

REPORT ON EXAMINATION
OF
SECURITY NATIONAL INSURANCE
COMPANY

DAVIE, FLORIDA

AS OF
DECEMBER 31, 2011

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS	2
PRIOR EXAM FINDINGS	2
HISTORY	4
GENERAL	4
DIVIDENDS TO STOCKHOLDERS	5
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS	5
SURPLUS NOTES	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	6
CORPORATE RECORDS	6
CONFLICT OF INTEREST	6
MANAGEMENT AND CONTROL	7
MANAGEMENT	7
AFFILIATED COMPANIES	8
ORGANIZATIONAL CHART	10
CONSOLIDATED TAX SHARING AGREEMENT	11
AGENCY AGREEMENT	11
SERVICE AGREEMENT	11
QUOTA SHARE REINSURANCE AGREEMENT	12
FIDELITY BOND AND OTHER INSURANCE	12
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	12
TERRITORY AND PLAN OF OPERATIONS	12
TREATMENT OF POLICYHOLDERS	13
COMPANY GROWTH	13
PROFITABILITY OF COMPANY	14
LOSS EXPERIENCE	14
REINSURANCE	14
ASSUMED	15
CEDED	15
ACCOUNTS AND RECORDS	15
CUSTODIAL AGREEMENT	16
INDEPENDENT AUDITOR AGREEMENT	16
INFORMATION TECHNOLOGY REPORT	17
STATUTORY DEPOSITS	17

FINANCIAL STATEMENTS PER EXAMINATION.....	17
ASSETS	18
LIABILITIES, SURPLUS AND OTHER FUNDS	19
STATEMENT OF INCOME	20
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	21
COMMENTS ON FINANCIAL STATEMENTS.....	22
LIABILITIES.....	22
CAPITAL AND SURPLUS	23
SUMMARY OF RECOMMENDATIONS.....	24
CONCLUSION.....	25

October 4, 2012

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 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, 2011, of the financial condition and corporate affairs of:

**SECURITY NATIONAL INSURANCE COMPANY
5701 STIRLING ROAD
DAVIE, FLORIDA 33314**

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, 2007, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced with planning at the Office on July 9, 2012, to July 13, 2012. The fieldwork commenced on July 16, 2012, and concluded as of October 4, 2012.

This financial examination was a multi-state 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

Accounts and Records

During the review of policyholder balances, it was noted that the Company did not age its agents' balances on a separate, policy by policy basis. The Company was in violation of Rule 69O-138.024 (2), Florida Administrative Code.

Losses and Loss Adjustment Expense

During the review of the actuarial report and methodologies, there were issues related to minor discrepancies within the report as well as lack of sufficient documentation supporting annual development review, calculation of net reserves, and adjusting and other expenses.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

The Company was covered under a financial institution bond under the parent, Bristol West Holdings, Inc. The bond was sufficient on an individual basis but did not meet the minimum amount suggested by the NAIC Financial Condition Examiners Handbook for

the entire group of companies that comprised Bristol West Holdings, Inc. **Resolution:** Security National Insurance Company is currently covered under a \$15 million fidelity bond that provides coverage for all companies comprising the Farmers Insurance Group. The financial institution bond for the Company and the entire group of companies was increased to an amount that met the minimum amount suggested by the NAIC.

The Company was unable to locate all of the policy files in any of the three samples selected for testing. **Resolution:** According to agency agreements in place, Security National Insurance Company's independent agents are required to maintain hard copies of all original policy documents. During the current examination, all policy files were produced without exception.

The Company had not written Commercial auto business during 2006 or 2007. **Resolution:** The Company requested the Office remove commercial auto from its Certificate of Authority. The Company withdrew two lines of business, Commercial Auto Liability and Commercial Auto Physical Damage, from its Florida Certificate of Authority in 2009.

In 2007, the Company's ratio of gross written premiums (as adjusted) to policyholders' surplus was not at the level required by Section 624.4095(1), Florida Statutes. **Resolution:** The Company's parent, Bristol West Holdings, Inc., made a \$10 million surplus contribution to the Company on March 5, 2008. This gross paid in and contributed surplus brought the ratio into compliance.

HISTORY

General

The Company was incorporated in Florida on March 1, 1989, and commenced business on April 6, 1989, as a stock property and casualty insurer. On June 29, 2007, the Company's parent, Bristol West Holdings, Inc. was acquired by Farmers Group, Inc. and re-sold to Farmers Insurance Exchange (37.5%) Truck Insurance Exchanges (8.75%) Fire Insurance Exchange (3.75%) and Mid-Century Insurance Company (50%). In 2008, Farmer's Insurance Exchange acquired an additional (4.5%) ownership, purchasing 2.5% from Mid-Century Insurance Company and 2% from Truck Insurance Exchange. The ultimate controlling persons of the holding company are Zurich Financial Service Ltd. and Farmers Insurance Exchange.

The Company was authorized to transact the following insurance coverage in Florida on April 6, 1989 and continues to be authorized as of December 31, 2011:

Private passenger auto physical damage
Private passenger auto liability

The Articles of Incorporation were not amended during the period covered by this examination. The Company's Board of Directors adopted changes to the Bylaws on February 8, 2008. The Board of Directors resolved to amend the Bylaws as follows: The number of directors of the Corporation shall be no fewer than five and no more than fifteen. The number of directors may be either increased or diminished from time to time within those limits without further action by the Corporation's directors or shareholders. These changes were not properly reflected in the Bylaws provided nor were these changes filed with the Office. The Company was in violation of Section 628.221 (3), Florida Statutes.

Subsequent Event: The Company filed its amended Bylaws with the Office on October 3, 2012.

Dividends to Stockholders

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

Capital Stock and Capital Contributions

On December 27, 2010, the Company's Board of Directors approved an increase in the par value of the Company's Class A voting common stock and Class B nonvoting common stock from \$1 par value per share to \$3 par value per share.

As of December 31, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$3,000,000
Par value per share	\$3.00

Control of the Company was maintained by its parent, Bristol West Holdings, Inc., who owned 75% of the stock issued by the Company, who in turn was 42% owned by Farmers Insurance Exchange. Gross paid in and contributed surplus was \$30,461,833 as of December 31, 2011. Of this amount, \$10 million was received from Bristol West Holdings, Inc. as a cash contribution from on March 5, 2008, followed by contributions of \$2 million on March 31, 2009, and \$2.5 million on December 15, 2009. Due to the increase in par value noted above, \$2 million was re-classified from gross paid in and contributed surplus to common capital stock in 2010.

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

On June 29, 2007, the Company's parent was acquired by Farmers Group, Inc. The Office granted approval of the application by Farmers Group Inc., Bristol West Holdings Acquisition Company, Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange, and Mid-Century Insurance Company to acquire all of the outstanding voting securities of the Company. The Company had no other acquisitions, mergers, disposals, or purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), 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 NAIC Financial Condition Examiners Handbook, which was 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 annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook, which was 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, 2011, were:

Directors

Name and Location	Principal Occupation
Kenneth Wayne Bentley Glendale, California	Vice President, Community Affairs Nestle USA
Peter David Kaplan Los Angeles, California	President Academy Award Clothes, Inc.
Gary Randolph Martin(a) Las Vegas, Nevada	President Covenant Management Corporation
Ronald Gregory Myhan Los Angeles, California	Executive Vice President Farmers Insurance Exchange
Donald Eugene Rodriguez Pasadena, California	Executive Director Boys & Girls Club of Long Beach
Audrey Elaine Sylvan (a) Independence, Ohio	President Bristol West Insurance Group
John Tsu-Chao Wuo Arcadia, California	President Golden Apple Group, Int'l

(a) As of June 30, 2012, these directors were no longer on the board and the following new directors were appointed.

Timothy Martin Madden Tampa, Florida	President Bristol West Insurance Group
David Wayne Louie Los Angeles, California	Vice President CBRE Group
Dale Anne Marlin Monument, Colorado	Retired

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

Senior Officers

Name	Title
Audrey Elaine Sylvan (a)	President
Maria Eugenia Aguilera	Treasurer
Martin Robert Brown	Secretary

(a) Resigned and replaced by Timothy Madden as President on June 6, 2012.

The Company's Board appointed several internal committees. Following were the principal board committees and their members as of December 31, 2011:

Audit Committee

Guy M. Hanson¹
Frederick H. Kruse
Gary R. Martin
Gerald A. McElroy
Donnell Reid
Stanley R. Smith
O. Joel Wallace

Investment Committee

Peter Teuscher¹
Jeffrey J. Dailey
Scott R. Lindquist
Ronald G. Myhan
Mhayse G. Samalya

¹Chairman

The Company maintained an independent audit committee, in accordance with Rule 690-137.002(14), Florida Administrative Code.

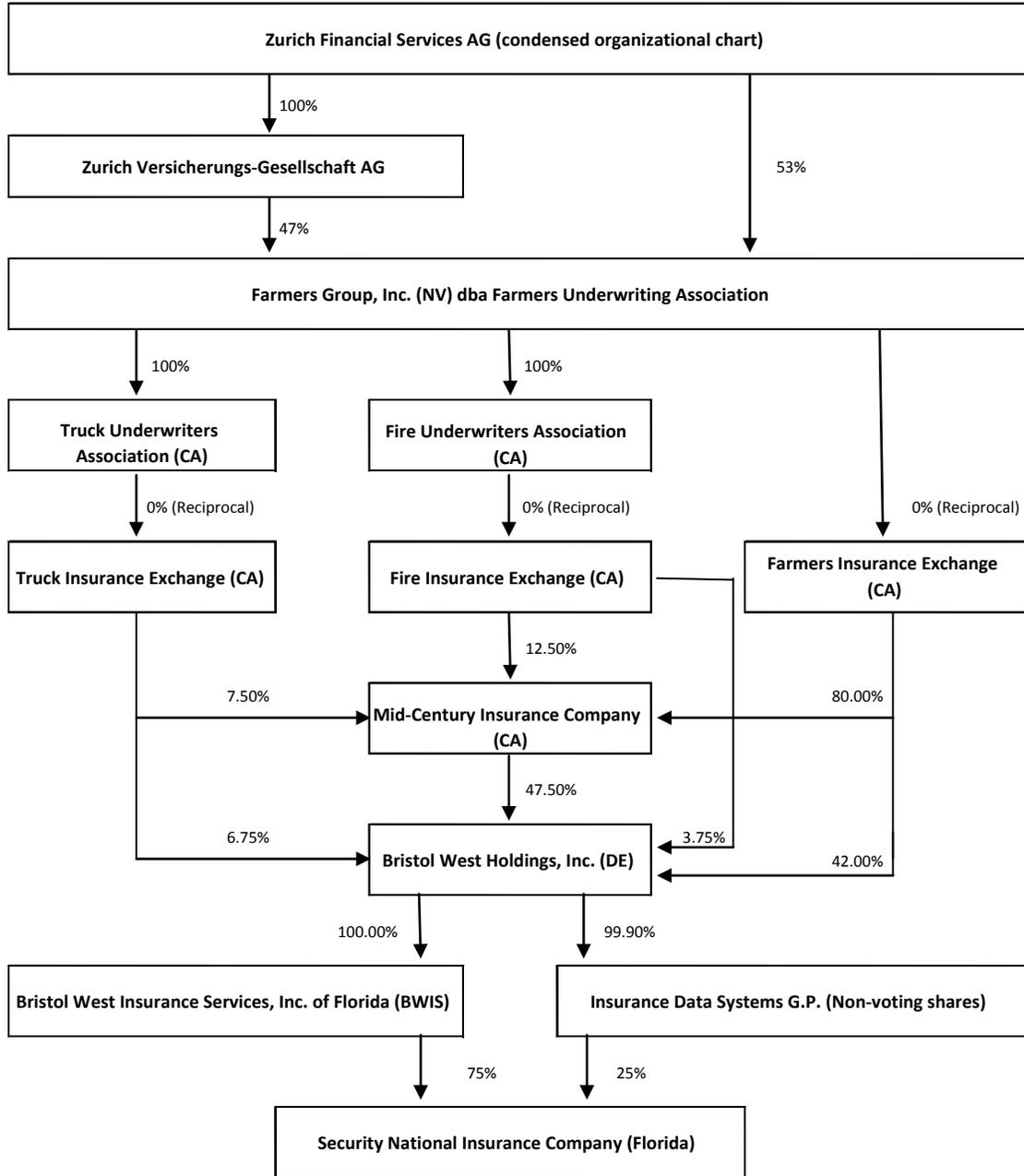
Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 15, 2012, as required by Section 628.801, Florida Statutes, and Rule 690-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2011, reflecting the direct line of ownership of the Company in the holding company system and the agency that the Company had an Agency Agreement with, is shown on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

SECURITY NATIONAL INSURANCE COMPANY ORGANIZATIONAL CHART

DECEMBER 31, 2011



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

Consolidated Tax Sharing Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2011, the Company, with its parent and affiliates, participated in a tax-sharing agreement whereby Farmers Insurance Exchange (FIE) received from its affiliates the tax they would pay if they had filed separate returns and paid to the affiliates amounts for the tax benefits realized by the consolidated group through utilization of their net losses. Any expense or benefit so derived was recognized in the respective affiliate's current tax provision. Intercompany tax balances were settled monthly based on estimates with the final settlement made annually within 30 days after the return has been filed.

Agency Agreement

The Company entered into an Agency Agreement with Bristol West Insurance Services, Inc. of Florida (BWIS) on July 10, 1998. The Company appointed BWIS to represent it for the production and servicing of all lines of insurance the Company is authorized to write, for which rates, policies and forms have been filed with the Office. Fees incurred under this agreement during 2011 amounted to \$0.

Service Agreement

Effective March 1, 2010, the Company entered into a service agreement with FIE, whereby FIE provides various services to the Company as necessary for the Company to discharge its obligations to its policyholders, shareholders, and regulators. This agreement broadly encompasses, claims adjustment services, investment management services, preparation of insurance policies, billing and collections, and other administrative services. The agreement

continues in force for a term of five years and will automatically renew, unless otherwise terminated within the guidelines of the agreement.

Quota Share Reinsurance Agreement

Effective December 31, 2010, the Company entered into a new quota share reinsurance agreement with FIE. Under this agreement, the Company agreed to cede 100% of its net business, as well as 100% of its net unearned premium reserves as of December 31, 2010.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$15,000,000 with a deductible of \$1,000,000, which reached the suggested minimum as recommended by the NAIC.

The Company was covered under commercial general liability, commercial umbrella excess liability, other liability policies, executive liability and indemnification insurance, excess directors' and officers' coverage, auto coverage, fiduciary liability insurance, etc. The Company had adequate, comprehensive coverage for risks to which it may be exposed.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or insurance plans.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states: Florida and Texas.

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 has been growing through the affiliated insurance agency, Bristol West Insurance Services, Inc. of Florida, which is a wholly owned subsidiary of Bristol West Holdings, Inc. a member of the Zurich holding company. The Company reported an increase in total capital and surplus in each of the last five years. Of the surplus increase of \$18,632,195, only \$7,415,332 was due to net income. The Company's gross written premium also increased from 2006 through 2011. Net premium decreased to zero, due to the 100% quota share reinsurance agreement with FIE. The Company wrote business in Florida and Texas, but its business in Texas is in run-off mode. As of December 31, 2011, the Company's investment portfolio was comprised of bonds (97.5%) and short-term investments (2.5%).

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2011	2010	2009	2008	2007
Premiums Earned	0	23,606,683	21,769,732	17,562,169	12,874,548
Net Underwriting Gain/(Loss)	(414,763)	5,850,251	(1,048,999)	915,421	(6,757,028)
Net Income	1,253,010	6,031,247	890,829	2,742,511	(3,502,265)
Total Assets	146,319,531	150,867,899	153,892,088	124,864,613	90,455,506
Total Liabilities	111,061,573	116,920,997	122,574,751	99,686,340	76,856,051
Capital and Surplus	35,257,958	33,946,902	31,317,337	25,178,273	13,599,455

LOSS EXPERIENCE

During the current examination period, the Company showed adverse one-year development in four of the last five years, but favorable two-year net loss development in the last two years. This was a result of fewer claims being reported for prior accident years than management had anticipated. The two-year net loss development at the end of 2011 was favorable at \$2.1 million.

REINSURANCE

The reinsurance agreements 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

Effective December 31, 2010, the Company entered into a new quota share reinsurance agreement with FIE. Under this agreement, the Company ceded 100% of its net business, as well as 100% of its net unearned premium reserves as of December 31, 2010.

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 Davie, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 2008, 2009, 2010 and 2011, 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 books and records were maintained by electronic processing equipment. The accounting system, which is fully automated, produces a general ledger, subsidiary ledgers and other reports as required for the preparation of financial statements and other management or regulatory reporting.

The tests of the Company's accounts and records for the period covered by this examination period were determined based on procedures promulgated by the NAIC, applicable directives issued by the Office and the professional judgment of the examiner.

The examination noted that the Company is not properly identifying and aging all agents' balances at the policy level. At the time of policy submission, the Company debits a cash suspense account pending the successful transfer of premium funds from the agent. This same account is also used for pending 3rd party credit card and auto-draft settlements on direct payments by policyholders. Consequently, the Company was not specifically identifying the portions due from agents and reporting those as agent's balances in the course of collection. As of December 31, 2012, the amount due from agents was below tolerable error and no exam adjustment was warranted. However, the Company's failure to correctly record and age its agents' balances in the course of collection was in violation of Rule 69O-138.024 (2), Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with the BNY Trust Company of Florida, N.A. executed on August 1, 2002. The Company also maintained a custodial agreement with JP Morgan Chase Bank, N.A., which was executed on October 15, 2007. The agreements were in compliance with Rule 69O-143.042, Florida Administrative Code.

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

Tracy Gates, CISA, 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 as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Cash	\$ 250,000	\$ 250,000
FL	US Treasury Note/Bond, 2.125%, 02/29/16	50,000	53,047
FL	FL St Board of Ed public, 5.000%, 06/01/17	<u>500,000</u>	<u>585,090</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 800,000</u>	<u>\$ 888,137</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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."

SECURITY NATIONAL INSURANCE COMPANY
Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$67,522,058		\$67,522,058
Cash and Short-Term Investments	1,746,971		1,746,971
Investment income due and accrued	472,258		472,258
Agents' Balances:			
Uncollected premium	2,358,458		2,358,458
Deferred premium	55,025,638		55,025,638
Reinsurance recoverable	17,644,387		17,644,387
Net deferred tax asset	1,501,388		1,501,388
Aggregate write-in for other than invested assets	48,373		48,373
Totals	<u>\$146,319,531</u>	<u>\$0</u>	<u>\$146,319,531</u>

SECURITY NATIONAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,643,795		\$2,643,795
Loss adjustment expenses	877,420		877,420
Commissions payable	2,841,353		2,841,353
Other expenses	279,213		279,213
Taxes, licenses and fees	3,032,343		3,032,343
Advance premium	683,424		683,424
Ceded reinsurance premiums payable	92,993,387		92,993,387
Remittances and items not allocated	12,086		12,086
Payable to parent, subsidiaries and affiliates	6,428,667		6,428,667
Aggregate write-ins for liabilities	1,269,885		1,269,885
Total Liabilities	\$111,061,573	\$0	\$111,061,573
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	30,461,833		30,461,833
Unassigned funds (surplus)	1,796,125		1,796,125
Capital and surplus	\$35,257,958	\$0	\$35,257,958
Total liabilities, surplus and other funds	\$146,319,531	\$0	\$146,319,531

SECURITY NATIONAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2011

Underwriting Income

Premiums earned		\$0
	Deductions:	
Losses incurred		\$237,251
Loss adjustment expenses incurred		177,512
Other underwriting expenses incurred		0
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$414,763
Net underwriting gain or (loss)		(\$414,763)

Investment Income

Net investment income earned		\$1,883,935
Net realized capital gains or (losses)		(19,281)
Net investment gain or (loss)		\$1,864,654

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		(19,552)
Total other income		(\$19,552)
Net income before dividends to policyholders and before federal & foreign income taxes		\$1,430,339
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$1,430,339
Federal & foreign income taxes incurred		177,329
Net Income		\$1,253,010

Capital and Surplus Account

Capital and surplus, December 31 prior year		\$33,946,902
Net Income		\$1,253,010
Net unrealized capital gains or losses		29,789
Change in net deferred income tax		(229,967)
Change in non-admitted assets		258,224
Change in surplus as regards policyholders for the year		\$1,311,056
Capital and surplus, December 31 current year		\$35,257,958

A comparative analysis of changes in surplus is shown below.

SECURITY NATIONAL INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

The following is a reconciliation of Capital and Surplus between that reported by the Company and as determined by the examination.

Capital and Surplus
December 31, 2011, per Annual Statement \$35,257,958

	<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>
Capital and Surplus December 31, 2011, Per Examination				<u><u>\$35,257,958</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 3,521,215

An affiliate corporate actuary, appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2011, 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 exam actuary, Dennis Henry, FCAS, MAAA of The Actuarial Advantage, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Minor Discrepancies – The actuarial report showed 89,815,776 in gross losses and loss adjustment expense reserves for the Company as part the Bristol West group of companies. Whereas the actual reported gross losses and LAE were 90,010,000. Since the correct actual reported amount was used for his materiality, this difference of 194,224 does not impact the Company actuary's final conclusions.

Annual Development – The actuarial report did not have documentation showing a comparison of annual development to implied annual factors.

Calculation of Net Reserves – the Company woksheets clearly documented the process used to obtain the direct reserves, but an exhibit showing the netting down to reserves after reinsurance would have been helpful.

Adjusting and Other Expense (AOE) – Documentation of the support for the cost relativities, and tying the selected cost per feature to the analysis files would have been helpful, as – there were minor balance discrepancies between the selected cost per feature in the AOE documentation and in the analysis files.

Capital and Surplus

The amount of Capital and Surplus reported by the Company of \$35,257,958, exceeded the minimum of \$9,846,791 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Accounts and Records

We recommend that the Company age and separately account for its agents' balances on a policy by policy basis in accordance with the provisions of Rule 69O-138.024 (2), Florida Administrative Code.

Losses and Loss Adjustment Expense

We recommend a review of the actuarial report to mitigate discrepancies that were noted between various tables in the report.

We recommend reviewing annual development for liability and physical damage compared to implied annual factors as one way to test the reasonableness of final selections. With a particular focus on liability, where differences exist, enhanced documentation within the report in support of the selection thought process would be helpful to readers and users of the actuarial report.

We recommend increased documentation in the actuarial report to show the calculation of new reserves.

We recommend increased documentation in the actuarial report to show the calculation of Adjusting and Other Expense reserves, specifically the application of coverage relativities to average cost to obtain the cost per feature for the Company that reconciles to the analysis files.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Security National Insurance Company**, as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's capital and surplus was \$35,257,958, which exceeded the minimum of \$9,846,791 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Diane Carter, CFE, Examiner-In-Charge, Tracy Gates, CISA, IT Examiner, and Travis Harrison, Participating Examiner, all of Highland Clark, participated in the examination. Dennis Henry, FCAS, MAAA, consulting actuary of The Actuarial Advantage, Inc. also participated in the examination. In addition, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, and Syntia King, APIR, Financial Examiner/Analyst II, of the Office also participated in the examination.

Respectfully submitted,

Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation