

Report of Examination of
Safe Auto Insurance Company
Columbus, Ohio

As of December 31, 2013

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Columbus, Ohio
August 22, 2014

Honorable Mary Taylor
Lieutenant Governor/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.”

Scope of Examination

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

The Department conducted the examination 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 (“SSAPs”) 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.

The Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles for all years covered by this examination. The Department reviewed the December 31, 2013 independent auditors’ report and supporting work papers 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	Principle Occupation
Ari Deshe	Co-Chairman of the Board, The Company
Jon P. Diamond	Co-Chairman of the Board, The Company
Ralph A. Kaparos	Investor
Brit Beemer	Founder & Chairman of The Board, America's Research Group
Charles Bryan	President, CAB Consulting
Oded Gur-Arie	Professor, Adrian College
William Graves	Investor and Rancher

Officers

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

Name	Title
Ronald Davies	Chief Executive Officer and President
Greg Sutton	Executive Vice President, Chief Financial Officer and Treasurer
Mark LeMaster	Executive Vice President, General Counsel and Secretary
Evan McKee	Senior Vice President - Product Management
Thomas Happensack	Vice President and Controller
John Kish	Senior Vice President - Chief Information Officer

Insurance Holding Company System

The Company is a wholly-owned subsidiary of Safe Auto Insurance Group (“SAIG”), a privately-held holding company. Ari Deshe is the ultimate controlling person in an insurance holding company system as defined in ORC Section 3901.32.

Ari Deshe

Safe Auto Insurance Group (SAIG)	(Deshe Family 57%/Diamond Family 42%)
Safe Auto Insurance Company (SAIC)	(100% owned by SAIG)
Safe Auto Capital, LLC	(100% owned by SAIC)
Safe Auto Group Agency	(100% owned by SAIG)
Safe Auto Realty LLC (SAR)	(100% owned by SAIG)
SAGI Realty LTD	(100% owned by SAR)
SAG Statutory Trust I	(3% owned by SAIG)

Territory and Plan of Operations

The Company writes private passenger automobile insurance with state minimum coverages. The Company writes the majority of its business through employee-agents on a direct basis via call centers or websites and has been expanding its geographic reach. At year-end 2013, the Company was licensed in the following jurisdictions: Arizona, Arkansas, California, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Missouri, Mississippi, Oklahoma, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia. The Company is not actively writing business in the States of Arkansas and Colorado.

Significant Operating Results

The Company reported the following operating results during 2013:

Operating Ratios:

	2010	2011	2012	2013
Loss and LAE Ratio	65.5%	64.2%	82.7%	73.4%
Expense Ratio	<u>40.1%</u>	<u>43.0%</u>	<u>43.6%</u>	<u>36.0%</u>
Combined Ratio	105.6%	107.2%	126.3%	109.4%

Reinsurance

Ceded

The Company had a catastrophic excess off loss agreement that provides coverage of \$2,500,000 above a retention of \$1,000,000.

The contract contained an insolvency clause, intermediary clause, errors and omission clause, arbitration clause, which meet the guidelines prescribed by the NAIC.

Financial Statements

The financial condition and the results of its operations for the four 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, 2013

Admitted assets

Cash and invested assets:

Bonds	\$212,506,452
Preferred stocks	210,400
Common Stocks	24,516,059
Properties occupied by the company	30,213,725
Properties held for sale	956,000
Cash	24,102,507
Total cash and invested assets	<u>292,505,143</u>
Accrued investment income	1,549,697
Uncollected premiums and agents' balances	14,060,111
Deferred premiums, agents' balances and installments	42,562,851
Net deferred tax asset	3,713,493
Electronic data processing equipment and software	1,863,202
Receivables from parent, subsidiaries and affiliates	2,799
Aggregate write-ins for other than invested assets	11,040,907
Total admitted assets	<u><u>\$367,298,203</u></u>

Liabilities, Surplus and Other Funds

December 31, 2013

Losses	\$113,277,992
Loss adjustment expenses	31,734,204
Commissions payable	174,370
Other expenses	11,406,944
Taxes, licenses and fees	4,232,758
Borrowed money	150,000
Unearned premiums	72,029,023
Remittances and items not allocated	10,223
Payable to parent, subsidiaries and affiliates	2,814,508
Aggregate write-ins for liabilities	2,071,198
Total liabilities	<u>237,901,221</u>
Capital and surplus:	
Aggregate write-ins for special surplus funds	
Common capital stock	2,500,000
Gross paid in and contributed surplus	55,400,000
Unassigned funds	71,496,983
Total capital and surplus	<u>129,396,983</u>
Total liabilities, capital and surplus	<u><u>\$367,298,203</u></u>

Statement of Operations

December 31, 2013

Premiums earned	\$286,011,185
Losses incurred	182,821,046
Loss expenses incurred	27,051,311
Other underwriting expenses incurred	103,239,295
Underwriting loss	<u>(27,100,467)</u>
Net investment income earned	6,946,386
Net realized capital losses	<u>(269,282)</u>
Net investment gain	6,677,104
Net loss from agents' or premium balances charged off	(3,241,257)
Finance and service charges not included in premiums	27,347,754
Aggregate write-ins for miscellaneous income	3,006,226
Total other income	<u>27,112,723</u>
Income before dividends to policyholders and before federal and foreign income taxes	<u>6,689,360</u>
Dividends to policyholders	<u>0</u>
Income after dividends to policyholders but before federal and foreign income taxes	<u>6,689,360</u>
Federal income taxes	<u>858,602</u>
Net income	<u><u>\$5,830,758</u></u>

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus December 31, previous year	<u>\$171,168</u>	<u>\$182,347</u>	<u>\$139,569</u>	<u>\$119,438</u>
Net income	19,795	19,878	(26,078)	5,831
Net unrealized capital gains (losses)	472	(81)	574	1,837
Change in net deferred income tax	2,981	(3,141)	(4,162)	(1,883)
Change in nonadmitted assets	(3,568)	1,566	(466)	174
Capital transferred from surplus	1,000			
Paid in surplus			10,000	4,000
Surplus transferred from capital	(1,000)			
Dividends to stockholders	<u>(8,500)</u>	<u>(61,000)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>11,180</u>	<u>(42,778)</u>	<u>(20,131)</u>	<u>9,959</u>
Capital and surplus December 31, current year	<u>\$182,347</u>	<u>\$139,569</u>	<u>\$119,438</u>	<u>\$129,397</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 SSAPs and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense reserve represent management's best estimate of amounts based on historical claim development patterns as well as emerging trends. The Company's Board of Directors appointed Robert Lowery, FCAS, MAAA, Director of Reserving (employee) to render the Company's Statement of Actuarial Opinion ("Opinion"). The Opinion for year-end 2013 states that the reserves make a reasonable provision for all unpaid loss and loss adjustment expense obligations.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property Casualty Actuary, reviewed the Opinion and performed other procedures as considered necessary to evaluate the loss and loss adjustment expense reserves. Based on his evaluation, Mr. Botsko concluded the Company's carried reserves fall within a reasonable range of reserve estimates at December 31, 2013

Conclusion

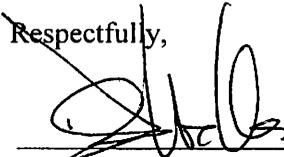
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Admitted Assets	<u>\$367,298,203</u>
Liabilities	\$237,901,221
Surplus as Regards Policyholders	<u>129,396,983</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$367,298,203</u>

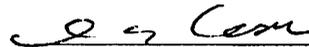
Acknowledgement

In addition to the undersigned, Thomas Botsko, ACAS, MAAA, Aaron Hibbs, CPA, Leroy Moster, AES, CFE, CISA, CPA, and Patricia Severs, CPA of the Department, participated in this examination.

Respectfully,



Donnie G. Wells, CFE
Examiner-In-Charge
Ohio Department of Insurance



David A. Cook, CFE
Assistant 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, 2013.

[Signature]
Examiner-In-Charge

9/17/14
Date

[Signature]
Assistant Chief Examiner

9/17/14
Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Donnie G. Wells, 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 17 day of September, 2014.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~

State of Ohio

County of Franklin

Personally appeared before me the above named, David A. Cook, 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 17 day of September 2014.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2013

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2013