

**EXAMINATION REPORT  
OF**

**UNITED AUTOMOBILE INSURANCE COMPANY**

**Miami Gardens, Florida  
as of  
December 31, 2015**

**BY THE  
FLORIDA OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL</b> .....	-
<b>SCOPE OF EXAMINATION</b> .....	1
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	2
CURRENT EXAMINATION FINDINGS .....	2
PRIOR EXAMINATION FINDINGS .....	2
<b>COMPANY HISTORY</b> .....	3
GENERAL .....	3
DIVIDENDS .....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS NOTES .....	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH REINSURANCE .....	4
<b>CORPORATE RECORDS</b> .....	4
CONFLICT OF INTEREST.....	5
<b>MANAGEMENT AND CONTROL</b> .....	5
MANAGEMENT .....	5
<b>DIRECTORS</b> .....	5
<b>SENIOR OFFICERS</b> .....	6
AFFILIATED COMPANIES .....	7
<b>ORGANIZATIONAL CHART</b> .....	8
TAX ALLOCATION AGREEMENT.....	9
EXPENSE ALLOCATION AGREEMENT.....	9
MANAGING GENERAL AGENT AGREEMENT.....	9
<b>TERRITORY AND PLAN OF OPERATIONS</b> .....	10
TREATMENT OF POLICYHOLDERS .....	10
<b>REINSURANCE</b> .....	10
ASSUMED .....	10
CEDED .....	11
<b>ACCOUNTS AND RECORDS</b> .....	12
CUSTODIAL AGREEMENTS .....	12
INVESTMENT ADVISORY AGREEMENT .....	12
REINSURANCE BROKER AGREEMENT .....	12
INDEPENDENT AUDITOR AGREEMENT .....	12
<b>INFORMATION TECHNOLOGY REPORT</b> .....	13
<b>STATUTORY DEPOSITS</b> .....	14
<b>FINANCIAL STATEMENTS</b> .....	15
<b>ASSETS</b> .....	16

<b>LIABILITIES, SURPLUS AND OTHER FUNDS .....</b>	<b>17</b>
<b>STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT .....</b>	<b>18</b>
<b>RECONCILIATION OF CAPITAL AND SURPLUS.....</b>	<b>19</b>
<b>COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....</b>	<b>20</b>
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>21</b>
LIABILITIES .....	21
CAPITAL AND SURPLUS .....	21
<b>SUBSEQUENT EVENTS.....</b>	<b>22</b>
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>23</b>
LOSSES AND LOSS ADJUSTMENT EXPENSES.....	23
<b>CONCLUSION.....</b>	<b>24</b>

November 7, 2016

David Altmaier  
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, 2015, of the financial condition and corporate affairs of

**United Automobile Insurance Company**

1313 North West 167<sup>th</sup> Street  
Miami Gardens, Florida 33169

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2011, through December 31, 2015. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2006, through December 31, 2010. This examination commenced with planning at the Office on March 29, 2016, to April 1, 2016. The fieldwork commenced on April 13, 2016, and concluded as of November 7, 2016.

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

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

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

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Examination Findings**

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements.

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

The reserve for losses was deficient by \$20,320,147 and the reserve for loss adjustment expenses was deficient by \$6,447,686. This resulted in a net deficiency of \$26,767,833.

This is a repeat finding from the 2010 Examination Report.

### **Prior Examination Findings**

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2010, along with resulting action taken by the Company in connection therewith.

### **Custodial Agreement**

The Company had custodial agreements with AmalgaTrust Company, Inc. and Associated Trust Company (Custodians). The agreements provided for the Custodians to hold the Company's invested assets in a custodial capacity and outlined the responsibilities of each party. There were two clauses missing from both of the agreements as required by Rule 69O-143.042 (j) (o), Florida Administrative Code.

**Resolution:** Custodial agreements were amended to comply with Rule 69O-143.042, Florida Administrative Code.

## Losses and Loss Adjustment Expenses

The reserve for losses was deficient by \$24,845,000 and the reserve for loss adjustment expenses was redundant by \$6,378,000. This resulted in a net deficiency of \$18,467,000.

This is a repeat of the 2005 exam report finding.

**Resolution:** The finding is unresolved as of December 31, 2015, and is a repeat finding from the 2010 Examination Report.

## COMPANY HISTORY

### General

The Company was incorporated in Florida on March 2, 1989, and commenced business on July 1, 1990.

The Company was authorized to transact insurance in Florida on July 1, 1990 and is currently authorized for the following lines of business as of December 31, 2015.

Private Passenger Auto Physical Damage	Homeowners Multiple-Peril (Reinsurance Only)
Private Passenger Auto Liability	Allied Lines (Reinsurance Only)
Commercial Auto Physical Damage	Fire (Reinsurance Only)
Commercial Auto Liability	

### Dividends

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

## **Capital Stock and Capital Contributions**

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

Number of authorized common capital shares	2,750,000
Number of shares issued and outstanding	2,750,000
Total common capital stock	\$2,750,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, United Automobile Insurance Group (UAIG), which owned one hundred percent (100%) of the stock issued by the Company, which in turn was one hundred percent (100%) owned by five individuals of the Parrillo family. The parent did not make any contributions to the Company during the period under examination.

## **Surplus Notes**

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

## **Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance**

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

## **CORPORATE RECORDS**

The recorded minutes of the Shareholders, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners 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 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, 2015, are shown below:

#### **Directors**

<b>Name</b>	<b>City, State</b>	<b>Principal Occupation</b>
Richard Peter Parrillo Sr.	Miami, Florida	President, CEO, and Chairman of the Board of the Company
Beau William Parrillo	Miami, Florida	Executive Vice President of the Company
Jack Swift Ramirez	Loch Lloyd, Missouri	Senior Policy Advisor
Patrick Aloysius McCarthy (b)	Oakbrook Terrace, Illinois	Insurance Broker, Mesirow Financial
John G. Spatuzza (a)	Chicago, Illinois	Attorney-at-Law
Barbara P. McCarthy (c)	Oakbrook, Illinois	President of United Group Underwriters, Inc.

(a) Deceased in February 2016 and was replaced by Samantha Parrillo on March 7, 2016.

(b) Resigned on June 9, 2016, and was replaced by Paul Victor Polachek on July 11, 2016.

(c) Resigned on June 13, 2016, and was replaced by Jon Abbott Hitchcock on July 11, 2016.

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

<b>Senior Officers</b>		
<b>Name</b>	<b>City, State</b>	<b>Title</b>
Richard Peter Parrillo Sr.	Miami, Florida	President
Beau William Parrillo	Miami, Florida	Executive Vice President
Sandra Neira Covolo	Miami Gardens, Florida	Senior Vice President
Juan Luis Ferrer	Miami Gardens, Florida	Senior Vice President
Terry Duane Bone (a)	Miami Gardens, Florida	Vice President
Dean David Kozlowski	Chicago, Illinois	Vice President
Paul Victor Polachek	Miami Gardens, Florida	Treasurer
Thayer Atef Musa	Miami Gardens, Florida	Secretary

(a) Resigned on June 1, 2016.

The Company authorized the following committees of its parent, UAIG, to perform committee functions for the Company. Following were the authorized principal internal Board committees and their members of the parent, as of December 31, 2015:

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

<b>Audit Committee</b>		
<b>Name</b>	<b>City, State</b>	<b>Title</b>
George McCarthy <sup>1</sup>	Lake Forrest, Illinois	Director
Cornelius Golding	North Palm Beach, Florida	Director
Sarah Bowman	Bluffton, South Carolina	Director

<sup>1</sup>Chairman

### **Investment Committee**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
K. Mitchell Posner <sup>1</sup>	Franklin Lakes, New York	Director
Richard Parrillo, Sr.	Miami Gardens, Florida	Director
George McCarthy	Lake Forrest, Illinois	Director
Paul Polachek	Miami Gardens, Florida	CFO and Treasurer

<sup>1</sup> Chairman

### **Nominating & Corporate Governance Committee**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
John Spatuzza <sup>1</sup>	Chicago, Illinois	Director
Cornelius Golding	North Palm Beach, Florida	Director
Dr. Mark Siegler	Chicago, Illinois	Director

