



**EXAMINATION REPORT
OF**

COURTESY INSURANCE COMPANY

NAIC Company Code: 26492

DEERFIELD BEACH, FLORIDA

**as of
December 31, 2015**

**BY THE
FLORIDA OFFICE OF INSURANCE REGULATION**

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April 28, 2017

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

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, 2015, of the financial condition and corporate affairs of

Courtesy Insurance Company
100 Jim Moran Boulevard
Deerfield Beach, Florida 33442

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, 2011 through December 31, 2015 and commenced with planning at the Office of Insurance Regulation (Office) on November 28, 2016 to November 30, 2016. The fieldwork commenced on December 5, 2016 and concluded as of April 28, 2017. The last full-scope examination by the Office covered the period of January 1, 2006 through December 31, 2010.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles (SSAP).

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements noted during the examination as of December 31, 2015.

Prior Examination Findings

There were no material adverse findings or corrective action to be taken by the Company for the examination as of December 31, 2015.

COMPANY HISTORY

General

The Company was incorporated in Florida on December 21, 1987 and commenced business on May 24, 1988.

Dividends

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2015, the Company's capitalization was as follows:

Number of authorized common capital shares	50,000
Number of shares issued and outstanding	30,000
Total common capital stock	\$3,000,000
Par value per share	\$100.00

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, dissolutions and purchase or sales through reinsurance during the period of this examination.

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, 2015 are shown below:

Directors

Name	City, State	Principal Occupation, Company
Colin Wegand Brown	Boca Raton, Florida	President and Chief Executive Officer, JM Family Enterprises, Inc.
Brent Darren Burns	Sea Lakes Ranch, Florida	Executive Vice President and Chief Operating Officer, JM Family Enterprises, Inc.
Ronald Morgan Coombs (a)	Boca Raton, Florida	Executive Vice President and Chief Financial Officer, JM Family Enterprises, Inc.
Maria Kessler Guttuso	Boca Raton, Florida	Vice President, General Counsel, and Secretary, Courtesy Insurance Company
Robert John Haeffner	Ft. Lauderdale, Florida	Vice President, Chief Financial Officer, and Assistant Treasurer Courtesy Insurance Company

Forrest Wardell Heathcott III Boca Raton, Florida President,
Courtesy Insurance Company

Donna Cestaro McWilliams Boca Raton, Florida Vice President and Assistant
Treasurer,
Courtesy Insurance Company

(a) Resigned on February 12, 2016, and was replaced by Michael David Pritchard on February 12, 2016.

In accordance with the Company's bylaws, the Board appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
Forrest Wardell Heathcott III	Boca Raton, Florida	President
Raymond Victor DeJaco (a)	Boca Raton, Florida	Vice President
Maria Kessler Guttuso	Boca Raton, Florida	Vice President, General Counsel, and Secretary
Robert John Haeffner	Ft. Lauderdale, Florida	Vice President, Chief Financial Officer, and Assistant Treasurer
Kimberly Marie Magner	Lake Worth, Florida	Vice President – Corporate Taxes
Donna Cestaro McWilliams	Boca Raton, Florida	Vice President and Assistant Treasurer
Patrick Hugh Sreenan	Lighthouse Point, Florida	Vice President
Eric Mitchell Gebhard	Delray Beach, Florida	Treasurer
Jason Paul Marino (b)	Hypoluxo, Florida	Assistant Secretary

(a) Resigned on February 6, 2017. Chanyuth Norachaipeerapat was appointed as the replacement Actuary on February 7, 2017.

(b) Resigned on January 6, 2017 and will not be replaced.

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2015:

Audit Committee

Name	City, State	Title
Harold Scott Barrett	Parkland, Florida	Director
Colin Wegand Brown	Boca Raton, Florida	Director
Brent Darren Burns	Sea Lakes Ranch, Florida	Director
Larry David McGinnes	Parkland, Florida	Director

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

Investment Committee

Name	City, State	Title
Alan Jeffrey Browdy	Coral Spring, Florida	Vice President, Treasurer, JM Family Enterprises, Inc.
Eric Mitchell Gebhard	Delray Beach, Florida	Treasurer
Robert John Haeffner	Ft. Lauderdale, Florida	Vice President and Chief Financial Officer
Donna Cestaro McWilliams	Boca Raton, Florida	Vice President and Assistant Treasurer
Robin Wallace Payne (c)	Davie, Florida	Director, Financial Reporting, Technology Transformation JM Family Enterprises, Inc.
Michael David Pritchard	Boca Raton, Florida	Vice President
David William Reid	Boca Raton, Florida	Vice President, Strategic Initiatives JM Family Enterprises, Inc.

