



**EXAMINATION REPORT  
OF  
MERCURY INSURANCE COMPANY OF FLORIDA**

**NAIC Company Code: 11202**

**Clearwater, Florida  
as of  
December 31, 2017**

**BY THE  
FLORIDA  
OFFICE OF INSURANCE REGULATION**

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May 3, 2019

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 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, 2017, of the financial condition and corporate affairs of

**Mercury Insurance Company of Florida**  
1901 Ulmerton Road  
Clearwater, Florida 33762

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, 2014 through December 31, 2017 and commenced with planning at the Florida Office of Insurance Regulation ("Office") on August 29, 2018 to August 29, 2018. The fieldwork commenced on August 30, 2018, and concluded as of May 3, 2019. The Company's last full scope exam by representatives of the Office covered the period of January 1, 2010 through December 31, 2013.

The examination was a multi-state/coordinated holding company group 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. The lead state for this examination was California. States that participated in this examination are as follows:

Florida  
Illinois  
Texas

Georgia  
Oklahoma

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 items of significant findings of factor exceptions noted during the examination as of December 31, 2017.

### **Previous Examination Findings**

There were no items of significant findings of factor exceptions noted during the examination as of December 31, 2013.

## **COMPANY HISTORY**

### **General**

The Company was incorporated in Florida on August 27, 2001, and commenced business on January 2, 2002, as Mercury Insurance Company of Florida.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2017:

Private Passenger Auto Liability	Auto Physical Damage
Commercial Auto Liability	

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

### **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, 2017, the Company's capitalization was as follows:

Number of authorized common capital shares	1,200,000
Number of shares issued and outstanding	1,200,000
Total common capital stock	\$1,200,000
Par value per share	\$1.00

**Surplus Notes**

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

**Acquisitions, Mergers, Disposals, Dissolutions**

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

**MANAGEMENT AND CONTROL**

**Corporate Governance**

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, 2017, are shown below:

**Directors**

<b>Name</b>	<b>City, State</b>	<b>Principal Occupation, Company Name</b>
James George Ellis	Los Angeles, California	Professor of Marketing and Dean, USC Marshall School of Business
George Victor Joseph	Los Angeles, California	Chairman of the Board, Mercury General Corporation
Glenn Stanley Schafer (a)	Irvine, California	Retired President and Chief Executive Officer, Pacific Life Insurance Company
Gabriel Tirador	Tustin, California	President and Chief Executive Officer, Mercury General Corporation
Judith Ann Walters	Oxnard, California	Secretary, Mercury General Corporation

(a) Replaced by Joshua Eric Little on April 27, 2018.

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

**Senior Officers**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
Gabriel Tirador	Tustin, California	President and Chief Executive Officer
Theodore Robert Stalick	Altadena, California	Senior Vice President, Chief Financial Officer and Treasurer
Christopher Wadewitz Graves	Palos Verdes Peninsula, California	Vice President and Chief Investment Officer
Judith Ann Walters	Oxnard, California	Secretary

The Company's Bylaws provides that the Board may establish such internal committees as it deems appropriate. As of December 31, 2017, the Company maintained the following internal committees:

**Audit Committee**

<b>Name</b>	<b>City, State</b>	<b>Title, Company Name</b>
Theodore Robert Stalick <sup>(1)</sup>	Altadena, California	Senior Vice President, Chief Financial Officer and Treasurer
Eleanor Makikip Ingalla	Rowland Heights, California	Director of Corporate Audit, Mercury General Corporation
David Yeager	Los Angeles, California	Corporate Controller, Mercury General Corporation

<sup>1</sup> Chairman

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

**Investment Committee**

<b>Name</b>	<b>City, State</b>	<b>Title, Company Name</b>
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James George Ellis <sup>(1)</sup>	Los Angeles, California	Professor of Marketing and Dean, USC Marshall School of Business
George Victor Joseph	Los Angeles, California	Chairman of the Board, Mercury General Corporation
Glenn Stanley Schafer	Irvine, California	Retired President and Chief Executive Officer, Pacific Life Insurance Company
Gabriel Tirador	Tustin, California	President and Chief Executive Officer, Mercury General Corporation

