

**Report of Examination of
American Modern Surplus Lines Insurance Company
Amelia, Ohio
As of December 31, 2014**

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Columbus, Ohio
May 31, 2016

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 Modern Surplus Lines 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 7000 Midland Boulevard, Amelia, Ohio.

Scope of Examination

The Department last examined the Company as of December 31, 2009. The Department’s current examination covers the period from and including January 1, 2010 through December 31, 2014.

Representatives of the Department, as the lead state of the American Modern Insurance Group led the multi-state coordinated examination that included representatives from the States of Florida, Oklahoma and Texas.

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, 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 Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the ORC Section 3901.07 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination reports but separately communicated to other regulators and/or the Company.

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:

<u>Name</u>	<u>Principal Occupation</u>
Rene A. Gobonya	Senior Vice President and Chief Financial Officer, The Company
Charles S. Griffith III	Senior Vice President and Secretary, The Company
James E. Hinkle III	Senior Vice President and Treasurer, The Company
Manuel Z. Rios	President and Chief Executive Officer, The Company
James P. Tierney	Senior Vice President, The Company

Officers

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

<u>Name</u>	<u>Title</u>
Manuel Z. Rios	President and Chief Executive Officer (Resigned August 6, 2015)
Rene A. Gobonya	Senior Vice President and Chief Financial Officer
James P. Tierney	Senior Vice President
Charles S. Griffith III	Senior Vice President and Secretary
James E. Hinkle III	Senior Vice President and Treasurer

Effective May 1, 2016, Andreas Kleiner was elected President and Chief Executive Officer of the Company.

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the Ohio Revised Code. The ultimate controlling entity is Munich Re a publicly traded insurance holding company. The immediate ownership structure is as follows:

Munich-American Holding Corporation	Delaware
Midland Company	Ohio
American Modern Insurance Group	Ohio
American Modern Home Insurance Company	Ohio
American Modern Lloyds Insurance Company	Texas
American Modern Property & Casualty Company	Ohio
American Western Home Insurance Company	Oklahoma
American Southern Home Insurance Company	Florida
American Modern Insurance Company of Florida, Inc.	Florida
American Modern Select Insurance Company	Ohio
American Modern Family Home Insurance Company	Florida
American Modern Surplus Lines Insurance Company	Ohio

Reinsurance

Ceded Reinsurance

The Company has various property per risk excess of loss agreements that provide coverage of \$20,000,000 above a retention of \$5,000,000. Property catastrophe excess of loss agreements provides coverage of \$305,000,000 above a retention of \$60,000,000 for the first event and \$265,000,000 above a retention of \$100,000,000 for a second event. All agreements provide coverage for all property lines of business.

Inter-company pooling

The American Modern Insurance Group (“Group”) consists of nine property and casualty companies. Under the terms of the pooling arrangement, the pooled companies cede all net premiums, losses, loss expenses and other insurance expenses to the pool. The results of the pool are then retroceded between the companies, based on the pooling percentages. The companies in the pool and the respective share of the pool participation are:

American Modern Home Insurance Company	47.5%
American Family Home Insurance Company	27.0%
American Southern Home Insurance Company	4.0%
American Western Home Insurance Company	9.0%
American Modern Select Insurance Company	5.0%
American Modern Surplus Lines Insurance Company	5.0%
American Modern Insurance Company of Florida	2.0%
American Modern Property & Casualty Insurance Company	0.5%

American Modern Lloyds Insurance Company cedes 100% of its premium and losses to American Modern Home Insurance Company who then retrocedes the business to the pool.

Territory and Plan of Operations

The Company is licensed as an admitted carrier in the State of Ohio and as a surplus lines writer in 39 states and the U.S. Virgin Islands. The American Modern Group writes specialty products for owners of mobile and manufactured homes; specialty dwellings such as vacant, rental and seasonal homes; watercraft; motorcycles; collector vehicles; travel; pet; and snowmobiles.

On February 22, 2016, the Group announced it was exiting the lender-placed insurance business. This line of business represented about 20% of the group's written premiums.

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
December 31, 2014**

Bonds	\$ 39,432,644
Cash, cash equivalents and short term investments	<u>3,657,435</u>
Subtotal, cash and invested assets	43,090,079
Investment income due and accrued	233,439
Uncollected premiums and agents' balances	5,132,065
Deferred premiums, agents balances and installments	101,618
Amounts recoverable from reinsurers	655,575
Funds held by or deposited with reinsured companies	28,773,304
Current federal and foreign income tax recoverable	273,366
Net deferred tax asset	2,053,041
Receivables from parent, subsidiaries and affiliates	<u>1,415,765</u>
Total admitted assets	<u><u>\$81,728,252</u></u>

**Statement of Liabilities, Capital and Surplus
December 31, 2014**

Losses	\$ 8,590,698
Reinsurance payable on paid losses and loss adjustment expenses	1,912,932
Loss adjustment expenses	869,333
Commissions payable	2,511,816
Taxes, licenses and fees	7,816
Current federal and foreign income taxes	1,983,792
Unearned premiums	25,579,996
Ceded reinsurance premiums payable	3,546,795
Funds held by company under reinsurance treaties	9,231,346
Payable to parent, subsidiaries and affiliates	556,508
Aggregate write-ins for liabilities	<u>253,756</u>
Total liabilities	55,044,788
Common capital stock	5,000,000
Gross paid in and contributed surplus	15,000,000
Unassigned funds (surplus)	<u>6,683,464</u>
Total capital and surplus	<u>26,683,464</u>
Total liabilities, capital and surplus	<u><u>\$ 81,728,252</u></u>

Summary of Operations
As of December 31, 2014

Premiums earned	\$ 48,236,297
Losses incurred	20,641,768
Loss adjustment expenses incurred	2,648,115
Other underwriting expenses incurred	24,948,047
Aggregate write-ins for underwriting deductions	32,861
Total underwriting deductions	<u>48,270,791</u>
Net underwriting gain (loss)	(34,494)
Net investment income earned	464,756
Net realized capital gains	117,757
Net investment gain	<u>582,513</u>
Net gain from agents' or premium balances charged off	2
Finance and service charges not included in premiums	2,949
Aggregate write-ins for miscellaneous income	10
Total other income	<u>2,961</u>
Net income after dividends to policyholders	550,980
Federal and foreign income taxes incurred	272,287
Net income	<u>\$ 278,693</u>

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

	2014	2013	2012	2011	2010
Capital and surplus, prior year end	\$26,350	\$25,889	\$26,477	\$26,001	\$23,660
Net income	279	(43)	(235)	610	2,002
Change in net unrealized capital gains (losses)	(43)	35	84	129	
Change in net deferred income tax	146	383	260	(232)	27
Change in non-admitted assets	(48)	86	41	5	173
Aggregate write-ins			(739)	(36)	139
Net change in capital and surplus	<u>334</u>	<u>461</u>	<u>(588)</u>	<u>476</u>	<u>2,341</u>
Capital and surplus, current year end	<u>\$26,683</u>	<u>\$26,350</u>	<u>\$25,889</u>	<u>\$26,477</u>	<u>\$26,001</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC 3925 and valued in accordance with the relevant Statements of Statutory Accounting Principles ("SSAP") and the NAIC Securities Valuation Office.

Losses and Loss Adjustment Expenses

The Company's Board of Directors appointed Jeffrey Scott, FCAS, MAAA, consulting actuary to render the Company's Statement of Actuarial Opinion ("Opinion.") The Department's actuary, Thomas Botsko, CAS, MAAA, reviewed an Actuarial Memorandum supporting the Opinion in connection with the preparation of the Company's December 31, 2014 Annual Statement.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves reported in the Annual Statement meet the requirements of the insurance laws and regulations of the State of Ohio

Conclusion

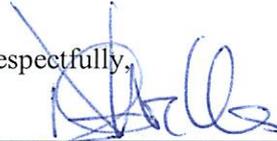
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Assets	\$ <u>81,728,252</u>
Liabilities	55,044,788
Capital and Surplus	<u>26,683,464</u>
Total Liabilities, Capital and Surplus	\$ <u>81,728,252</u>

Acknowledgement

In addition to the aforementioned and undersigned, Mohammad Arif, CFE, AES, CISA; Richard Morris, CPA; Bradley Schroer; and Patricia Severs, CPA of the Ohio Department of Insurance participated in this examination.

Respectfully,



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



David A. Cook, 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, 2014.


Examiner-In-Charge

5/31/16
Date


Assistant Chief Examiner

5/31/16
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/her knowledge and belief.

Subscribed and sworn to before me this 31 day of May, 2016.


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

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/her knowledge and belief.

Subscribed and sworn to before me this 31 day of May, 2016.


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