



**EXAMINATION REPORT
OF
FIRST COLONIAL INSURANCE COMPANY**

NAIC Company Code: 29980

**Jacksonville, Florida
as of
December 31, 2018**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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May 28, 2020

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, 2018, of the financial condition and corporate affairs of

FIRST COLONIAL INSURANCE COMPANY
1776 American Heritage Life Drive
Jacksonville, Florida 32224

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, 2018. Fieldwork, which included planning meetings held at the Florida Office of Insurance Regulation (“the Office”) commenced on April 30, 2019, and concluded as of May 28, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2012 through December 31, 2013.

The Examination was 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 Examination was performed under the holding company system approach and on a coordinated basis with the State of Illinois as the NAIC lead state. The Office participated in the coordinated examination of the Company and its insurance affiliates. Other Allstate affiliated insurance company examinations that were conducted concurrently with this examination are as follows:

Company	Domiciliary State
Allstate Assurance Company	Illinois
Allstate Fire and Casualty Insurance Company	Illinois
Allstate Indemnity Company	Illinois
Allstate Insurance Company	Illinois
Allstate Life Insurance Company	Illinois
Allstate North American Insurance Company	Illinois
Allstate Northbrook Indemnity Company	Illinois
Allstate Property and Casualty Insurance Company	Illinois
Allstate Vehicle and Property Insurance Company	Illinois
Castle Key Indemnity Company	Illinois
Castle Key Insurance Company	Illinois

Company	Domiciliary State
Encompass Floridian Indemnity Company	Illinois
Encompass Floridian Insurance Company	Illinois
Encompass Home and Auto Insurance Company	Illinois
Encompass Indemnity Company	Illinois
Encompass Independent Insurance Company	Illinois
Encompass Insurance Company	Illinois
Encompass Insurance Company of America	Illinois
Encompass Insurance Company of New Jersey	Illinois
Encompass Property and Casualty Company	Illinois
Encompass Property and Casualty Insurance Company of New Jersey	Illinois
North Light Specialty Insurance Company	Illinois
American Heritage Life Insurance Company	Florida
First Colonial Insurance Company	Florida
Encompass Insurance Company of Massachusetts	Massachusetts
Allstate New Jersey Property and Casualty Insurance Company	New Jersey
Allstate Life Insurance Company of New York	New York
Intramercia Life Insurance Company	New York
ALIC Reinsurance Company	South Carolina
Allstate County Mutual Insurance Company	Texas
Allstate Texas Lloyd's	Texas
Esurance Insurance Company	Wisconsin
Esurance Insurance Company of New Jersey	Wisconsin
Esurance Property and Casualty Insurance Company	Wisconsin

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 the NAIC Statements of Statutory Accounting Principles ("SSAP").

This examination report includes information obtained from the examination of the records, accounts, files, and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. 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 findings or exceptions noted during the examination as of December 31, 2018.

Previous Examination Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2013.

COMPANY HISTORY

General

The Company was incorporated in Florida on February 17, 1987 and commenced business on April 28, 1987. The Company writes contractual liability insurance policies ("CLPs") that provide warranty and credit related property and casualty insurance coverages to third party administrator/obligor distribution partners, automobile dealership/obligors, and affiliated service contract/warranty administrator/obligors, to support the sale of vehicle service contracts, guaranteed asset protection reimbursement policies, and various other automobile repair contracts. The Company is part of a holding company system controlled by The Allstate Corporation ("the Corporation").

Dividends

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2014 in the amount of \$42 million. No other dividends were paid during the period under examination.

Capital Stock and Capital Contributions

As of December 31, 2018, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
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 was not a party to any acquisitions, mergers, disposals, or dissolutions during the period of this examination.

MANAGEMENT AND CONTROL

Corporate Governance

Directors serving as of December 31, 2018, are shown below:

Directors			
Name	City	State	Principal Occupation, Company Name
David Raymond Border	Palatine	Illinois	Senior Vice President, Allstate Insurance Company
Michael Sean Hurley ⁽¹⁾	Jacksonville	Florida	Vice President, American Heritage Life Insurance Company
Brian David Krasavage	Fernandina Beach	Florida	Vice President, Allstate Insurance Company
Elizabeth Ann Mahin	St. Augustine	Florida	Executive Vice President and Chief Financial Officer, American Heritage Life Insurance Company
Brian John Savage ⁽²⁾	Libertyville	Illinois	Vice President, Allstate Insurance Company

(1) Effective January 23, 2020, Michael Sean Hurley resigned and was replaced by Elizabeth Ann Gallery.

(2) Effective October 28, 2019, Brian John Savage was replaced by Eric Kyle Ferren.

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

Officers			
Name	City	State	Title
David Raymond Border	Palatine	Illinois	Chairman of the Board, President, and Chief Executive Officer
Jesse Edward Merten ⁽¹⁾	Highland Park	Illinois	Treasurer
Susan LeSueur Lees	Lake Forest	Illinois	Secretary
Brian John Savage ⁽²⁾	Libertyville	Illinois	Chief Financial Officer
Eric Kyle Ferren ⁽³⁾	Clarendon Hills	Illinois	Controller
Marilyn Victoria Hirsch	Highland Park	Illinois	Senior Vice President
Samuel Henry Pilch ⁽⁴⁾	Long Grove	Illinois	Senior Group Vice President
Jeffrey Scott Wright	Lake Forest	Illinois	Senior Vice President
<p>(1) Effective October 28, 2019, Jesse Edward Merten was replaced by Michael Aldo Pedraja as Treasurer.</p> <p>(2) Effective October 28, 2019, Brian John Savage was replaced by Eric Kyle Ferren as Chief Financial Officer.</p> <p>(3) Effective October 28, 2019, Eric Kyle Ferren was replaced by John Charles Pintozzi as Controller.</p> <p>(4) Effective March 19, 2020, Samuel Henry Pilch resigned</p>			

Individuals serving on the Company's audit committee as of December 31, 2018, are shown below:

Audit Committee			
Name	City	State	Title, Company Name
Mary Jane Fortin ⁽¹⁾	Houston	Texas	President, Allstate Financial Businesses, Allstate Insurance Company
Gregory James Guidos ⁽²⁾	Ponte Vedra Beach	Florida	Senior Vice President, Allstate Insurance Company
Samuel Henry Pilch ⁽³⁾	Long Grove	Illinois	Senior Group Vice President, Allstate Insurance Company
<p>(1) Effective April 22, 2020, Mary Jane Fortin resigned. Jess Merten was appointed as Chair of the Audit Committee on May 13, 2020.</p> <p>(2) Effective March 29, 2019, Gregory James Guidos resigned and was replaced by Michael Gerard DeKoning.</p> <p>(3) Effective March 19, 2020, Samuel Henry Pilch resigned and was replaced by John Charles Pintozzi.</p>			

Holding Company System

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

Tax Sharing Agreement

Effective January 7, 2005, the Company entered into a Consolidated Tax Sharing Agreement with its ultimate parent, the Corporation, and its affiliates. The consolidated income tax liability is allocated based on each entity's federal income tax liability computed on a separate return basis, except all tax benefits resulting from operating losses and tax credits are allocated to the Company to the extent they can be utilized in the consolidated return. Final settlement for any return filed shall be made no later than 30 days after such return is filed except that, where a refund is due from the Government to the Corporation, payment by the Corporation to the appropriate member shall be made within five business days of the receipt of the refund.

Amended and Restated Service and Expense Agreement

Effective January 1, 2004, the Company entered into an Amended and Restated Service and Expense Agreement with its ultimate parent, the Corporation, and its affiliates pursuant to which Allstate Insurance Company ("AIC") provides access to a variety of services, including the utilization of shared bank accounts for cash collections and disbursements in certain situations. The services provided by AIC include accounting, financial reporting, premium processing, information technology, legal counsel, and human resources. The agreement provides for cost-sharing of expenses through direct charges, allocations, or by separate arrangements. Expenses incurred under this agreement during 2018 amounted to approximately \$6 million.

The Amended and Restated Service and Expense Agreement also included transactions between the Company and Pablo Creek Services, Inc., an affiliated service contract/warranty administrator/obligor, and E.R.J. Insurance Group, Inc., an affiliated TPA. Pablo Creek Services, Inc. evaluates risk, collects premium, processes refunds, pays agent fees, and settles claims related to CLPs that support vehicle service contracts and other automobile repair contracts. E.R.J. Insurance Group, Inc. collects premium, processes refunds, pays agent fees and settles claim activity related to CLPs that support the Guaranteed Asset Protection ("GAP") product, which waives the difference between your primary auto insurance settlement and the outstanding balance owed on your vehicle on the date of total loss. The administration fees relating to services performed during 2018 amounted to approximately \$12.6 million.

