulting action taken by the Company in connection therewith.

## **Audit Committee**

The Company was not in compliance with Section 624.424(8)(c), Florida Statutes, which requires the Board of Directors (Board) to establish an audit committee of three or more directors of the insurer or an affiliated company. **Resolution:** The Company established an audit committee in May 2010. The following individuals were elected to the Audit Committee: John Cox, William Fritz and Phillip Stewart.

## **Conflict of Interest Procedure**

The Company had not adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. **Resolution:** The Company's Board provided evidence of completed conflict of interest statements.

## **SUBSEQUENT EVENTS**

Subsequent to the examination date, the Company's December 31, 2010 and 2009 audited statutory financial statements included a going concern issue noted by the Company's independent auditor De Meo, Young, and McGrath (DYM). DYM noted that the Company's significant operating losses raise substantial doubt about its ability to continue as a going concern. The Company incurred a statutory loss of \$987,728 in 2010, and a loss of \$885,785 (unaudited) for the three-months ended March 31, 2011.

There is approximately \$800,000 of additional funding available in Responsive Holdings, LLC, the Company's parent, which could be used as a surplus infusion.

## 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, 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, 2009:

Private passenger auto physical damage	Private passenger auto liability
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The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

### Dividends to Stockholders

The Company declared and paid no dividends to its stockholder in 2009.

### Capital Stock and Capital Contributions

As of December 31, 2009, 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, who owned 100% of the stock issued by the Company, who in turn was 25% owned by John Machul, 25% owned by Victor Arocho, and 50% owned by various Other Investors.

The parent contributed \$1,000,000 in cash as a surplus contribution to the Company as of June 2009. Subsequent Event: The parent also contributed \$1,000,000 in cash as a surplus contribution to the Company in February 2010 in full satisfaction of surplus contributions receivable as of December 31, 2009. The Company submitted to the Office, on February 8, 2010, a request to consider the receivable as an admitted asset in accordance with NAIC Accounting Practices and Procedures Manual (SSAP) 72.

### **Surplus Debentures**

The Company had no Surplus Debentures.

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

There were no acquisitions, mergers, disposals, dissolutions, purchase or sales through reinsurance during the period under review.

## **CORPORATE RECORDS**

The recorded minutes of the shareholder, 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.

## **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 690-138.001, 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, 2009, were:

### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Victor Anthony Arocho Pembroke Pines, Florida	President, The Responsive Auto Insurance Company
John Dennis Machul Aventura, Florida	Chief Executive Officer, The Responsive Auto Insurance Company
Philip Whitley Stewart Ft. Myers, Florida	Retired
William Edmund Fritz Bonita Springs, Florida	Member, Chicago Board of Trade
John Michael Cox, Jr. Oakbrook Terrace, Illinois	Commodities Trader, Chicago Board of Trade

The Board, in accordance with the Company's bylaws, did not formally appoint the senior officers.

The Company's By Laws require that at the annual shareholders meeting a board of directors be

elected and that at the first meeting of the Board after the shareholders meeting, the Board shall select a president, secretary and treasurer.

### **Senior Officers**

<b>Name</b>	<b>Title</b>
Victor Anthony Arocho	President
John Dennis Machul	Chief Executive Officer
Hector Manual Estrada	Treasurer & Secretary

