

Report of Examination of

**The General Automobile Insurance Company, Inc.**  
Valley View, Ohio

As of December 31, 2014

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Columbus, Ohio

July 31, 2015

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

Dear Madam:

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

**The General Automobile Insurance Company, Inc.**

an Ohio domiciled, stock, property and casualty insurance corporation, 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 period of January 1, 2010 to and including December 31, 2014.

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 identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system 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 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 all years under examination, the Certified Public Accounting firm of PricewaterhouseCoopers LLP provided an unqualified opinion on the Company’s

financial statements based on Statutory Accounting Principles. The audited financial statements 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:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Brian M. Donovan	Chief Financial Officer, Treasurer & Assistant Secretary, The Company
David L. Hettinger	Sr. Vice President & Chief Administrative Officer, The Company
Andrew P. Martin	Sr. Vice President – Corporate Sales & Distribution, The Company
Randy P. Parker	Chairman, President & Chief Executive Officer, The Company
Elizabeth A. Roberts	Vice President – Human Resources, The Company

### **Officers**

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

<b><u>Name</u></b>	<b><u>Title</u></b>
Randy P. Parker	Chairman, President & Chief Executive Officer
Brian M. Donovan	Chief Financial Officer, Treasurer & Assistant Secretary
John A. Hollar	Executive Vice President
David L. Hettinger	Sr. Vice President & Chief Administrative Officer
Allison W. Garretson	Sr. Vice President – Operations
Andrew P. Martin	Sr. Vice President – Corporate Sales & Distribution
William J. Yeager	Sr. Vice President – Claims
Eric W. Bur	Vice President – IA Sales and Distribution
Barry S. Dice	Vice President – Direct Sales & Marketing
Kenton L. Fourman	Vice President – Chief Information Officer
Todd R. Hakala	Vice President – Actuary Services

Elizabeth A. Roberts	Vice President – Human Resources
Eileen Manners	Assistant Vice President – Claims
Thomas J. Vyneman	Assistant Vice President – Product Development
Sherrill C. Kaiser	Secretary
Robert E. Nelson	Assistant Secretary

**Insurance Holding Company System**

The Company is a member of a holding company system as defined under Section 3901.32 of the ORC and is an indirect, wholly owned subsidiary of American Family Mutual Insurance Company (“AFMIC”). AFMIC is the ultimate controlling entity within the holding company system.

**Territory and Plan of Operations**

The Company offers private passenger auto liability and auto physical damage products in 12 states. Products are marketed by the Company under the brand name “The General” through various distribution channels including, retail outlets, the internet, partner alliances, and independent agents.

**Reinsurance**

The Company participates in an intercompany reinsurance pooling arrangement with its affiliates. Under the arrangement, the Company assumes premiums, losses, and expenses from each of the pooled companies and then cedes a portion of premiums, losses, and expenses to the pooled companies in specific percentages, with the Company retaining the balance of the pooled business. Below is a table which lists the pooling percentages as of December 31, 2014:

<u>Company</u>	<u>State of Domicile</u>	<u>Pooling %</u>
Permanent General Assurance Corporation	Ohio	58%
Permanent General Assurance Corporation of Ohio	Ohio	25%
The General Automobile Insurance Company, Inc.	Ohio	17%

## Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Premiums earned	<u>\$ 54,263</u>	<u>\$ 24,484</u>	<u>\$ 21,855</u>	<u>\$ 22,600</u>	<u>\$ 20,939</u>
Losses incurred	31,619	15,346	13,274	14,635	12,944
Loss adjustment expenses incurred	4,893	1,967	2,063	2,702	1,895
Underwriting expenses incurred	<u>22,647</u>	<u>11,153</u>	<u>10,184</u>	<u>9,774</u>	<u>7,766</u>
Net underwriting gain	<u>(\$ 4,896)</u>	<u>(\$ 3,982)</u>	<u>(\$ 3,666)</u>	<u>(\$ 4,511)</u>	<u>(\$ 1,666)</u>

## Financial Statements

The financial condition and the results of its operations for the year ending December 31, 2014 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 Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2014**

Bonds	\$ 25,409,523
Cash, cash equivalents and short-term investments	<u>629,946</u>
Subtotal, cash and invested assets	<u>26,039,469</u>
Investment income due and accrued	369,632
Uncollected premiums and agents' balances in collection	2,507,651
Deferred premiums, agents' balances and installments	44,330,454
Amounts recoverable from reinsurers	67,565
Net deferred tax asset	2,469,707
Receivables dues from parent, subsidiaries and affiliates	<u>788,573</u>
Total assets	<u>\$ 76,573,051</u>
Losses	15,867,375
Reinsurance payable on paid losses and loss adjustment	5,430,556
Loss adjustment expenses	2,570,429
Commissions payable, contingent commission, and other	67,803
Other expenses	279
Taxes, licenses and fees	588,438
Current federal income taxes	809,573
Unearned premiums	25,656,015
Advance premium	51,587
Ceded reinsurance premiums payable	<u>(9,672)</u>
Total liabilities	<u>51,032,383</u>
Common capital stock	2,500,000
Gross paid in and contributed surplus	21,570,799
Unassigned funds (surplus)	<u>1,469,869</u>
Total capital and surplus	<u>25,540,668</u>
Total liabilities, capital and surplus	<u>\$ 76,573,051</u>

**Statement of Income**  
**For the Year Ending December 31, 2014**

Premiums earned	\$ 54,263,320
Losses incurred	31,618,700
Loss adjustment expenses incurred	4,893,408
Other underwriting expenses incurred	<u>22,647,057</u>
Total underwriting deductions	<u>59,159,165</u>
Net underwriting loss	(4,895,845)
Net investment income earned	615,126
Net realized capital gains	<u>255,489</u>
Net investment gain	870,615
Finance and service charges not included in premiums	4,603,108
Other	<u>7,116</u>
Total other income	4,610,224
Net income before federal income taxes	584,994
Federal income taxes incurred	<u>1,587,907</u>
Net loss	<u>(\$ 1,002,913)</u>

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus, beginning of the year	\$ 19,037	\$ 10,438	\$ 9,902	\$ 10,316	\$ 10,022
Net income	(1,003)	497	502	(551)	(428)
Change in net deferred income tax	1,485	144	(62)	201	762
Change in non-admitted assets	22	(112)	97	(62)	(40)
Change in paid in surplus	6,000	8,071	0	0	0
Aggregate write-ins for gains and losses	<u>0</u>	<u>(1)</u>	<u>(1)</u>	<u>(2)</u>	<u>0</u>
Net change in capital and surplus	<u>6,504</u>	<u>8,599</u>	<u>536</u>	<u>(414)</u>	<u>294</u>
Capital and surplus, end of the year	<u>\$ 25,541</u>	<u>\$ 19,037</u>	<u>\$ 10,438</u>	<u>\$ 9,902</u>	<u>\$ 10,316</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 Expenses**

The Company's Board of Directors appointed Jeff Kimble, ACAS, MAAA of Towers Watson to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Kimble prepared an actuarial report supporting the Opinion in connection with the preparation of the Company's December 31, 2014 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, Chief Property & Casualty Actuary of the Department, reviewed the actuarial report provided by Mr. Kimble. Based on his review, Mr. Botsko determined that the loss and loss adjustment expense reserves presented in the Company's 2014 Annual Statement were reasonably stated.

### 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 Admitted Assets	\$ <u>76,573,051</u>
Liabilities	\$ 51,032,383
Surplus	<u>25,540,668</u>
Total Liabilities and Surplus	\$ <u>76,573,051</u>

### Acknowledgement

In addition to the aforementioned and undersigned, David Finkler, CPA, CFE, CISA, AES; Aaron Hibbs, CPA, CFE; and Richard Morris, CPA of the Department participated in this examination.

Respectfully,



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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, 2014.

*Joe Cook*                      8/17/15  
Assistant Chief Examiner      Date

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 August, 2015.

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