REPORT ON EXAMINATION

OF

# THE RESPONSIVE AUTO INSURANCE COMPANY

PLANTATION, FLORIDA

AS OF

DECEMBER 31, 2010

BY THE

OFFICE OF INSURANCE REGULATION

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**TALLAHASSEE, FLORIDA**

October 19, 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, 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, 2010, 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, 2010, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on August 10, 2011, to August 12, 2010. The fieldwork commenced on August 22, 2011, and concluded as of October 19, 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 findings or exceptions noted during this examination.

### Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2009.

## 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, 2010:

| | |
|---|---|
| Private passenger auto physical damage | Private passenger auto liability |

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

## Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder during 2010.

## Capital Stock and Capital Contributions

As of December 31, 2010, 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.

As of December 31, 2010, the parent had contributed $1,750,000 in cash as a surplus contribution to the Company.

**Subsequent Event:** The Company's parent, contributed additional cash in the amount of $500,000 on June 30, 2011 as "Gross Paid in and Contributed Surplus."

### Surplus Debentures

The Company did not issue 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 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, including the authorization of investments as required by Section 625.304, 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 69O-138.001, Florida Administrative Code.

## 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, 2010, were:

**Directors**

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

The Board in accordance with the Company's bylaws appointed the following senior officers:

**Senior Officers**

| Name | Title |
|---|---|
| John Dennis Machul | Chief Executive Officer |
| Victor Anthony Arocho (a) | President |
| Hector Manual Estrada | Treasurer and Secretary |

(a) Victor Anthony Arocho resigned on September 15, 2011, and John Dennis Machul was appointed President. The Company had not yet appointed a new board member.

The Board appointed an internal audit committee. Its members as of December 31, 2010, were:

**Audit Committee**

John Cox (Chairman)
Phillip Stewart
William Fritz

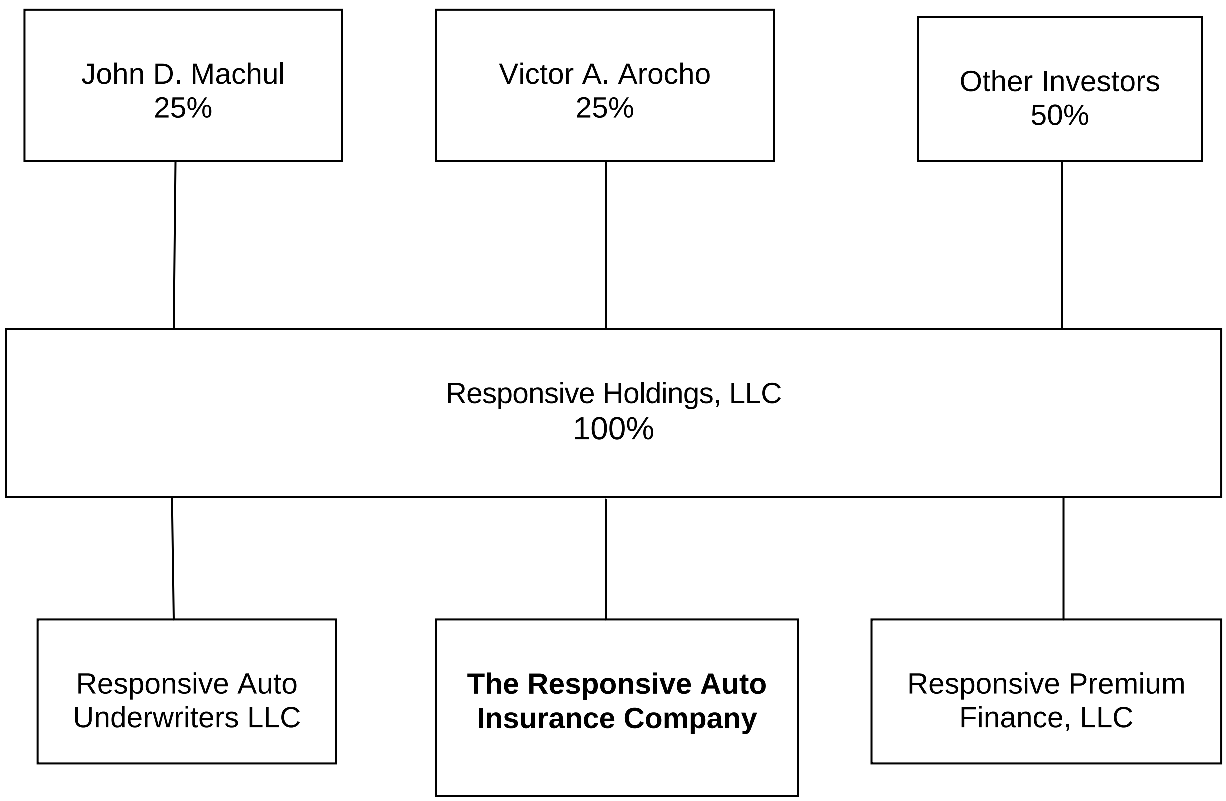
## Affiliated Companies

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 May 5, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