<sup>1</sup> Chairman

### **Holding Company System**

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

### **Tax Allocation Agreement**

The Company, along with its parent, Mercury General Corporation (“MGC”), and affiliates, filed a consolidated federal income tax return. On December 31, 2017, the method of allocation between the Company and MGC was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with MGC. Within ninety (90) days of the remittance by MGC of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

### **Management Agreement**

The Company had a management agreement with Mercury Insurance Services, LLC (MIS). Pursuant to the agreement, MIS provided all employees and performed underwriting and loss adjustment services on behalf of the Company for the period under review. The Company utilized independent agents to produce the business and MIS was responsible for the underwriting process and ultimate decisions on binding risk based upon previously established guidelines provided by the Company. MIS was also responsible for adjusting and settling all losses the Company was liable for. The loss adjustments and settlements were performed by MIS and settled out of the Company bank accounts. The fees for the services rendered were billed to the Company at the actual incurred expenses. The Company paid MIS \$5,500,746 during 2017 under the terms of this agreement.



## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Clearwater, 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 November 21, 2017. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

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

### **Corporate Records Review**

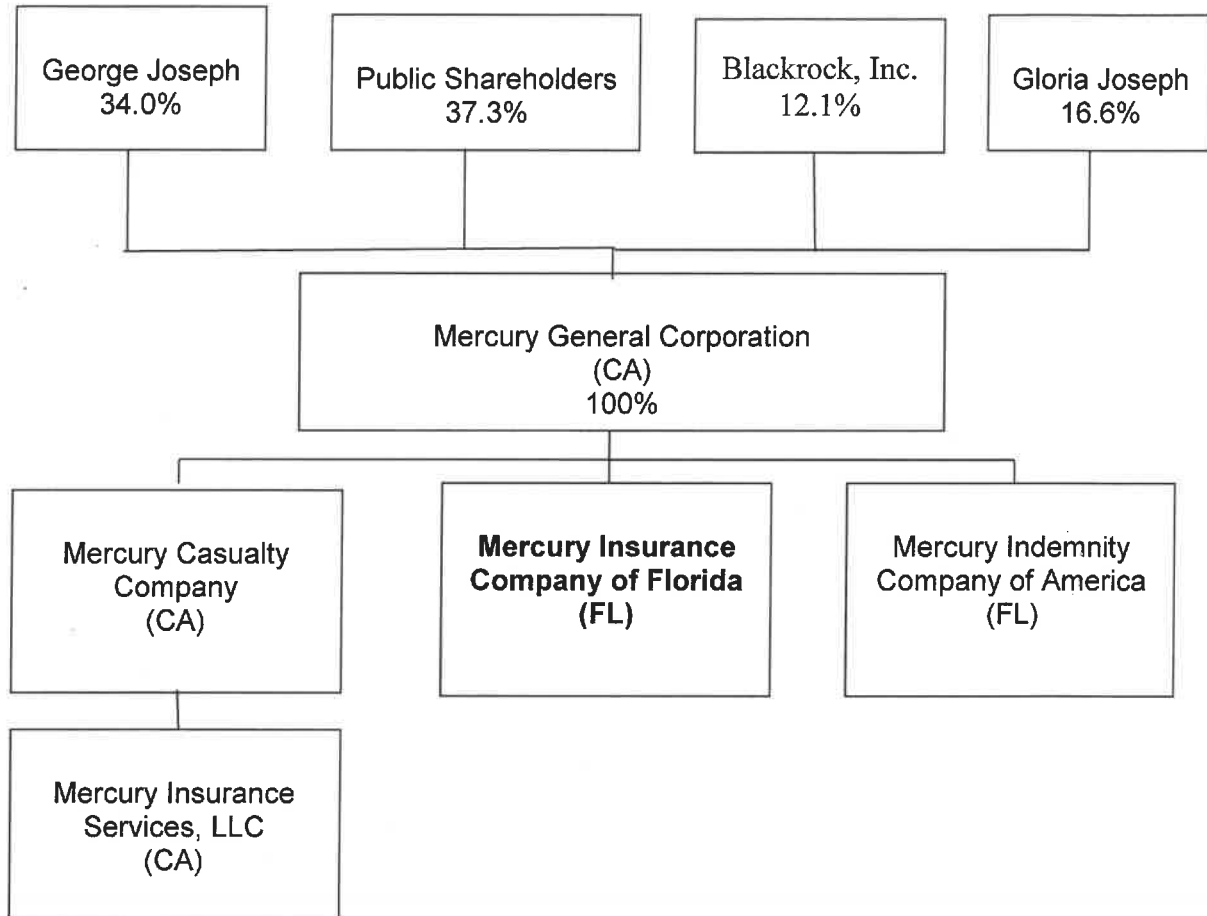
The recorded minutes of the Shareholder, Board of Directors ("Board") and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 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.