Investment Management Agreement

Effective January 1, 2007, the Company entered into an Investment Management Agreement with Allstate Investments, LLC (“Allstate Investments”) whereby, Allstate Investments provides investment management services and advice. Expenses incurred under this agreement during 2018 amounted to approximately \$120 thousand.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with BNY Mellon Trust Company of Illinois. The agreement was executed on April 7, 2017.

Third Party Administrators Obligor (“TPAOs”)

The Company utilized nine non-affiliated TPAOs distribution partners to produce a portion of its business. The Company granted authority for the TPAOs distribution partners to perform underwriting, claims adjustment and payment, and premium collection functions. The aggregate amount of direct premiums written/produced by non-affiliated TPAs/obligor distribution partners during 2018 was approximately \$40 million.

Independent Auditor Agreement

An independent CPA, Deloitte and Touche, LLP, audited the Company’s statutory basis financial statements annually for the years 2014, 2015, 2016, 2017 and 2018. Relevant work performed by the CPA firm during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers whenever feasible to facilitate efficiencies.

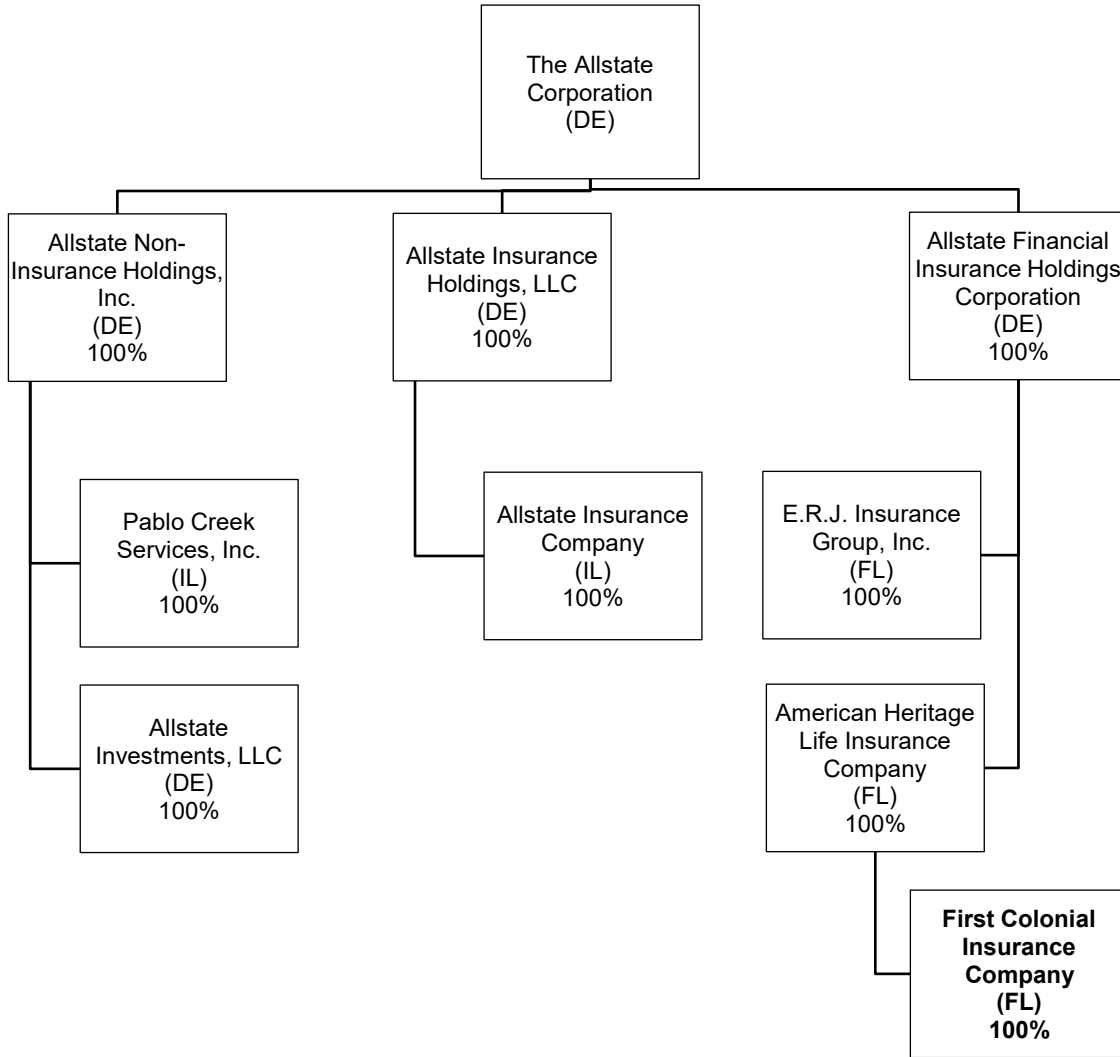
Corporate Records Review

The recorded minutes of the Shareholder, Board of Directors, and Audit Committee were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events. A review was made of the Shareholder, Board of Directors minutes, and committee minutes for the period of examination. This examination determined that the recorded minutes adequately document its meetings and approval of Company transactions and events.

Organizational Chart

A simplified organizational chart as of December 31, 2018, reflecting the holding company group, is shown on the following page. A complete organizational chart of the holding company system was disclosed in the Company's 2018 annual statement (Schedule Y – Part 1).

**First Colonial Insurance Company
Simplified Organizational Chart
December 31, 2018**



TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in all 50 states and the District of Columbia as of December 31, 2018.

The Company was authorized for the following coverages as of December 31, 2018:

Ocean Marine	Inland Marine
Auto Warranties	Other Liability
Private Passenger Auto Physical Damage	Credit
Service Warranties (Non-Auto)	Miscellaneous Casualty

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 from its affiliate, Allstate Northbrook Indemnity Company, to write guaranteed asset protection reimbursement policies, vehicle service contracts, and credit property products in states where the Company previously did not have a license or regulatory approval to sell these products. The Company is now licensed in all 50 states and the District of Columbia and no longer writes and assumes new business through Allstate Northbrook Indemnity.

Reinsurance Ceded

In the normal course of business, the Company offers reinsurance programs to producer and agent owned reinsurance companies to allow them to participate in the underwriting results of designated products and to limit aggregate and single exposures to losses on certain risks. The Company ceded risk on a quota share basis to producer-affiliated reinsurance companies, which were primarily unauthorized reinsurers. The reinsurance contracts varied by producer and product. The Company requires each unauthorized reinsurer to maintain a trust account and/or

letter of credit at least equal to their statutorily required reserves, including IBNR and unearned premium reserves.

INFORMATION TECHNOLOGY REPORT

Stephen Skenyon, CPA, CISA, and Darlene Lenhart-Schaeffer, CFE, CISA, IT Specialists from Risk and 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 deposited with the State of Florida and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTBDS 7.13%	\$ 1,050,000	\$ 1,237,974
FL	USTBDS 8.13%	800,000	913,469
FL	USTBDS 7.63%	500,000	593,731
FL	USTBDS 7.25%	300,000	348,937
FL	USTBDS 7.88%	150,000	166,512
TOTAL FLORIDA DEPOSITS		<u>\$ 2,800,000</u>	<u>\$ 3,260,623</u>
GA	USTBDS 7.25%	\$ 35,000	\$ 40,709
MA	USTBDS 6.62%	200,000	258,195
MA	USTBDS 8.12%	300,000	338,344
NV	USTBDS 8.13%	500,000	516,387
NH	USTBDS 6.25%	500,000	580,781
NM	USTBDS 8.13%	300,000	309,832
NC	USTBDS 8.13%	175,000	180,735
NC	USTBDS 8.00%	125,000	143,901
SC	USTBDS 8.00%	175,000	201,462
VA	USTBDS 7.25%	450,000	523,406
TOTAL OTHER DEPOSITS		<u>\$ 2,760,000</u>	<u>\$ 3,093,752</u>
TOTAL STATUTORY DEPOSITS		<u><u>\$ 5,560,000</u></u>	<u><u>\$ 6,354,375</u></u>

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Income; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2018. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2018.

First Colonial Insurance Company
Assets
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 247,666,114		\$ 247,666,114
Cash and Short-Term Investments	13,641,087		13,641,087
Investment income due and accrued	1,834,687		1,834,687
Agents' Balances:			
Uncollected premium	407,792		407,792
Reinsurance recoverable	7,057,139		7,057,139
Other amounts receivable	2,699,625		2,699,625
Federal income tax recoverable	2,592,788		2,592,788
Receivable from parents, subsidiaries and affiliates	12,400,002		12,400,002
Aggregate write-in for other than invested assets	<u>1,461,131</u>	<u> </u>	<u>1,461,131</u>
Totals	<u>\$ 289,760,365</u>	<u>\$ -</u>	<u>\$ 289,760,365</u>

**First Colonial Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2018**

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 8,737,987		\$ 8,737,987
Loss adjustment expenses	707,291		707,291
Commissions payable	1,228,664		1,228,664
Other expenses	25,327,644		25,327,644
Unearned premium	68,087,147		68,087,147
Ceded reinsurance premiums payable	26,751,446		26,751,446
Remittances and items not allocated	8		8
Provision for reinsurance	5,910,950		5,910,950
Payable to parent, subsidiaries and affiliates	24,577,361		24,577,361
Aggregate write-ins for liabilities	<u>415,538</u>	<u> </u>	<u>415,538</u>
Total Liabilities	<u>\$ 161,744,036</u>	<u>\$ -</u>	<u>\$ 161,744,036</u>
Common capital stock	\$ 2,500,000		\$ 2,500,000
Gross paid in and contributed surplus	126,261,672		126,261,672
Unassigned funds (surplus)	<u>(745,343)</u>	<u> </u>	<u>(745,343)</u>
Surplus as regards policyholders	<u>\$ 128,016,329</u>	<u>\$ -</u>	<u>\$ 128,016,329</u>
Total liabilities, surplus and other funds	<u><u>\$ 289,760,365</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 289,760,365</u></u>

**First Colonial Insurance Company
Statement of Income
December 31, 2018**

Underwriting Income

Premiums earned \$ 38,542,459

Deductions

Losses incurred	33,556,821
Loss expenses incurred	3,086,213
Other underwriting expenses incurred	15,765,753
Total underwriting deductions	<u>\$ 52,408,787</u>
Net underwriting gain or (loss)	<u>\$ (13,866,328)</u>

Investment Income

Net investment income earned	\$ 6,409,675
Net realized capital gains or (losses)	<u>(899,149)</u>
Net investment gain or (loss)	<u>\$ 5,510,526</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (5,888)
Aggregate write-ins for miscellaneous income	<u>3,695</u>
Total other income	<u>\$ (2,193)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$ (8,357,995)
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(8,357,995)
Federal & foreign income taxes	<u>(2,367,845)</u>
Net Income	<u><u>\$ (5,990,150)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$ 133,575,907
Net Income	(5,990,150)
Net unrealized capital gains or losses	(27,863)
Change in net deferred income tax	(7,603)
Change in nonadmitted assets	166,333
Change in provision for reinsurance	299,705
Change in surplus as regards policyholders for the year	<u>\$ (5,559,578)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 128,016,329</u></u>

**First Colonial Insurance Company
Reconciliation of Capital and Surplus
December 31, 2018**

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

Surplus as regards policyholders December 31, 2013 per Examination \$ 193,825,390

	Gain in Surplus	Loss in Surplus	
Net Income (loss)			\$ 20,402,121
Change in net unrealized capital gain (loss)	\$ 256,459		
Change in net deferred income tax			8,608,867
Change in non-admitted assets	1,703,156		
Change in provision for reinsurance	3,242,312		
Dividends to stockholders			42,000,000
Total Gains and Losses	\$5,201,927	\$ 71,010,988	

Net Increase/(Decrease) in surplus as regards policyholders (65,809,061)

Surplus as regards policyholders December 31, 2018 per Examination \$ 128,016,329

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses	\$ 9,445,278
Unearned Premium Reserves	\$68,087,147

Mr. Scott P. Weinstein, FCAS, MAAA, Principal, KPMG, LLP, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2018, made a reasonable provision for all unpaid loss and loss expense and unearned premium reserves obligations of the Company under the terms of its policies and agreements.

The Office consulting actuaries, Jennifer Balester, FCAS, MAAA and Dave Heppen, FCAS, MAAA, Actuarial Specialists of Risk and Regulatory Consulting, LLC, reviewed the loss and loss adjustment expense and unearned premium reserves work papers provided by the Company, and they were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$128,016,329 exceeded the minimum of \$8,385,891 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 Colonial Insurance Company** as of December 31, 2018, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, the following from both the Office and Risk and Regulatory Consulting, LLC ("RRC") participated in the examination:

Jeffrey Rockwell	Examination Manager	Office
Casey Hengstebeck	Participating Examiner	Office
Jennifer Balester, FCAS, MAAA	Actuarial Specialists	RRC
Dave Heppen, FCAS, MAAA	Actuarial Specialists	RRC
Stephen Skenyon, CPA, CISA	IT Specialists	RRC
Darlene Lenhart-Schaeffer, CFE, CISA	IT Specialists	RRC

Respectfully submitted,



Joshua J. Johnson, CFE
Risk and Regulatory Consulting, LLC
Representing the Florida Office of Insurance Regulation



Daniel W. Applegarth, CFE, CPA, PIR
Chief Financial Examiner
P&C Financial Oversight
Florida Office of Insurance Regulation