<sup>1</sup> Chairman

### **Compensation Committee**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
Jon Hitchcock <sup>1</sup>	Mequon, Wisconsin	Director
Barbara McCarthy	Oakbrook, Illinois	Director
George McCarthy	Lake Forrest, Illinois	Director
Beau Parrillo	Miami, Florida	Director
Jack Ramirez	Loch Lloyd, Missouri	Director

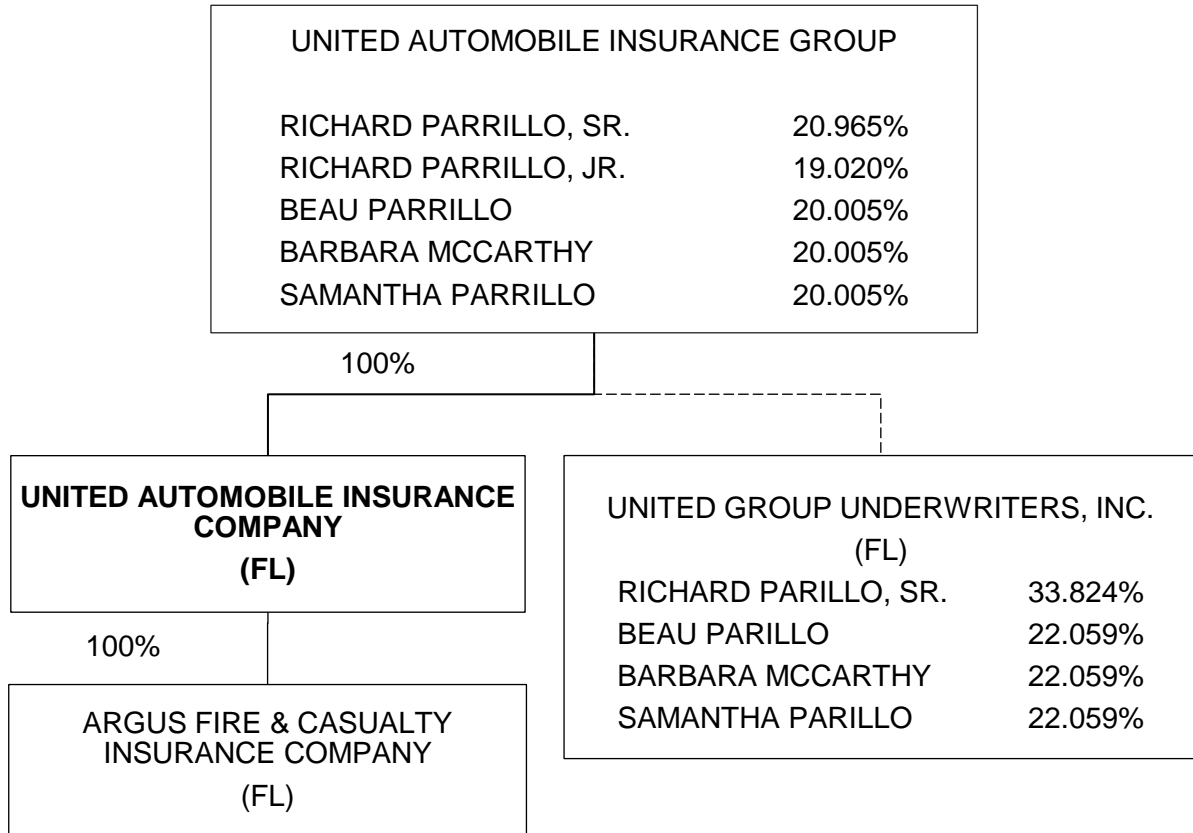
<sup>1</sup> Chairman

### **Affiliated Companies**

The most recent holding company registration statement was filed with the Office on July 12, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

**United Automobile Insurance Company  
Organizational Chart  
December 31, 2015**



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

### **Tax Allocation Agreement**

The Company, along with its subsidiary, Argus Fire & Casualty Insurance Company (Argus), filed a consolidated federal income tax return on December 31, 2015. The method of allocation between the Company and Argus was on a separate-entity basis. Argus recorded an inter-company income tax payable with the Company. Within thirty (30) days of the remittance by the Company of any income tax filing to the taxing authorities, the inter-company tax receivables/payables were settled.

### **Expense Allocation Agreement**

The Company entered into an Expense Allocation Agreement with United Group Underwriters (UGU), United Premium Finance Company (UPF), and other affiliated companies on January 1, 2009. The agreement allocated expenses to affiliates based on the prior year's total assets of the companies' subject to the agreement. Expenses allocated to affiliates under this agreement during 2015 amounted to \$1,875,225.

### **Managing General Agent Agreement**

The Company entered into a Managing General Agency (MGA) Agreement with its affiliate, UGU on September 11, 2015. The agreement continues in force unless terminated within the guidelines of the agreement. MGA fees were based on twenty-two percent (22%) of gross written premium, IT fees were based on four percent (4%) of gross written premium, and included a \$25 policy fee. Fees incurred under this agreement during 2015 amounted to approximately \$86,668,755.

## TERRITORY AND PLAN OF OPERATIONS

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

Arizona	Kansas	Oklahoma
Arkansas	Kentucky	Pennsylvania
Florida	Louisiana	South Carolina
Georgia	Mississippi	Utah
Illinois	Nebraska	
Indiana	Nevada	

### 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.

## 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.

### Assumed

The Company assumed risk on an excess of loss basis and quota share basis from insurers under two reinsurance treaties.

Effective April 1, 2010, the Company assumed risk on a one hundred percent (100%) quota share basis of all private passenger auto business written by the reinsured, Old American

County Mutual Fire Insurance Company, through the Company's affiliated managing general agent, UGU. All business written was in Texas.

Effective May 27, 2011, the Company assumed risk on an excess of loss basis from its subsidiary, Argus, for each loss occurrence over \$100,000, with a limit of \$5,100,000 for any one loss occurrence, and an aggregate limit of \$5,100,000.

## **Ceded**

The Company ceded risk on a quota share basis to reinsurers under various reinsurance treaties. As of December 31, 2015, the Company ceded risk under various treaties, which had effective terms ranging from three (3) months to a year depending on the treaty, on a fifty percent (50%) (term of one (1) year), approximately twenty-nine percent (29%) (term of 6 months), approximately sixty-two percent (62%) (term of 3 months), and approximately sixteen percent (16%) (term of 3 months) quota share basis.

Quota share treaties covered risks for the Company's business written in Florida and Texas in accordance with the reinsurance treaty. The Company retained losses in the 5-point loss ratio corridor between fifty-seven percent (57%) and sixty-one percent (61%) and above one hundred percent (100%), which roughly caps the ceded loss-only ratio at ninety-five percent (95%) (equals the one hundred percent (100%) limit minus the five percent (5%) corridor). Losses applicable to Personal Injury Protection (PIP) coverages included in losses incurred were capped at one hundred twenty-five percent (125%) of premiums earned for PIP coverages. Also, the amount of allocated loss adjustment expense included in losses incurred was capped at eight percent (8%) of premiums earned.

The Company's primary quota share treaty (the 50/50 quota share treaty as of December 31, 2015, noted above) was renewed annually during the period under examination, and the quota share basis ranged from forty percent (40%) to fifty-five percent (55%) from 2011 to 2015. Each of these quota share treaties were commuted within 24 months of the treaties' effective date for each year under examination. Effective April 1, 2015, the 50/50 quota share treaty with an effective date of April 1, 2013, was commuted.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Miami Gardens, Florida.

The Company and non-affiliates had the following agreements:

### **Custodial Agreements**

The Company maintained custodial agreements with AmalgaTrust Company, Inc., Citibank, N.A., and The Northern Trust Company, executed on July 1, 2001, March 27, 2013, and August 12, 2013, respectively. The agreements complied with Rule 69O-143.042, Florida Administrative Code.

### **Investment Advisory Agreement**

The Company maintained an Investment Advisory Agreement with Goldman Sachs Asset Management, L.P. (Goldman Sachs), executed on July 28, 2015. The Company appointed Goldman Sachs as investment advisor over a portion of its assets for the purpose of selecting and executing transactions in accordance with the Company's investment guidelines.