(c) Replaced by Carolyn Nigro on January 1, 2017.

Control

Control of the Company was maintained by its parent, JM Family Enterprises, Inc. (JMFE), a Delaware Corporation, which owned one hundred percent (100%) of the stock issued by the Company.

Affiliated Companies

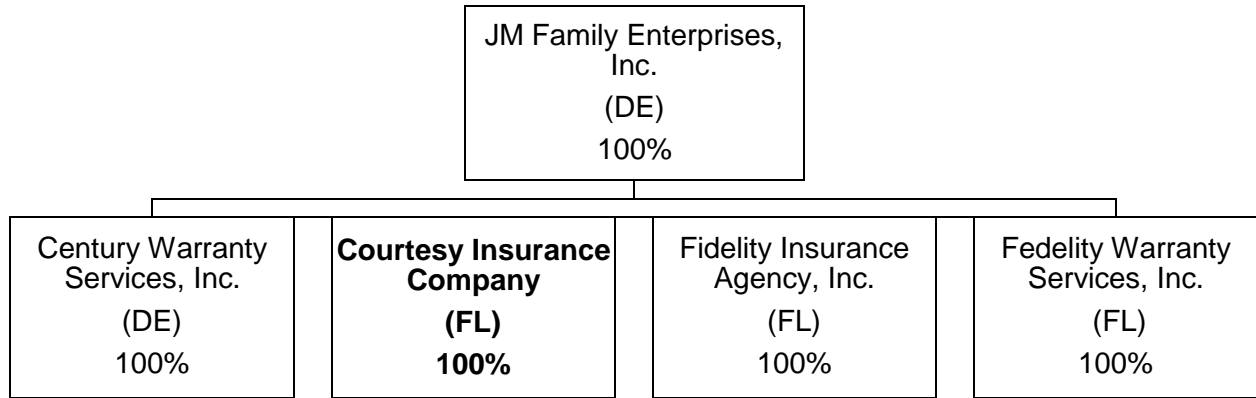
The most recent Holding Company Registration Statement was filed with the Office on March 31, 2017, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2015, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2015 annual statement provided a list of all related companies of the holding company group.

Courtesy Insurance Company

Organizational Chart

December 31, 2015



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

Tax Sharing Agreement

The Company, along with its parent, JMFE and other affiliates, filed a consolidated federal income tax return. On December 31, 2015, the method of allocation between the Company and its parent was to compute its separate tax liability as if it had filed a separate return. Each member of the group recorded an inter-company income tax receivable or payable with JMFE within thirty (30) days of JMFE filing the tax return. Within fifteen (15) days of the remittance by JMFE of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

Administrative Services Agreement

The Company entered into an Administrative Services Agreement with JMFE on December 8, 2000. The agreement stipulated that the Company pay an allocated fee based on their revenue as a percent of total revenue of the services provided. Fees incurred under this agreement during 2015 amounted to \$8,882,000.

Resource Allocation Agreement

The Company entered into a Resource Allocation Agreement with Fidelity Warranty Services, Inc. (FWS) on August 1, 2012. Under this agreement, associates of the Company are utilized by FWS for the administration of contracts. FWS agreed to pay an allocated fee based on direct expenses incurred plus an allocation of corporate overhead. Fees incurred under this agreement during 2015 amounted to \$5,521,000.

Contractual Liability Insurance Agreement

The Company issued contractual liability policies to two of its affiliates, Fidelity Warranty Services, Inc. (FWS) and Century Warranty Services, Inc. (CWS). Automotive Mechanical Service Agreements sold by FWS and CWS are insured by these policies. The Company agreed to pay one hundred percent (100%) of the reasonably incurred costs. The aggregate premium for the policies

was the sum of the designated contract premiums attributable to each designated contract issued by the Company during the policy term.

Agency Agreement

The Company entered into an agency agreement with Fidelity Insurance Agency (FIA) on January 1, 1996. Under this agreement, FIA operates as an independent contractor and is appointed to solicit and deliver policies and endorsements in regard to the contractual liability insurance offered by the Company. Fees incurred under this agreement during 2015 amounted to \$2,000.