**The Responsive Auto Insurance Company**
**Organizational Chart**

**DECEMBER 31, 2010**



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

### Managing General Agent Agreement

The Company entered into a managing general agency agreement with its affiliate, Responsive Auto Underwriters LLC (RAU) on February 28, 2008. The agreement continues in force for a term of three years and will automatically renew for successive one-year periods, unless otherwise terminated within the guidelines of the agreement. MGA fees were based on 25% of direct written premium and included a $25 per policy fee. Claims administration services were included in the agreement. Fees incurred under this agreement during 2010 amounted to $ $2,802,019. This amount included a one-time forgiveness of $526,650 of the commissions due and/or paid to RAU.

### Cost Allocation Agreement

The Company entered into a cost allocation agreement with RAU on March 10, 2008. Pursuant to the agreement, the parties agree to equitably allocate costs associated with office space, equipment, supplies and certain non-management personnel. The agreement continues in force for one-year periods unless otherwise terminated within the guidelines of the agreement. The costs are allocated among the parties within 15 days following the end of the month. Expenses paid pursuant to this agreement during 2010 were $520,342. This amount included a one-time forgiveness of $166,204 of any general expenses reimbursement due to RAU.

## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $250,000 with a deductible of $15,000, which reached the suggested minimum of $225,000 as recommended by the NAIC. The Company also maintained professional liability coverage, which included directors and officers (D&O), with an aggregate limit of $2,000,000 as well as workers' compensation, general liability and umbrella coverage.

## 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

Since inception, the Company has experienced rapid growth with a 350% increase in direct written premium from its first reporting year as of December 31, 2008, to the current examination date. However, during the period of examination, direct written premium decreased by 14%. This decrease was a direct result of changes made by the Company to the underwriting guidelines and the implementation of rate increases. These strategies were implemented to improve results going forward since the Company had experienced a dramatic rise in loss frequency during 2010.

The Company has reported an operating net loss each year since inception, significantly depleting surplus. This depletion has been countered by contributions from its parent which has allowed surplus to remain above the amount required by regulations. Because of these significant operating losses, the Company's external auditor expressed substantial doubt about the Company's ability to continue as a going concern in the 2010 Statutory Financial Statements and Independent Auditor's Report.

### 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.

| | **2010** | **2009** | **2008** |
|---|---:|---:|---:|
| Premiums Earned | 14,769,398 | 10,435,431 | 798,730 |
| Net Underwriting Gain/(Loss) | (1,125,157) | (2,734,692) | (1,853,436) |
| Net Income | (987,728) | (2,628,013) | (1,744,119) |
| Total Assets | 14,929,862 | 16,157,491 | 9,362,339 |
| Total Liabilities | 9,154,112 | 11,073,632 | 3,606,403 |
| Surplus As Regards Policyholders | 5,775,750 | 5,083,859 | 5,755,936 |

## LOSS EXPERIENCE

During the current examination period, the Company showed favorable development overall. The one and two-year net loss developments at the end of the current examination period were both favorable at $418,000 and $36,000, respectively. However, the Company incurred higher than projected losses primarily attributable to unanticipated Personal Injury Protection (PIP) related claims and increased defense costs.  Losses incurred were $8,873,848 and $6,487,504 for 2010 and 2009 respectively.

**Subsequent Event:** The Company recognized a $783,000 adverse development on the total loss and LAE reserves related to losses incurred prior to December 31, 2010, on its quarterly statement as of June 30, 2011.  As of the 2011 Annual report, the Company recorded reserves above the mid-point of the opining Actuary.

## REINSURANCE

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

### Assumed

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

### Ceded

The Company entered into its first reinsurance agreement with General Reinsurance Corporation that was effective from August 1, 2010, to July 31, 2011.  The agreement provided excess of loss (catastrophe) coverage for the Company's private passenger physical damage line of business, excluding collision.  The Company was reinsured for $500,000 in excess of $500,000 for each loss event.  The agreement limits the reinsurer's liability to $1,000,000 for all loss events during the term of the agreement.  The Company did not experience any losses to which this agreement would apply.  The Company renewed this treaty on August 1, 2011.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## 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 in 2010 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 managed and maintained through a professional accounting software package. Posting to the general ledger from subsidiary systems was a combination of both automated and manual entries. The Company's balance sheet accounts were verified with line items of the Annual Statements submitted to the Office.

The Company and non-affiliates had the following agreements:

### Custodial Agreements

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

The Company maintained a custodial agreement with Stonegate Bank entered into on May 12, 2009. The custodial agreement complied with Rule 69O-143.042, Florida Administrative Code.

The Company maintained a custodial agreement with Morgan Stanley Trust, N.A. entered into on February 10, 2011. The custodial agreement complied with Rule 69O-143.042, Florida Administrative Code.

### Investment Management Agreement

On June 22, 2010, the Company entered into an investment management agreement with Sage Advisory Services, Ltd. Co. (Sage). Sage acted as investment manager and advisor with respect to certain of the Company's assets held by Morgan Stanley Trust, N.A., pursuant to a separate custodial agreement. Sage supervised and directed investments on behalf of the Company subject to the terms of the written investment policies and guidelines established by the Company.

### Service Agreement

On September 30, 2007, the Company entered into a service agreement with Systems Task Group Int. Ltd (STG). Pursuant to the agreement, STG agreed to develop and host the POS/Policy, Billing and Claims Administration modules at a third party hosting facility and to provide other information technology related services pursuant to the terms and conditions within the agreement.

### Independent Auditor Agreement

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

## INFORMATION TECHNOLOGY REPORT

INS Services, Inc. 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 | 69,737.92 | 69,737.92 |
| TOTAL FLORIDA DEPOSITS | | $ 1,569,737.92 | $ 1,569,737.92 |

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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, 2010**

| | Per Company | Examination Adjustments | Per Examination |
|---|---|---|---|
| Bonds | $6,780,552 | | $6,780,552 |
| Cash and short-term investments | 3,830,375 | | 3,830,375 |
| Investment income due and accrued | 50,423 | | 50,423 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in the course of collection | 0 | 895,317 | 895,317 |
| Deferred premium, agents' balances and installments booked but deferred and not yet due | 4,268,512 | (1,555,006) | 2,713,506 |
| Recievables from parent, subsidiaries and affiliates | 0 | 1,987 | 1,987 |
| Totals | $14,929,862 | ($657,702) | $14,272,160 |

**THE RESPONSIVE AUTO INSURANCE COMPANY**

**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2010**

| | Per Company | Examination Adjustments | Per Examination |
|---|---|---|---|
| Losses | $2,960,569 | $334,000 | $3,294,569 |
| Loss adjustment expenses | 436,192 | | 436,192 |
| Other expenses | 57,027 | | 57,027 |
| Unearned premium | 5,042,622 | | 5,042,622 |
| Payable to parent, subsidiaries and affiliates | 657,702 | (657,702) | 0 |
| Total Liabilities | $9,154,112 | ($323,702) | $8,830,410 |
| Common capital stock | $1,000 | | $1,000 |
| Gross paid in and contributed surplus | 11,250,000 | | 11,250,000 |
| Unassigned funds (surplus) | (5,475,250) | ($334,000) | (5,809,250) |
| Surplus as regards policyholders | $5,775,750 | ($334,000) | $5,441,750 |
| Total liabilities, surplus and other funds | $14,929,862 | ($657,702) | $14,272,160 |

## THE RESPONSIVE AUTO INSURANCE COMPANY

### Statement of Income

### DECEMBER 31, 2010

| | |
|---|---|
| **Underwriting Income** | |
| Premiums earned | $14,769,398 |
| **Deductions:** | |
| Losses incurred | $8,873,848 |
| Loss expenses incurred | 2,838,819 |
| Other underwriting expenses incurred | 4,181,888 |
| Total underwriting deductions | $15,894,555 |
| Net underwriting gain or (loss) | ($1,125,157) |
| **Investment Income** | |
| Net investment income earned | $168,423 |
| Net realized capital gains or (losses) | 3,954 |
| Net investment gain or (loss) | $172,377 |
| **Other Income** | |
| Net gain or (loss) from agents' or premium balances charged off | ($52,297) |
| Finance and service charges not included in premiums | |
| Aggregate write-ins for miscellaneous income | 17,349 |
| Total other income (loss) | ($34,948) |
| Net income (loss) before dividends to policyholders and before federal & foreign income taxes | ($987,728) |
| Dividends to policyholders | |
| Net Income (loss), after dividends to policyholders, but before federal & foreign income taxes | ($987,728) |
| Federal & foreign income taxes | |
| Net income (loss) | ($987,728) |
| **Capital and Surplus Account** | |
| Surplus as regards policyholders, December 31 prior year | $5,083,859 |
| Net Income (loss) | ($987,728) |
| Change in non-admitted assets | (70,381) |
| Surplus adjustments: Paid in | 1,750,000 |
| Aggregate write-ins for gains and losses in surplus | |
| Examination Adjustments | (334,000) |
| Change in surplus as regards policyholders for the year | $357,891 |
| Surplus as regards policyholders, December 31 current year | $5,441,750 |

A comparative analysis of changes in surplus is shown below.

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

**DECEMBER 31, 2010**

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, 2010, per Annual Statement | | | | $5,775,750 |
| | PER COMPANY | PER EXAM | INCREASE (DECREASE) IN SURPLUS | |
| ASSETS: | | | | |
| Uncollected premiums | $0 | $895,317 | $895,317 | |
| Deferred premiums | 4,268,512 | 2,713,506 | (1,555,006) | |
| Receivables from parent, subsidiaries and affiliates | 0 | 1,987 | 1,987 | |
| LIABILITIES: | | | | |
| Losses | 2,960,569 | 3,294,569 | (334,000) | |
| Payable to parent, subsidiaries and affiliates | 657,702 | 0 | 657,702 | |
| Net Change in Surplus: | | | | (334,000) |
| Surplus as Regards Policyholders December 31, 2010, Per Examination | | | | $5,441,750 |

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

| | |
|---|---|
| **Uncollected premiums in the course of collection** | $895,317 |
| **Deferred premiums** | $2,713,506 |

The Company improperly classified and reported $1,555,006 of uncollected premiums as deferred rather than current and in the course of collection in the 2010 annual statement. A reclassifying adjustment was made to report premium receivables properly, in accordance with the 2010 NAIC Annual Statement Instructions for Property and Casualty Insurers. Subsequent Event: Effective with the June 30, 2011 Quarterly Statement, the Company reported premium receivable in accordance with NAIC statement instructions.

| | |
|---|---|
| **Receivables from parent, subsidiaries and affiliates** | $1,987 |

The Company improperly offset a payable to one related party with a receivable from another related party and reported the net amount on line 19, Payable to Parent, Subsidiaries and Affiliates, page 3 of the 2010 Annual Statement. A reclassifying adjustment was made to report the receivable balance in accordance with SSAP No. 64. Subsequent Event: Effective with the March 31, 2011 Quarterly Statement, the Receivable from parent, subsidiaries and affiliates and the Payable to parent, subsidiaries and affiliates were correctly reported and disclosed in the Notes to Financial Statements.

## Liabilities

**Losses and Loss Adjustment Expenses** $3,730,761

An outside actuarial firm appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2010, 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's consulting actuaries, Robert W. Gardner, FCAS, MAAA and David J. Macesic, ACAS, MAAA of INS Consultants, Inc., reviewed the reserves for loss and loss adjustment expenses as of December 31, 2010 and calculated estimated loss and loss adjustment expense reserves $334,000 higher than the Company's booked reserves as reported in the 2010 Annual Statement. This variance represents 5.8% of surplus. Accordingly, an adjustment of $334,000 was made, increasing loss reserves by the deficiency calculated to be in compliance with Section 625.101, Florida Statutes.

**Subsequent Event:** The Company's reserves as of June 30, 2011 were reviewed by the Office and calculated at an amount $268,000 higher than the Company's booked loss and LAE reserves as reported in the quarterly statement as of June 30, 2011. This variance represents 4.9% of surplus reported as of June 30, 2011.

**Payable to parent, subsidiaries and affiliates** $0

The examination adjustment of $657,702 reflects both a $659,689 increase necessary to report premium receivable balances properly as noted above and a $1,987 decrease due to the improper netting with a receivable balance.

## Capital and Surplus

The adjusted surplus amount of $5,441,750, 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, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's adjusted Surplus as regards policyholders was $5,441,750, which exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John V. Normile, CFE, Examiner-In-Charge and Patricia Casey Davis, CPA, CFE, Manager of INS Regulatory Insurance Services, Inc.; David J. Macesic, ACAS, MAAA, and Robert W. Gardner, FCAS, MAAA, consulting actuaries of INS Consultants, Inc.; and Paul Berkebile, CFSA, CISA, Senior Manager and Claude Granese, CPA, Director of Finance and Quality Control of INS Services, Inc. participated in the examination.

Respectfully submitted,

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