

Report of Examination of

American Commerce Insurance Company
Columbus, Ohio

As of December 31, 2013

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Columbus, Ohio
May 29, 2015

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

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

American Commerce Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2008. The Department’s current examination covers the period of January 1, 2009 through December 31, 2013.

Representatives of the Massachusetts Division of Insurance, as the Coordinating State regulator of The Commerce Insurance Company, and its affiliated property and casualty insurers, led the multi-state coordinated examination. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and corporate governance, identify and assess current and prospective risks, and evaluate the Company’s system of 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, management’s compliance with Statements of 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.

For each year under examination, the certified public accounting firm of Ernst & Young, LLP provided an unqualified opinion on the combined statutory financial statements of The Commerce Insurance Company and its affiliated property and casualty insurers. The independent auditors’ reports and supporting work papers were reviewed during the examination.

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:

Name	Principal Occupation
Randall V. Becker	Executive Vice President and Chief Financial Officer, MAPFRE U.S.A. Corp.
David H. Cochrane	Executive Vice President, MAPFRE U.S.A. Corp.
Dennis J. Crossley	President and Chief Executive Officer, AAA New York
Fredrick L. Gruel	President and Chief Executive Officer, AAA New Jersey Automobile Club
Daniel P. Olohan	Senior Vice President, General Counsel and Secretary, MAPFRE U.S.A. Corp.
John D. Porter	President and Chief Executive Officer, AAA Oregon and Idaho
Mark A. Shaw	President and Chief Executive Officer, AAA Northeast
Mark H. Shaw	President and Chief Executive Officer, AAA Ohio Auto Club
Jamie Tamayo	President and Chief Executive Officer, MAPFRE U.S.A. Corp.

Officers

As of the examination date, the following senior officers were serving in the designated position:

Name	Title
Jamie Tamayo	President and Chief Executive Officer
Randall V. Becker	Executive Vice President and Chief Financial Officer
Robert E. McKenna	Senior Vice President, Treasurer and Chief Accounting Officer
Daniel P. Olohan	Senior Vice President, Secretary and General Counsel

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. In 2008, MAPFRE S.A. acquired The Commerce Group, Inc. (“CGI”), a Massachusetts corporation that was then publicly traded on the New York Stock Exchange. CGI was renamed MAPFRE U.S.A. Corp., effective January 1, 2010. At the time of the acquisition, the Company, along with The Commerce Insurance Company, Citation Insurance Company, Commerce West Insurance Company and State-Wide Insurance Company, were direct or indirect subsidiaries of CGI.

On July 1, 2009, The Commerce Insurance Company acquired MAPFRE S.A.’s indirect subsidiaries, MAPFRE Insurance Company of Florida and MAPFRE Insurance Company. Following the acquisition, State-Wide Insurance Company changed its name to MAPFRE Insurance Company of New York.

MAPFRE S.A. is 67.7% owned by FUNDACION MAPFRE, a non-profit corporation headquartered in Madrid, Spain, and the ultimate controlling person.

Territory and Plan of Operations

The Company is licensed to transact business in all fifty states and the District of Columbia. The Company primarily markets personal lines of insurance through a network of independent agents, several of which are affiliated with American Automobile Clubs (“AAA”) clubs in 11 states as well as three branch offices. During 2013, the largest states in terms of direct premium written were as follows: New Jersey, \$80.4 million (28.5%); Rhode Island, \$37.3 million (13.2%); Washington, \$35.9 million (12.8%); and Connecticut, \$35.5 million (12.6%). The following schedule illustrates the Company’s premium written in 2013 by line of business, reported in thousands:

Line of Business	Direct	Assumed	Ceded	Net	Percent of Net
Private passenger auto liability	\$115,945	\$ 79,791	\$ 115,945	\$ 79,791	47.28%
Auto physical damage	62,378	57,023	62,378	57,023	33.79%
Homeowners multiple peril	86,841	20,620	86,841	20,620	12.22%
Commercial auto liability	0	7,171	0	7,171	4.25%
Commercial multiple peril	0	2,122	0	2,122	1.26%
Fire	2,648	1,129	2,648	1,129	0.67%
All other	<u>13,727</u>	<u>890</u>	<u>13,727</u>	<u>890</u>	<u>0.53%</u>
Total	<u>\$281,539</u>	<u>\$168,746</u>	<u>\$281,539</u>	<u>\$168,746</u>	<u>100.00%</u>

The Commerce Insurance Company, along with the Company, are member companies of American Nuclear Insurers, a voluntary, non-profit, unincorporated association of insurers through which members provide, on several and not joint basis, property insurance protection and nuclear energy liability insurance protection.

Effective January 1, 2012, the direct and indirect subsidiaries of MAPFRE U.S.A. Corp. entered into the Fourth Amended and Restated Management Cost Allocation Agreement (“Cost Allocation”). The agreement was filed with, and approved by, the Department.

The direct and indirect subsidiaries of MAPFRE USA Corp. entered into the Second Amended and Restated Tax Allocation Agreement (“Tax Allocation”), dated November 4, 2009. The agreement was filed with, and approved by, the Department.

Reinsurance

The Commerce Insurance Company is the lead company in the Fifth Amended and Restated Reinsurance Pooling Agreement (“Reinsurance Pooling”), effective January 1, 2012, by and among the direct and indirect insurance company subsidiaries of MAPFRE U.S.A. Corp. Under the terms of the agreement, the affiliates share underwriting profits and losses in proportion to their pooling participation percentages as noted in the table below:

Name of Company	Domicile	Participation
The Commerce Insurance Company	Massachusetts	71.2%
American Commerce Insurance Company	Ohio	9.1%
Citation Insurance Company	Massachusetts	7.4%
Commerce West Insurance Company	California	4.6%
MAPFRE Insurance Company of New York	New York	3.9%
MAPFRE Insurance Company of Florida	Florida	2.1%
MAPFRE Insurance Company	New Jersey	<u>1.7%</u>
Total		<u>100.0%</u>

Financial Statements

The financial condition and the results of its operations for the 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, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2013**

Bonds	\$ 155,533,348
Preferred stocks	2,159,979
Properties occupied by the company	1,594,549
Cash, cash equivalents, and short term investments	<u>7,545,711</u>
Subtotal, cash and invested assets	166,833,587
Investment income due and accrued	1,458,837
Uncollected premiums	56,861,485
Amounts recoverable from reinsurers	16,018,829
Net deferred tax assets	4,996,693
Electronic data processing equipment and software	473,410
Aggregate write-ins for other than invested assets:	
Equity in pools and associations	59,391,259
Premium tax receivable	23,037
Miscellaneous assets	<u>2,267</u>
Total admitted assets	<u>\$ 306,059,404</u>

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2013**

Losses	\$ 55,632,980
Reinsurance payable on paid losses and loss adjustment expenses	9,438,979
Loss adjustment expenses	13,826,366
Commissions payable	4,485,637
Other expenses	1,237,677
Taxes, licenses and fees	1,816,060
Current federal and foreign income taxes	832,912
Unearned premiums	83,662,569
Advance premiums	4,050,867
Ceded reinsurance premiums payable (net of ceding commissions)	17,084,494
Payable to parent, subsidiaries and affiliates	1,022,570
Aggregate write-in for liabilities:	
Unclaimed property	<u>973,643</u>
Total liabilities	<u>194,064,754</u>
Common capital stock	3,226,140
Gross paid in and contributed surplus	26,188,147
Unassigned funds	<u>82,580,363</u>
Total capital and surplus	<u>111,994,650</u>
Total liabilities, capital and surplus	<u>\$ 306,059,404</u>

Statement of Income
As of December 31, 2013

Premiums earned	<u>\$ 164,381,876</u>
Losses incurred	102,392,504
Loss adjustment expenses incurred	18,430,092
Other underwriting expenses incurred	47,304,026
Aggregate write-in for underwriting deductions:	
LAD program income	<u>(49,686)</u>
Total underwriting deductions	<u>168,076,936</u>
Net underwriting gain (loss)	<u>(3,695,060)</u>
Net investment income earned	7,239,304
Net realized capital gains	<u>1,487,777</u>
Net investment gain	<u>8,727,081</u>
Finance and service charges not included in premiums	2,152,132
Aggregate write-ins for miscellaneous income:	
Miscellaneous income	48,879
Gain on sale of fixed assets	10,088
Other technical income (other reinsurer)	<u>5,737</u>
Total other income	<u>2,216,836</u>
Net income before federal income taxes	7,248,857
Federal and foreign income taxes incurred	<u>739,788</u>
Net income	<u>\$ 6,509,069</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, prior year end	\$118,151	\$128,768	\$136,161	\$133,816	\$139,373
Net income	6,509	6,742	3,719	9,507	10,179
Change in net unrealized capital gains (losses)	(123)	331	273	2,707	1,218
Change in net deferred income tax	(1,522)	(921)	(3,133)	(384)	1,186
Change in non-admitted assets	283	1,870	3,802	2,109	(333)
Dividend to stockholders	(11,815)	(12,877)	(13,616)	(13,382)	(13,937)
Aggregate write-ins for gains and losses in surplus:					
Prior year inter-co statutory pooling adjustment	-	-	-	-	(3,870)
Statutory pooling adjustment/IFRS prior year	-	-	-	4	-
Change in pooling – cash settlement	-	(5,115)	-	-	-
Statutory adjustment for tax settlement	-	-	308	737	-
Statutory adjustment intercompany expense pooling	<u>512</u>	<u>(647)</u>	<u>1,254</u>	<u>1,047</u>	<u>-</u>
Change in surplus	<u>(6,156)</u>	<u>(10,617)</u>	<u>(7,393)</u>	<u>2,345</u>	<u>(5,557)</u>
Capital and surplus, current year end	<u>\$111,995</u>	<u>\$118,151</u>	<u>\$128,768</u>	<u>\$136,161</u>	<u>\$133,816</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Warren S. Ehrlich, FCAS, MAAA, Assistant Vice President and Chief Actuary, The Commerce Insurance Company, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Ehrlich prepared an Actuarial Report supporting the Opinion.

The Massachusetts Division of Insurance retained PricewaterhouseCoopers LLP ("PwC") to perform an actuarial review of the loss and loss adjustment expense reserves of The Commerce Insurance Pool. PwC concluded the carried reserves were below the low end of PwC's range of reasonable estimates as of December 31, 2013. However, during 2014, management strengthened reserves and the indicated deficiency narrowed as of year end 2014.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Assets	<u>\$ 306,059,404</u>
Liabilities	194,064,754
Capital and Surplus	<u>111,994,650</u>
Total Liabilities, Capital and Surplus	<u>\$ 306,059,404</u>

Subsequent Events

In 2015, MAPFRE U.S.A. Corp. formed a new subsidiary, Cube Insurance Company (“Cube”), domiciled in the State of Ohio. Effective January 1, 2015, the Reinsurance Pooling agreement was amended to include Cube, with the pooling participation percentages revised as noted in the table below:

Name of Company	Domicile	Participation	Participation
		2013	2015
The Commerce Insurance Company	Massachusetts	71.2%	65.1%
American Commerce Insurance Company	Ohio	9.1%	9.8%
Citation Insurance Company	Massachusetts	7.4%	8.1%
Commerce West Insurance Company	California	4.6%	5.4%
MAPFRE Insurance Company of New York	New York	3.9%	5.0%
MAPFRE Insurance Company of Florida	Florida	2.1%	3.4%
MAPFRE Insurance Company	New Jersey	1.7%	2.4%
Cube Insurance Company	Ohio	<u>0.0%</u>	<u>0.8%</u>
Total		<u>100.0%</u>	<u>100.0%</u>

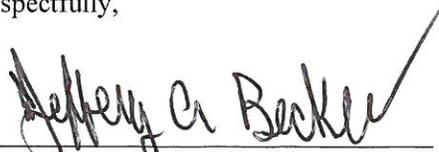
Effective January 1, 2015, the previously referenced Cost Allocation and Tax Allocation agreements were amended and restated to reflect the inclusion of Cube Insurance Company.

The Department is not aware of any events occurring subsequent to the examination date that would have a material impact on the financial position of the Company.

Acknowledgement

In addition to the aforementioned and undersigned, Kim Somogyi, AES, CPA, of the Department, participated in this examination.

Respectfully,



Jeffery A. Becker, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
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, 2013.

Jeffery A. Becker 6/19/15
Examiner-in-Charge Date

[Signature] 6/19/15
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffery A. Becker 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 knowledge and belief.

Subscribed and sworn to before me this 19 day of June, 2015.

[Signature]
(Notary Public)
No expiration
My Commission Expires



Darcy A. Moulin
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert 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 knowledge and belief.

Subscribed and sworn to before me this 19 day of June, 2015.

[Signature]
(Notary Public)
No expiration
My Commission Expires



Darcy A. Moulin
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.