### **Reinsurance Broker Agreement**

The Company maintained a Reinsurance Broker Agreement with TigerRisk Partners, LLC (TigerRisk), executed on June 29, 2011. The Company designated TigerRisk as the broker of record for negotiating, placing, and servicing reinsurance contracts as outlined by the Company.

### **Independent Auditor Agreement**

An independent CPA, Dixon Hughes Goodman, LLP, audited the Company's statutory basis financial statements annually for the years 2011, 2012, 2013, 2014 and 2015, in accordance



with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

## **INFORMATION TECHNOLOGY REPORT**

Francois Houde, CPA, CA, CFE, CISA, AES, IT Examiner, of Carr, Riggs and Ingram, LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTNTS	1.5% <u>\$ 2,025,000</u>	<u>\$ 2,027,855</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 2,025,000</u>	<u>\$ 2,027,855</u>
GA	MM Account	\$ 35,000	\$ 35,000
LA	CD	0.75% 25,000	25,634
NV	USTNTS	0.5% 500,000	498,145
OK	USTNTS	2.625% 300,000	311,838
SC	USTNTS	0.625% <u>125,000</u>	<u>124,859</u>
TOTAL OTHER DEPOSITS		<u>\$ 985,000</u>	<u>\$ 995,476</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 3,010,000</u>	<u>\$ 3,023,331</u>

## **FINANCIAL STATEMENTS**

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

**United Automobile Insurance Company**

**Assets**

**December 31, 2015**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$90,374,610		\$90,374,610
Stocks:			
Common stocks	3,187,820		3,187,820
Mortgage loans on real estate:			
First liens	99,857		99,857
Real estate:			
Properties occupied by the company	27,217,027		27,217,027
Cash and short-term investments	89,008,300		89,008,300
Other invested assets	2,032,788		2,032,788
Investment income due and accrued	532,081		532,081
Agents' balances:			
Uncollected premiums	27,238,720		27,238,720
Deferred premiums	78,749,763		78,749,763
Current federal and foreign income tax recoverable	217,500		217,500
Net deferred tax asset	8,970,032		8,970,032
Receivables from parent, subsidiaries and affiliates	5,584,775		5,584,775
Aggregate write-ins for other than invested assets	6,586,696		6,586,696
Totals	<u>\$339,799,969</u>	<u>\$0</u>	<u>\$339,799,969</u>

**United Automobile Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2015**

	Per Company	Examination Adjustments	Per Examination
Losses	\$98,520,982	\$20,320,147	\$118,841,129
Loss adjustment expenses	31,786,018	6,447,686	38,233,704
Commissions payable	(11,818,272)		(11,818,272)
Other expenses	3,810,269		3,810,269
Taxes, licenses and fees	1,894,133		1,894,133
Current federal and foreign income taxes	(90,000)		(90,000)
Unearned premiums	38,472,065		38,472,065
Advance premium	692,169		692,169
Funds held under reinsurance treaties	89,799,948		89,799,948
Amounts withheld or retained for others	2,959,994		2,959,994
Drafts outstanding	14,998,376		14,998,376
Payable to parent, subsidiaries and affiliates	4,041		4,041
<b>Total Liabilities</b>	<b>\$271,029,723</b>	<b>\$26,767,833</b>	<b>\$297,797,556</b>
Common capital stock	\$2,750,000		\$2,750,000
Gross paid in and contributed surplus	90,500,000		90,500,000
Unassigned funds (surplus)	(24,479,754)	(26,767,833)	(51,247,587)
Surplus as regards policyholders	\$68,770,246	(\$26,767,833)	\$42,002,413
<b>Total liabilities, surplus and other funds</b>	<b>\$339,799,969</b>		<b>\$339,799,969</b>

**United Automobile Insurance Company**  
**Statement of Income and Capital and Surplus Account**  
**December 31, 2015**

**Underwriting Income**

Premiums earned	\$202,751,974
<b>Deductions:</b>	
Losses incurred	\$124,379,735
Loss adjustment expenses incurred	59,825,314
Other underwriting expenses incurred	46,311,233
Aggregate write-ins for underwriting deductions	<u>0</u>
Total underwriting deductions	<u>\$230,516,282</u>
Net underwriting gain (loss)	(\$27,764,308)

**Investment Income**

Net investment income earned	\$3,369,475
Net realized capital gains (losses)	<u>74,985</u>
Net investment gain (loss)	\$3,444,460

**Other Income**

Net gain (loss) from agents' or premium balances charged off	(\$1,586,652)
Finance and service charges not included in premiums	18,989,170
Aggregate write-ins for miscellaneous income	<u>31,851</u>
Total other income	<u>\$17,434,369</u>
Net income (loss) before dividends to policyholder and before federal and foreign income taxes	(\$6,885,479)
Dividends to policyholders	<u>0</u>
Net income (loss), after dividends to policyholders, and before federal and foreign income taxes	(\$6,885,479)
Federal and foreign income taxes	<u>(40,049)</u>
Net income (loss)	<u><u>(\$6,845,430)</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$76,278,678
Net income (loss)	(6,845,430)
Change in net unrealized capital gains or (losses)	82,064
Change in net deferred income tax	2,648,898
Change in nonadmitted assets	(3,393,964)
Change in provision for reinsurance	0
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Examination adjustment	<u>(26,767,833)</u>
Change in surplus as regards policyholders for the year	<u>(\$34,276,265)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$42,002,413</u></u>

**United Automobile Insurance Company**  
**Reconciliation of Capital and Surplus**  
**December 31, 2015**

Capital/Surplus Change During Examination Period			
Surplus as of December 31, 2010, per Exam Report			<u>\$70,707,920</u>
	<u>Increase</u>	<u>Decrease</u>	
Net Income (loss)	\$650,988		\$650,988
Change in non-admitted assets	\$1,090,939		\$1,090,939
Net unrealized capital gains (losses)	\$2,636,132		\$2,636,132
Change in net deferred income tax		\$76,221	(\$76,221)
Adjustment from 2010 exam	\$20,282,976		\$20,282,976
Net increase (decrease)			<u>\$24,584,814</u>
Surplus as of December 31, 2011, per Annual Statement			<u>\$95,292,734</u>
Net Income (loss)		\$35,649,629	(\$35,649,629)
Change in non-admitted assets		\$2,400,403	(\$2,400,403)
Net unrealized capital gains (losses)		\$1,120,505	(\$1,120,505)
Change in net deferred income tax	\$7,455,838		\$7,455,838
Rounding		\$1	(\$1)
Net increase (decrease)			<u>(\$31,714,700)</u>
Surplus as of December 31, 2012, per Annual Statement			<u>\$63,578,034</u>
Net Income (loss)	\$10,636,313		\$10,636,313
Change in non-admitted assets	\$7,034,986		\$7,034,986
Net unrealized capital gains (losses)	\$1,246,212		\$1,246,212
Change in net deferred income tax		\$2,050,327	(\$2,050,327)
Rounding		\$1	(\$1)
Net increase (decrease)			<u>\$16,867,183</u>
Surplus as of December 31, 2013, per Annual Statement			<u>\$80,445,217</u>
Net Income (loss)		\$4,795,394	(\$4,795,394)
Change in non-admitted assets		\$1,702,290	(\$1,702,290)
Net unrealized capital gains (losses)	\$793,014		\$793,014
Change in net deferred income tax	\$1,538,131		\$1,538,131
Net increase (decrease)			<u>(\$4,166,539)</u>
Surplus as of December 31, 2014, per Annual Statement			<u>\$76,278,678</u>
Net Income (loss)		\$6,845,430	(\$6,845,430)
Change in non-admitted assets		\$3,393,964	(\$3,393,964)
Net unrealized capital gains (losses)	\$82,064		\$82,064
Change in net deferred income tax	\$2,648,898		\$2,648,898
Examination adjustment			(\$26,767,833)
Net increase (decrease)			<u>(\$34,276,265)</u>
Surplus as of December 31, 2015, per Annual Statement			<u>\$42,002,413</u>

**United Automobile Insurance Company**  
**Comparative Analysis of Changes in Surplus**  
**December 31, 2015**

Analysis of Changes in Surplus		
Surplus at December 31, 2015, per Annual Financial Statement		
	<u>Increase</u>	<u>Decrease</u>
Losses	\$20,320,147	(\$20,320,147)
Loss adjustment expenses	\$6,447,686	(\$6,447,686)
Net increase (or decrease)		<u>(\$26,767,833)</u>
Surplus at December 31, 2015, after adjustment		
		<u>\$42,002,413</u>



## **COMMENTS ON FINANCIAL STATEMENTS**

### **Liabilities**

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

An actuarial firm, Perr & Knight, Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Chris Burkhalter, FCAS, MAAA, of Bickerstaff, Whatley, Ryan & Burkhalter Consulting Actuaries, reviewed the loss and loss adjustment expense work papers provided by the Company. The Office consulting actuary presented an opinion that the reserves, as shown in the 2015 annual statement, were deficient by \$26,768,000. Based on the opinion of the Office consulting actuary, reserves for losses were deficient by \$20,320,000 and the reserves for loss adjustment expenses were deficient by \$6,448,000.

The consulting actuary performed an independent analysis of the Company's book of business by line of business and state on a gross basis separately for loss, defense and cost containment (DCC) expenses. For the net basis, the consulting actuary applied the appropriate quota share percentages to their gross results by accident year, and then added back the amount attributable to the loss ratio corridor where applicable. The consulting actuary received the Company's 2015 Annual Statement and the 2015 Statement of Actuarial Opinion with the accompanying December 31, 2015, actuarial report from the independent actuary, along with the independent actuary's June 30, 2016, actuarial report.

#### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$68,770,246 was adjusted in this examination to the amount of \$42,002,413, which exceeded the minimum of \$28,603,902 required by Section 624.408, Florida Statutes.

## **SUBSEQUENT EVENTS**

Effective January 1, 2016, the MGA agreement with UGU was amended to reduce the MGA fees to 20.5 percent of gross written premium, and IT fees to three percent (3%) of gross written premium.

As of the June 30, 2016, quarterly financial statement filing, the Company's surplus as regards policyholders experienced a significant decrease of \$26,471,963 from the December 31, 2015, reported amount. The decline in surplus was primarily due to adverse loss development. The appointed actuary's reserving analysis as of June 30, 2016, indicated adverse loss development in the amount of \$26,200,000.

Effective September 19, 2016, the Office filed an Initial Order of Suspension against the Company. The Initial Order of Suspension was filed as a result of non-compliance with restrictions on premiums written set forth by Section 624.4095 (1), Florida Statutes, as of June 30, 2016. Based on the June 30, 2016, quarterly financial statement, the Company's actual and projected adjusted annual written premiums to current surplus as to policyholders exceed the limitation set forth by Florida statutes. In accordance with Section 624.4095 (1), Florida Statutes, the Office is required to suspend the Company's Certificate of Authority or establish by order maximum gross or net annual premiums to be written by the Company consistent with the ratios specified in Section 624.4095 (1), Florida Statutes. As a result, the Company has twenty-one (21) days to respond to the Initial Order of Suspension, prior to the Office issuing a Final Order of Suspension. The Company has filed a petition against the Initial Order of Suspension and the petition is currently under review by the Office. Any suspension that may result from the proceeding will not be final until the issuance of Final Order from the Office.

## **SUMMARY OF RECOMMENDATIONS**

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

We recommend that the Company adequately reserve for losses and loss adjustment expense reserves as required by Section 625.041(1) and Section 625.101, Florida Statutes.

## CONCLUSION

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

Per examination annual financial statements, the Company's surplus as regards policyholders was \$42,002,413, which exceeded the minimum of \$28,603,902 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Dale Miller, CPA, CFE, Examiner-in-Charge, Sharon Stuber, CPA, Beth Duncan, CPA and Kenneth Cordell, Participating Examiners, of Carr, Riggs and Ingram, LLC, also participated in the examination. Members of the Office who participated in the examination include, Jeffrey Rockwell, Financial Examiner/Analyst Supervisor, Examination Manager, and Paula Bowyer, APIR, Financial Examiner/Analyst II, Participating Examiner. Additionally, Christopher Burkhalter, MAAA, FCAS, of Bickerstaff, Whatley, Ryan & Burkhalter, and Francois Houde, CPA, CA, CFE, CISA, AES, IT Specialist of Carr, Riggs and Ingram, LLC, are recognized for participation in the examination.

Respectfully submitted,

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