A simplified organizational chart as of December 31, 2017, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2017 annual statement provided a list of all related companies of the holding company group.

**Mercury Insurance Company of Florida  
Simplified Organizational Chart  
December 31, 2017**



Note: Blackrock, Inc. holds 12.1% of the shares of Mercury General Corporation that are held under a Disclaimer of Affiliation that was not disallowed by the California Department of Insurance.

## TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Florida

Pennsylvania

The Company was authorized to transact insurance in Florida on December 28, 2001, and is currently authorized for the following coverages as of December 31, 2017:

Commercial Auto Liability

Private Passenger Auto Physical Damage

Commercial Auto Physical Damage

### **Treatment of Policyholders**

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 did not assume any reinsurance during the period of this examination.

### **Reinsurance Ceded**

The Company ceded risk on a quota share basis to Mercury Casualty Company ("MCC"), an affiliate. The Company cedes one hundred percent (100%) of the ultimate net loss arising out of

each occurrence for all private passenger automobile and automobile physical damage business written by the Company.

The reinsurance contracts were reviewed during the examination to verify transfer of risk was evident and the contracts were in force for the entire period under review.

## **INFORMATION TECHNOLOGY REPORT**

Stephen Skenyon, CPA, CISA, Senior IT Audit Manager, and David Hall, CISA, CPA, CITP, IT Manager, both 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 on deposit with the State of Florida as required by Section 624.411, Florida Statutes:

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	USTNTS	\$ 350,000	\$ 348,606
<b>TOTAL FLORIDA DEPOSITS</b>		<b>\$ 350,000</b>	<b>\$ 348,606</b>

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during 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.

**Mercury Insurance Company of Florida**

**Assets**

**December 31, 2017**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$14,128,011		\$14,128,011
Stocks:			
Preferred	3,600,000		3,600,000
Cash, cash equivalents and short-term investments	24,047,578		24,047,578
Receivables for securities	1,539		1,539
Investment income due and accrued	213,227		213,227
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	5,749		5,749
Deferred premiums, agents' balances and installments booked but deferred and not yet due	35,573		35,573
Reinsurance:			
Amounts recoverable from reinsurers	607,817		607,817
Current federal and foreign income tax recoverable and interest thereon	234,145		234,145
Net deferred tax asset	25,287		25,287
Receivables from parents, subsidiaries and affiliates	139		139
Aggregate write-ins for other than invested assets	80,916		80,916
Totals	\$42,979,981	\$0	\$42,979,981



**Mercury Insurance Company of Florida**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2017**

	Per Company	Examination Adjustments	Per Examination
Cossissions payable, contingent commissions and other similar charges	\$63,000		\$63,000
Other expenses	586		586
Taxes, licenses and fees	19,720		19,720
Advance premium	2,742		2,742
Ceded reinsurance premiums payable	(77,429)		(77,429)
Remittances and items not allocated	998		998
Payable to parent, subsidiaries and affiliates	<u>272,149</u>		<u>272,149</u>
<b>Total Liabilities</b>	<b>\$281,766</b>	<b>\$0</b>	<b>\$281,766</b>
Common capital stock	\$1,200,000		\$1,200,000
Gross paid in and contributed surplus	32,300,000		32,300,000
Unassigned funds (surplus)	<u>9,198,215</u>		<u>9,198,215</u>
Surplus as regards policyholders	<u>\$42,698,215</u>	<u>\$0</u>	<u>\$42,698,215</u>
<b>Total liabilities, surplus and other funds</b>	<b><u><u>\$42,979,981</u></u></b>	<b><u><u>\$0</u></u></b>	<b><u><u>\$42,979,981</u></u></b>

**Mercury Insurance Company of Florida**  
**Statement of Income**  
**December 31, 2017**

**Underwriting Income**

Premiums earned		\$0
	<b>Deductions:</b>	
Losses incurred		\$0
Loss expenses incurred		0
Other underwriting expenses incurred		19,423
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$19,423
Net underwriting gain or (loss)		(\$19,423)

**Investment Income**

Net investment income earned		\$759,674
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$759,674

**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		71
Total other income		\$71

Net income before dividends to policyholders and before federal & foreign income taxes		\$740,321
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$740,321
Federal & foreign income taxes		(146,710)
Net Income		\$887,031

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$41,604,603
Net Income		\$887,031
Change in net unrealized capital gains or losses		143,150
Change in net deferred income tax		(268,628)
Change in non-admitted assets		332,058
Change in surplus as regards policyholders for the year		\$1,093,612
Surplus as regards policyholders, December 31 current year		\$42,698,215

**Mercury Insurance Company of Florida**  
**Reconciliation of Capital and Surplus**  
**December 31, 2017**

**Capital/Surplus Change during Examination Period**

Surplus at December 31, 2013, per Examination			\$39,489,183
	<u>Increase</u>	<u>Decrease</u>	
Net income	\$3,237,976		\$3,237,976
Change in net unrealized capital gains or (losses)	\$182,230		\$182,230
Change in net deferred income tax		(\$465,363)	(\$465,363)
Change in nonadmitted assets	\$254,188		\$254,188
Net increase (or decrease)			<u>\$3,209,031</u>
Surplus at December 31, 2017, per Examination			<u>\$42,698,215</u>

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

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

The Company properly reported no losses or loss adjustment expense reserves at December 31, 2017. This is due to the one hundred percent (100%) quota share agreement in place with affiliate MCC.

David J. Otto, FCAS, MAAA, Consulting Actuary, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2017, made a reasonable provision for all unpaid loss and loss expense obligations by the Company under the terms of its policies and agreements.

The lead state actuary, Giovanni Muzzarelli, California Department of Insurance Casualty Actuary, 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 \$42,698,215, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

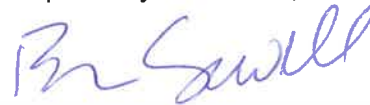
## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Mercury Insurance Company of Florida** as of December 31, 2017, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards to policyholders was \$42,698,215, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

Scott R. Kalna, CFE, AMCM	Examiner-in-Charge	Examination Resources, LLC
Jeffrey Rockwell	Examination Manager	Office
Paula Bowyer	Participating Examiner	Office
Giovanni Muzzarelli	Exam Actuary	California Department of Insurance
Stephen Skenyon, CPA, CISA	IT Specialist	Risk & Regulatory Consulting LLC
David Hall, CISA, CPA, CITP	IT Specialist	Risk & Regulatory Consulting LLC

Respectfully submitted,



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