### **Audit Committee**

John Cox<sup>1</sup>  
Phillip Stewart  
William Fritz

### **Investment Committee**

John Machul<sup>1</sup>  
William Fritz

<sup>1</sup> Chairman

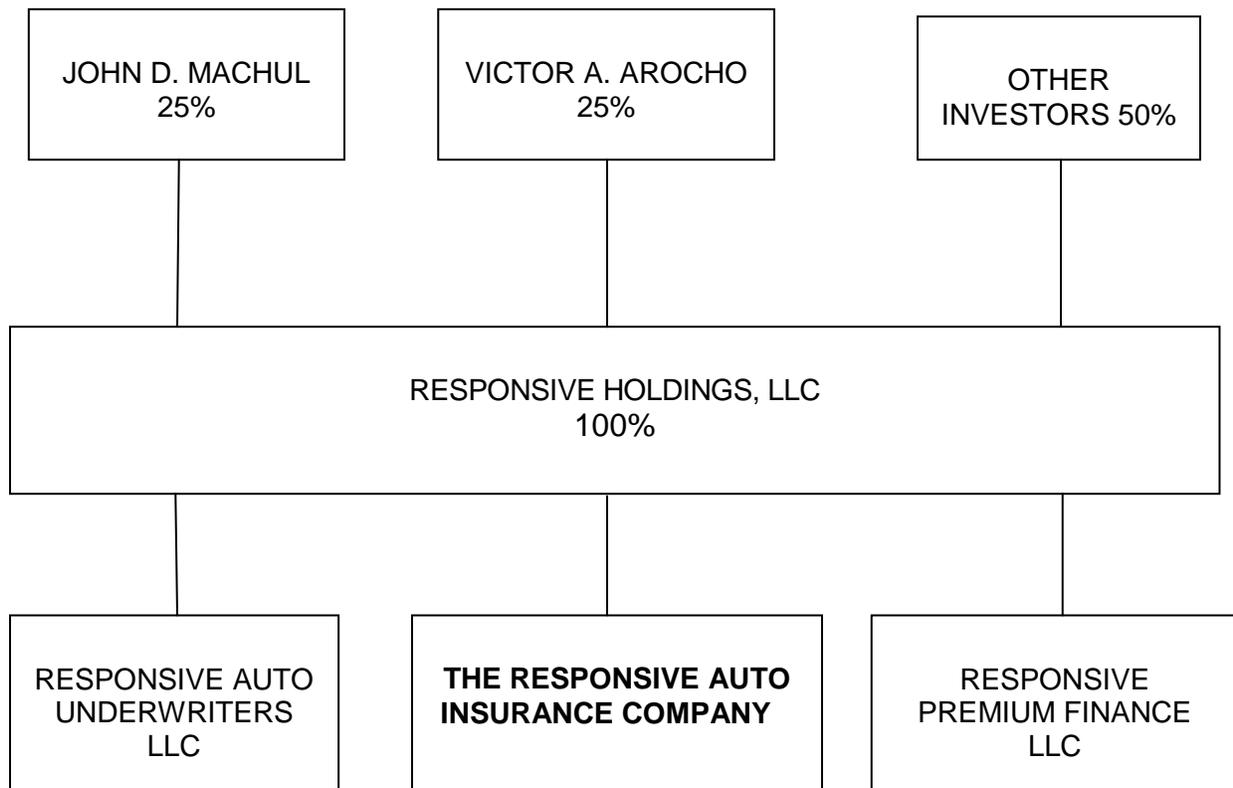
### **Affiliated Companies**

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 March 1, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**THE RESPONSIVE AUTO INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2009**



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

### **Managing General Agent Agreement**

The Company entered into a Managing General Agent (MGA) Agreement with its affiliate, Responsive Auto Underwriters LLC on February 28, 2008. The agreement had an initial term commencing on the effective date specified above and terminating on December 31, 2011, and renewed automatically for successive one (1) year terms unless either party gives the other six (6) months prior written notice of termination. Claims administration services were included in the agreement. MGA fees were based on 25% of the Company's direct written premium, less pass through surcharges, and net of cancellations and included the \$25 policy fee. Fees incurred under this agreement during 2009 amounted to \$3,482,243. The MGA was responsible for all charges and expenses incurred in its operations, including marketing and other underwriting fees incurred by it or approved vendors on behalf of the Company, all producing agents' or brokers' commissions, compensation of the MGA's employees, office expenses and other acquisition expenses. The Company was responsible for all premium taxes, Insurance Services Office, bureau, and license fees, Florida Automobile Joint Underwriting Association, Florida Insurance Guaranty Association, Florida Hurricane Catastrophe Fund, and other state assessments, statutory policy fees, and all fees payable to third party vendors regarding the handling and adjustment of claims. The Company was responsible for the payment of all loss claims and loss adjusting expenses, including legal expenses which arise from all claims on insurance contemplated by the Agreement.

## **Cost Allocation Agreement**

Effective March 2008, the Company entered into a Cost Allocation Agreement with Responsive Premium Finance LLC and Responsive Auto Underwriters LCC. The agreement states the parties to the agreement desire to equitably allocate between them the actual costs of office space, equipment, supplies, and certain non-management personnel necessary to engage in the private passenger automobile insurance business. Under the provisions of the Agreement, certain identified costs shall be allocated between the parties utilizing: (i) Direct allocation, or (ii) Revenue based allocation, whichever is more readily determinable. During 2009, approximately \$353,823 was allocated to the Company as follows: (i) rent \$116,957, (ii) system maintenance and consulting \$187,696, and (iii) telephone \$49,170. The costs are to be allocated among the parties within 15 days following the end of the month.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$150,000 with a deductible of \$15,000 which did not adequately cover the suggested minimum as recommended by the NAIC. **Subsequent Event:** The Fidelity Bond amount of coverage was increased from \$150,000 to \$250,000 on February 11, 2011 which met the NAIC suggested minimum amount.

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

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

## **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 experienced net losses (underwriting and income) since inception. The Company's surplus is supported by paid in contributions from its parent, Responsive Holdings LLC.

## 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>2009</b>	<b>2008</b>
Premiums Earned	10,435,431	798,730
Net Underwriting Gain/(Loss)	(2,734,692)	(1,853,436)
Net Income	(2,628,013)	(1,744,119)
Total Assets	16,157,491	9,362,339
Total Liabilities	11,073,632	3,606,403
Surplus As Regards Policyholders	5,083,859	5,755,936

## **LOSS EXPERIENCE**

The 2009 reporting year was the Company's second year of operations. Losses throughout 2009 were substantially greater than that of 2008 primarily based on the volume and duration of in-force risk.

## **REINSURANCE**

The Company had no reinsurance contracts in place during the period under review.

## **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 for 2009 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 fully automated on a SunGard system. The SunGard system and subsidiary systems interface and post transactions to the general ledger.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with The Northern Trust Company, entered into on February 22, 2008. The Agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

The Company also maintained a custodial agreement with the Stonegate Bank, entered into in May 2009. The Agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

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

### **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.

## 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	Cash	\$ 1,500,000.00	\$ 1,500,000.00
FL	Cash	<u>69,737.92</u>	<u>69,737.92</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 1,569,737.92</u>	<u>\$ 1,569,737.92</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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, 2009**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Cash and short term Investments	\$11,875,751		\$11,875,751
Investment income due and accrued	19,163		19,163
Agents' Balances:			
Uncollected premium	949,859		949,859
Deferred premium	2,277,427		2,277,427
Receivable from parents, subsidiaries and affiliates	1,000,000		1,000,000
Aggregate write-in for other than invested assets	35,291		35,291
Totals	\$16,157,491		\$16,157,491

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

**DECEMBER 31, 2009**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$3,457,739		\$3,457,739
Loss adjustment expenses	422,900		422,900
Other expenses	20,484		20,484
Taxes, licenses and fees	50,827		50,827
Unearned premium	6,745,665		6,745,665
Advanced premiums	1,772		1,772
Payable to parent, subsidiaries and affiliates	374,245		374,245
Aggregate write-ins for liabilities			
Total Liabilities	\$11,073,632		\$11,073,632
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	9,500,000		9,500,000
Unassigned funds (surplus)	(4,417,141)		(4,417,141)
Surplus as regards policyholders	\$5,083,859		\$5,083,859
Total liabilities, surplus and other funds	<u>\$16,157,491</u>		<u>\$16,157,491</u>

**THE RESPONSIVE AUTO INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2009**

**Underwriting Income**

Premiums earned		\$10,435,431
	<b>Deductions:</b>	
Losses incurred		\$6,487,504
Loss expenses incurred		1,864,689
Other underwriting expenses incurred		4,817,930
Total underwriting deductions		\$13,170,123
Net underwriting gain or (loss)		(\$2,734,692)

**Investment Income**

		\$146,744
Net investment income earned		
Net realized capital gains or (losses)		
Net investment gain or (loss)		\$146,744

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$40,065)
Finance and service charges not included in premiums		
Aggregate write-ins for miscellaneous income		
Total other income		(\$40,065)
Net income before dividends to policyholders and before federal & foreign income taxes		(\$2,628,013)
Dividends to policyholders		
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$2,628,013)
Federal & foreign income taxes		
Net Income		(\$2,628,013)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$5,755,936
Net Income		(\$2,628,013)
Change in non-admitted assets		(44,064)
Change in excess statutory over statement reserves		
Surplus adjustments: Paid in		2,000,000
Aggregate write-ins for gains and losses in surplus		
Examination Adjustment		
Change in surplus as regards policyholders for the year		(\$672,077)
Surplus as regards policyholders, December 31 current year		\$5,083,859

A comparative analysis of changes in surplus is shown below.

**THE RESPONSIVE AUTO INSURANCE COMPANY**  
**Comparative Analysis of Changes In Surplus**

**DECEMBER 31, 2009**

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, 2009, per Annual Statement \$5,083,859

	<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, 2009, Per Examination			<u><u>\$5,083,859</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$3,880,639

An outside actuarial firm appointed by the Board rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, 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 independent actuarial firm, **AMI Risk Consultants**, reviewed the loss and loss adjustment expense carried in the Company's balance sheet as of December 31, 2009. No adjustment to the financial statement was deemed necessary.

#### Capital and Surplus

The amount reported by the Company of \$5,083,859 exceeded the minimum of \$4,000,000 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 **The Responsive Auto Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,083,859 which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Michael Brennan, CPA, Examiner-In-Charge; Jennifer Cox, Participating Examiner; Jen Walker, CISA, IT Manager; and Chad Schiecken, CISA, IT Senior Manager of ParenteBeard LLC, participated in the examination. Gail Flannery, FCAS MAAA, consulting actuary of AMI Risk Consultants also participated in the examination.

Respectfully submitted,

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