Third Party Administration Agreement

The Company entered into a third-party administration agreement with FWS on January 1, 1996. Under the agreement, FWS is an authorized Licensed Service Contract Administrator designated by the Company to administer the collection of premiums, adjust claims, and make claim payments on Mechanical Breakdown Service Contracts. No fees are incurred by either party under this agreement.

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 compliance with the 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 periodic disclosure of conflicts of interest in accordance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

TERRITORY AND PLAN OF OPERATIONS

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

Alabama	Kentucky	Ohio
Alaska	Louisiana	Oklahoma
Arizona	Maine	Oregon
Arkansas	Maryland	Pennsylvania
California	Massachusetts	Rhode Island
Colorado	Minnesota	South Carolina
Connecticut	Mississippi	South Dakota
Delaware	Missouri	Tennessee
District of Columbia	Montana	Texas
Florida	Nebraska	Utah
Georgia	Nevada	Vermont
Hawaii	New Hampshire	Virginia
Idaho	New Jersey	Washington
Illinois	New Mexico	West Virginia
Indiana	New York	Wisconsin
Iowa	North Carolina	Wyoming
Kansas	North Dakota	Puerto Rico

The Company was authorized to transact insurance coverage in Florida on May 24, 1988 and is currently authorized for the following coverages as of December 31, 2015:

Auto Warranties	Surety
Miscellaneous Casualty	

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (i)(3)(a), 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)(j), Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Reinsurance Assumed

The Company assumed risk on a one hundred percent (100%) quota share basis from five unaffiliated insurance companies.

Reinsurance Ceded

The Company ceded risk on a quota share basis to various unauthorized reinsurers. All unauthorized reinsurers utilized a trust agreement or letter of credit.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Deerfield Beach, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank National Association executed on October 31, 2013. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, PricewaterhouseCoopers (PWC), audited the Company's statutory basis financial statements annually for the years 2011, 2012, 2013, 2014 and 2015, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by PWC as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

James Gowins, AES, MCM, CISA, of Examination Resources, 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	8.75% \$ 1,470,000	\$ 1,926,178
FL	USTBDS	11.50% <u>1,540,000</u>	<u>2,056,085</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 3,010,000</u>	<u>\$ 3,982,263</u>
AZ	USTBDS	8.75% \$ 125,000	\$ 163,791
GA	USTBDS	8.75% 35,000	45,861
MA	USTBDS	6.00% 100,000	133,512
NC	USTBDS	6.00% 300,000	400,536
NH	USTBDS	6.00% 500,000	667,560
OK	USTBDS	6.00% 310,000	413,887
OR	USTBDS	6.00% 300,000	400,536
SC	USTBDS	6.00% 150,000	200,268
VA	USTBDS	6.00% 225,000	300,402
NM	USTBDS	6.25% 200,000	289,992
NV	USTBDS	6.25% <u>200,000</u>	<u>289,992</u>
TOTAL OTHER DEPOSITS		<u>\$ 2,445,000</u>	<u>\$ 3,306,337</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 5,455,000</u></u>	<u><u>\$ 7,288,600</u></u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected on the following pages.

Courtesy Insurance Company

Assets

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Bonds	\$566,929,086		\$566,929,086
Stocks:			
Common	86,314,479		86,314,479
Cash, Cash Equivalent and Short-Term Investments	66,166,807		66,166,807
Receivables for Securities	1,045,742		1,045,742
Investment income due and accrued	3,869,780		3,869,780
Reinsurance recoverable	7,923,307		7,923,307
Net deferred tax asset	16,013,469		16,013,469
Receivable from parents, subsidiaries and affiliates	15,955,942		15,955,942
Aggregate write-in for other than invested assets	600,409		600,409
Totals	<u>\$764,819,021</u>	<u>\$0</u>	<u>\$764,819,021</u>

Courtesy Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Losses	\$12,720,141		\$12,720,141
Loss adjustment expenses	1,431,721		1,431,721
Other expenses	992,141		992,141
Taxes, licenses and fees	2,132,297		2,132,297
Current federal and foreign income taxes	3,461,734		3,461,734
Unearned premium	345,618,680		345,618,680
Ceded reinsurance premiums payable	31,019,616		31,019,616
Funds held by company under reinsurance treaty	1,274,974		1,274,974
Provision for reinsurance	288,026		288,026
Payable for securities	5,611,148		5,611,148
Aggregate write-ins for liabilities	<u>164,360</u>	<u> </u>	<u>164,360</u>
Total Liabilities	\$404,714,838	\$0	\$404,714,838
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	1,650,000		1,650,000
Unassigned funds (surplus)	<u>355,454,184</u>	<u> </u>	<u>355,454,184</u>
Surplus as regards policyholders	<u>\$360,104,184</u>	<u>\$0</u>	<u>\$360,104,184</u>
Total liabilities, surplus and other funds	<u>\$764,819,021</u>	<u>\$0</u>	<u>\$764,819,021</u>

Courtesy Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2015

Underwriting Income

Premiums earned		\$119,632,857
	Deductions:	
Losses incurred		\$75,517,103
Loss expenses incurred		5,311,858
Other underwriting expenses incurred		22,136,699
Aggregate write-ins for underwriting deductions		<u>0</u>
Total underwriting deductions		<u>\$102,965,660</u>
Net underwriting gain or (loss)		\$16,667,197

Investment Income

Net investment income earned		\$16,143,566
Net realized capital gains or (losses)		<u>2,515,573</u>
Net investment gain or (loss)		\$18,659,140

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		<u>0</u>
Total other income		<u>\$0</u>

Net income before dividends to policyholders and before federal & foreign income taxes		\$35,326,337
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$35,326,337
Federal & foreign income taxes		<u>12,142,143</u>
Net Income		<u>\$23,184,194</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$341,622,284
Net Income		\$23,184,194
Change in net unrealized capital gains or losses		(3,744,403)
Change in net deferred income tax		1,001,300
Change in nonadmitted assets		(2,003,558)
Change in provision for reinsurance		44,375
Examination Adjustment		<u>0</u>
Change in surplus as regards policyholders for the year		<u>\$18,481,908</u>
Surplus as regards policyholders, December 31 current year		<u>\$360,104,184</u>

Courtesy Insurance Company
Reconciliation of Capital and Surplus
December 31, 2015

No adjustments were made to surplus as regards policyholders as a result of this examination.

Capital/Surplus Change during Examination Period

Surplus at December 31, 2010, per Examination		\$202,359,973
	<u>Increase</u>	<u>Decrease</u>
Net Income (loss)	\$155,021,522	\$155,021,522
Change in net unrealized capital gain (loss)		(\$758,716) (\$758,716)
Change in net deferred income tax	\$6,107,450	\$6,107,450
Change in non-admitted assets	\$3,811,907	\$3,811,907
Change in provision for reinsurance		(\$101,271) (\$101,271)
Aggregate write-ins for gains and losses in surplus		<u>(\$6,336,674) (\$6,336,674)</u>
Net increase (or decrease)		<u>\$157,744,218</u>
Surplus at December 31, 2015, per Examination		<u>\$360,104,184</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

Raymond Victor DeJaco, Vice President and Chief Actuary of the Company, was appointed by the Board and rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, 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, Brent M. Sallay, FCAS, MAAA, of Taylor-Walker Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$360,104,184, exceeded the minimum of \$36,133,354 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Harold Scott Barrett and Larry David McGinnes were elected to serve as directors on March 29, 2017.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Courtesy Insurance Company** as of December 31, 2015, consistent with the insurance laws of the State of Florida.

Per examination of the annual financial statements, the Company's surplus as regards to policyholders was \$360,104,184, which exceeded the minimum of \$36,133,354 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Bradley Hazelwood, CFE, CPA, MCM, Examiner-in-Charge, Cecilee Diamond-Houdek, CFE, CPA, MCM, AIFA, Participating Examiner, James Gowins, AES, MCM, CISA, IT Specialist, and Michael Morrissey, AES, CISA, CISSP, AMCM, IT Specialist, of Examination Resources, LLC, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, MBA, Financial Examiner/Analyst Supervisor, Examination Manager, and Paula Bowyer, APIR, Financial Examiner/Analyst II, Participating Examiner. Additionally, Brent Sallay, FCAS, MAAA, Solomon Frazier, FSA, ACAS, MAAA, and Kyle Wallace, of Taylor Walker Consulting, LLC, are recognized for participation in the examination.

Respectfully submitted,

Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation