

Report of Examination of

**All America Insurance Company**  
Van Wert, Ohio

As of December 31, 2011

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Columbus, Ohio  
February 8, 2013

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> 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

**All America 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, 2011.

The Department, as the coordinating state regulator of the insurance company subsidiaries of the Company, led the multi-state coordinated examination that included representatives from the state of 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 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 Plante & Moran, PLLC provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports 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>Name</b>	<b>Principal Occupation</b>
Edward R. Buhl	Senior Vice President - Secretary, Central Mutual Insurance Company
Jeffrey L. Hanson	Chief Financial Officer, Central Mutual Insurance Company
Thomas B. Kearney	Chief Executive Officer, Flipdaddy's LLC
Ronald J. Kutella	Chairman, Craft Brewery and Hospitality Company
Rodger S. Lawson	Retired
Drew P. Maconachy	President, Maconachy Investigative Group
Edward J. Noonan	Chairman and Chief Executive Officer, Validus Holdings, Ltd.
F.W. Purmort, III	Chairman of the Board and President, Central Mutual Insurance Company
C. Allan Runser	Member and Attorney, Runser & Putman, LLC

## Officers

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

<b>Name</b>	<b>Title</b>
F.W. Purmort, III	Chairman of the Board and President
Edward R. Buhl	Senior Vice President - Secretary
Thad R. Eikenbary	Vice President and Treasurer
James F. Glasser	Vice President
Michael P. Guth	Senior Vice President
Jeffrey L. Hanson	Chief Financial Officer
Cynthia M. Hurless	Vice President
Patrick J. Jackson	Vice President
Stephen K. Moore	Vice President
Timothy L Rauch	Vice President
Jana L. Ringwald	Vice President
Janet L. White	Vice President
John E. White	Vice President
Paul C. Woirol	Senior Vice President

## Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a wholly owned subsidiary of Central Mutual Insurance Company ("Central Mutual"), an Ohio domiciled insurer and the ultimate controlling person in the holding company system. The Company controls CMI Lloyds, a Texas domiciled insurer, through a trust agreement with 12 underwriters.

## Territory and Plan of Operations

The Company and Central Mutual participate in an intercompany reinsurance arrangement whereby all business acquired by the two companies is pooled, with losses and expenses prorated. The current participations are the Company, 16% and Central Mutual, 84%. CMI Lloyds has not written any business in a few years. It otherwise would cede 100% of its premiums into the pool under a reinsurance agreement and would retain no business for its own account.

The Company and Central Mutual underwrite both personal and commercial insurance coverages. Personal lines consist of private passenger auto and homeowners products and currently represent approximately 58% of total written premiums with the balance in commercial lines that consist of commercial multi-peril, workers' compensation, commercial auto liability and other commercial lines.

Business is distributed through approximately 400 independent agents in 18 states, predominantly in the South and Midwest. Regional offices are located in Alpharetta, Georgia; Waltham, Massachusetts; Van Wert, Ohio; and Irving, Texas.

During 2011, the largest states in terms of direct premium written were as follows: Ohio, \$6.7 million (18.7%); Georgia, \$4.7 million (12.9%); Massachusetts, \$3.6 million (9.9%); North Carolina, \$3.4 million (9.4%); and New York, \$3.2 million (8.8%).

The table below illustrates the Company's 2011 direct and net premiums written, in thousands, by line of business:

<b>Line of Business</b>	<b>Direct</b>	<b>Assumed</b>	<b>Ceded</b>	<b>Net</b>	<b>Net %</b>
Homeowners multiple peril	\$ 0	\$17,287	\$ 0	\$17,287	24.2
Private passenger auto liability	0	14,841	0	14,841	20.7
Commercial multiple peril	19,801	12,917	19,801	12,917	18.0
Auto physical damage	2,464	12,004	2,464	12,004	16.8
Commercial auto liability	7,434	3,561	7,434	3,561	5.0
Other liability – occurrence	19	2,930	19	2,930	4.1
Workers' compensation	2,930	2,028	2,930	2,028	2.8
Products liability - occurrence	2,571	1,943	2,571	1,943	2.7
All other lines	<u>774</u>	<u>4,094</u>	<u>774</u>	<u>4,094</u>	<u>5.7</u>
Total	<u>\$ 35,993</u>	<u>\$71,605</u>	<u>\$ 35,993</u>	<u>\$71,605</u>	<u>100.0</u>

The Company reported the following operating percentages during the examination period:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Loss and loss adjustment expense ratio	79.4	86.5	74.8
Expense ratio	31.9	31.9	32.7
Policyholder dividends	<u>0.4</u>	<u>0.5</u>	<u>0.8</u>
Combined ratio	<u>111.7</u>	<u>118.9</u>	<u>108.3</u>

### **Reinsurance**

Joint reinsurance arrangements afford protection for the Company and its insurance affiliates. The largest net aggregate amount insured for any one umbrella risk, property risk, or casualty occurrence is \$1.5 million on a combined coverage basis. Excess of loss reinsurance affords recovery for \$10.5 million in excess of \$1.5 million per risk on property losses and umbrella claims, and \$10.5 million in excess of \$1.5 million on an occurrence basis for casualty claims. A casualty clash cover affords recovery for \$40 million in excess of \$12 million. In addition, property catastrophe reinsurance affords recovery in layers for 100% of \$165 million in excess of a \$15 million retention.

## Financial Statements

At December 31, 2011, differences exist between the annual statement prepared by the Company and the audited financial report – statutory basis, related to the adoption of SSAP No. 10R, *Income Taxes - A Temporary Replacement of SSAP No. 10*. In the audited financial report, the amount of additional admitted assets was presented as a change in accounting principle as a separate component on the statement of changes in policyholders' surplus. In the Company's annual statement, the change is reported as a change in net deferred income taxes.

At December 31, 2010, differences exist between the annual statement prepared by the Company and the audited financial report – statutory basis, related to the calculation of the current and deferred tax assets and liabilities. The deferred tax asset related to the net operating loss of the Company was not considered or reported as a nonadmitted asset in the annual statement. This nonadmitted asset was reflected in the audited financial statements and the resulting differences were reflected in the change in net deferred income taxes and change in nonadmitted assets on the statement of changes in policyholders' surplus.

On the annual statement prepared by the Company and on the audited financial report – statutory basis, the net effect of these adjustments were such that the statutory capital and surplus were not restated.

The financial condition and the results of its operations for the three-year period under examination as reported and filed by the Company with the Department 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**  
**December 31, 2011**

**Assets**

Bonds	\$ 184,512,171
Common stocks	1,709
Cash, cash equivalents and short term investments	7,738,669
Other invested assets	<u>13,647,743</u>
Subtotal, cash and invested assets	205,900,292
Investment income due and accrued	2,909,927
Uncollected premiums in course of collection	5,441,209
Deferred premiums and installments booked but deferred	18,013,879
Amounts recoverable from reinsurers	1,264,970
Other amounts receivable under reinsurance contracts	960,000
Net deferred tax asset	4,818,524
Guaranty funds receivable or on deposit	91,282
Equities and deposits in pools and associations	<u>337,413</u>
Total assets	<u>\$ 239,737,496</u>

**Statement of Assets, Liabilities, Surplus and Other Funds**  
**December 31, 2011**

**Liabilities**

Losses	\$ 62,748,293
Loss adjustment expenses	23,319,368
Commissions payable	1,488,313
Other expenses	2,262,039
Taxes, licenses and fees	622,873
Unearned premiums	39,508,235
Advance premiums	645,355
Dividends declared and unpaid to policyholders	141,742
Ceded reinsurance premiums payable	620,368
Amounts withheld or retained by company for account of others	721,308
Provision for reinsurance	11,000
Payable to affiliates	233,496
Reserve for escheats	<u>151,495</u>
Total liabilities	<u>132,473,885</u>

**Capital and Surplus**

Common capital stock	5,250,000
Gross paid and contributed surplus	9,302,000
Unassigned funds	<u>92,711,611</u>
Total capital and surplus	<u>107,263,611</u>
Total liabilities, capital and surplus	<u>\$ 239,737,496</u>

**Statement of Income**  
**As of December 31, 2011**

Premiums earned	<u>\$ 74,927,682</u>
Losses incurred	54,914,266
Loss adjustment expenses incurred	4,503,768
Other underwriting expenses incurred	22,908,122
North Carolina auto escrow expense	<u>(59,686)</u>
Total underwriting deductions	<u>82,266,470</u>
Net underwriting gain (loss)	<u>(7,338,788)</u>
Net investment income earned	8,040,247
Net realized capital gains (losses)	<u>(37,924)</u>
Net investment gain	<u>8,002,323</u>
Net gain (loss) from premium balances charged off	(186,141)
Finance and service charges not included in premiums	529,926
Miscellaneous income	<u>569</u>
Total other income	<u>344,354</u>
Net income before federal income taxes and dividends to policyholders	1,007,889
Dividends to policyholders	<u>333,006</u>
Net income before federal income taxes	674,883
Federal income taxes incurred	<u>20,421</u>
Net income	<u><u>\$ 654,462</u></u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, prior year end	\$ 97,692	\$103,132	\$101,074
Net income (loss)	654	(5,701)	1,493
Change in net unrealized capital gains	277	301	429
Change in net deferred income tax	5,074	78	212
Change in nonadmitted assets	(4,423)	(117)	(80)
Change in provision for reinsurance	(10)	(1)	4
Surplus paid in	<u>8,000</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>9,572</u>	<u>(5,440)</u>	<u>2,058</u>
Capital and surplus, current year end	<u>\$107,264</u>	<u>\$ 97,692</u>	<u>\$103,132</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 Jeffrey L. Hanson, FCAS, MAAA, Chief Financial Officer, to render a Statement of Actuarial Opinion ("Opinion") on the pooled reserves. Mr. Hanson prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the pooled reserves. On the basis of his analysis, Mr. Botsko concluded the pooled reserves fall within a reasonable range of reserve estimates at December 31, 2011.

## Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

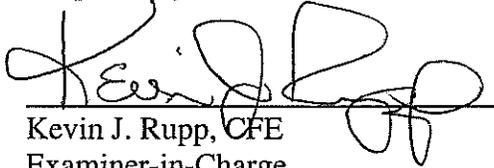
Total Admitted Assets	<u>\$239,737,496</u>
Liabilities	\$132,473,885
Capital and Surplus	<u>107,263,611</u>
Total Liabilities, Capital and Surplus	<u>\$239,737,496</u>

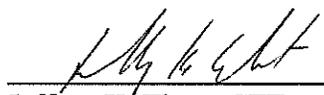
## Acknowledgement

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 aforementioned and undersigned, the following representatives of the Department participated in this examination: Jeffrey J. