

Report of Examination of

Safe Auto Insurance Company
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio
March 25, 2011

Honorable Mary Taylor
Lieutenant Governor and Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code “ORC”, an examination was made of

Safe Auto Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 4 Easton Oval, Columbus, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2004, by the Ohio Department of Insurance (Department). Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Directors:

Ari Deshe	Chairman of the Board & Chief Executive Officer
Jon P. Diamond	President & Chief Operating Officer
Ralph A. Kaparos	Director
James Schultz	Director
Charles Bryan	Director
Oded Gur-Arie	Director

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Officers:

Greg Sutton	Senior Vice President, Chief Financial Officer & Treasurer
Mark LeMaster	Senior Vice President, General Counsel & Secretary
Jack Coolidge	Senior Vice President, Insurance Operations
April Miller	Senior Vice President, Human Resources and Assistant Secretary
Vic Johnson	Senior Vice President, Claims
Jeffrey Fields	Senior Vice President, Chief Information Officer
Mary Lorms	Vice President, Information Technology
Tom Boyd	Vice President, Marketing
Todd Friedman	Vice President, Claims
Kristin Watkins	Vice President, Sales
Pamela Pond	Vice President, Customer Service
R. Kelly Phillips III	Vice President, Claims Litigation
Grace Strahl	Vice President, Claims
Terry Gusler	Vice President, Chief Actuary
Shane Switzer	Vice President, Strategic Planning
John Elias	Vice President, Underwriting
Thomas Happensack	Vice President, Controller
Guy Fulcher	Vice President, Information Technology
Elie Deshe	Vice President, Emerging Media
Tim Collins	Assistant Vice President, Operations Support

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the chain of ownership of the insurance companies as of December 31, 2009:

- Safe Auto Insurance Group, Inc.
 - Safe Auto Insurance Company
 - SAGI Realty
 - Safe Auto Group Agency
 - Safe Auto Services
 - SAG Statutory Trust I

Reinsurance

Ceded

Reinsurer: General Reinsurance Corporation
Type of contract: Catastrophe
Effective date: January 01, 2010
Term: Annual
Business covered: Personal Automobile Physical Damage Business
Company retention: \$1,000,000
Reinsurance limits: 1st layer-95% of \$1,000,000 in excess of \$1,000,000
2nd layer-95% of \$2,000,000 in excess of \$2,000,000

This contract contained an insolvency clause, intermediary clause, errors and omission clause, arbitration clause and a service of suit clause applicable to foreign reinsurers, which meet the guidelines prescribed by the National Association of Insurance Commissioners ("NAIC").

Territory and Plan of Operations

The Company was licensed to transact business in the states of Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas and Virginia..

<u>Description</u>	<u>Percentage of Net Business Written by Line</u>	<u>2009</u>
Private passenger auto liability		67.8%
Auto physical damage		27.7%
Private passenger auto no fault		4.5%
Total		<u>100.0%</u>

Scope of Examination

One of the purposes of the examination was to assess the financial condition of the Company as of December 31, 2009. To substantiate the various items, tests were either made by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting (CPA) firm of Ernst & Young, LLP, (E&Y), has provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The Department's property and casualty actuary reviewed the relevant work performed by the opining actuary to report on the adequacy of the carried reserves and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

Financial Statements

The financial condition and the results of its operations for the five-year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets

December 31, 2009

Admitted assets

Cash and invested assets:	\$285,321,933
Bonds	
Preferred Stocks	6,871,687
Common Stocks	31,018,014
Real Estate	25,047,101
Cash	<u>348,258,735</u>
Total cash and invested assets	
Accrued investment income	2,587,855
Uncollected premiums and agents' balances	18,026,940
Deferred premiums, agents' balances and installments booked but deferred and not yet due	48,980,379
Net deferred tax asset	11,427,507
Electronic data processing equipment and software	2,641,247
Aggregate write-ins for other than invested assets	5,937,540
Total admitted assets	<u><u>\$437,860,203</u></u>

Liabilities, Surplus and Other Funds

December 31, 2009

Liabilities

Losses	\$121,489,730
Loss adjustment expenses	33,104,999
Other expenses	6,239,163
Taxes, licenses and fees	5,974,004
Current federal and foreign income taxes	90,642
Borrowed money	150,000
Unearned premiums	85,880,415
Payable to parent, subsidiaries and affiliates	7,975,928
Payable for securities	649,961
Aggregate write-ins for liabilities	5,137,484
Total liabilities	<u>266,692,326</u>

Capital and surplus:

Aggregate write-ins for special surplus funds	791,167
Common capital stock	1,500,000
Gross paid in and contributed surplus	41,400,000
Unassigned funds	127,476,710
Total capital and surplus	<u>171,167,877</u>
Total liabilities, capital and surplus	<u>\$437,860,203</u>

Statement of Operations

December 31, 2009

Premiums earned	\$341,495,094
Losses incurred	193,228,910
Loss expenses incurred	34,381,797
Other underwriting expenses incurred	134,624,773
Underwriting (loss)	<u>(20,740,386)</u>
Net investment income earned	11,090,699
Net realized capital gains	6,361,687
Net investment gain	<u>17,452,386</u>
Net (loss) from agents' or premium balances charged off	(5,721,300)
Finance and service charges not included in premiums	33,557,311
Aggregate write-ins for miscellaneous income	1,798,672
Total other income	<u>29,634,683</u>
Income before dividends to policyholders and before federal and foreign income taxes	<u>26,346,683</u>
Dividends to policyholders	<u>-0-</u>
Income after dividends to policyholders but before federal and foreign income taxes	<u>26,346,683</u>
Federal income taxes	<u>4,769,860</u>
Net income	<u>\$21,576,823</u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2005	2006	2007	2008	2009
Capital and surplus December 31, previous year	\$92,997	\$115,212	\$157,146	\$172,616	\$153,439
Net income	3,127	42,874	35,292	(5,036)	21,577
Net unrealized capital gains (losses)	(588)	1,503	(1,078)	(2,470)	(113)
Change in net deferred income tax	2,575	1,685	(678)	6,737	(5,866)
Change in non-admitted assets	(1,149)	(128)	(1,316)	(11,908)	3,732
Cumulative effect of changes in accounting principles					399
Paid in surplus	19,000				
Dividends to stockholders	(750)	(4,000)	(16,750)	(6,500)	(2,000)
Net change in capital and surplus	22,216	41,934	15,470	(19,177)	17,729
Capital and surplus December 31, current year	<u>\$115,212</u>	<u>\$157,146</u>	<u>\$172,616</u>	<u>\$153,439</u>	<u>\$171,168</u>

Summary of Examination Changes

There were no changes made as a result of this examination.

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

Loss and Loss Adjustment Expense Reserves

The Company had an outside actuary, Robert Lowery, FCAS, MAAA; certify the total reserves for December 31, 2009. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

Based on the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2009.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

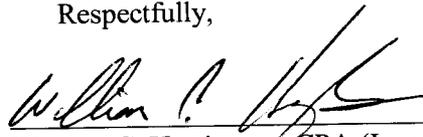
Total Admitted Assets	<u>\$437,860,203</u>
Liabilities	\$266,692,326
Surplus as Regards Policyholders	<u>171,167,877</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$437,860,203</u>

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination:

Respectfully,



William C. Harrington, CPA (Inactive), CFE
Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

William C. Harrington 5/12/2011
Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named, William C. Harrington, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 12 day of May, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires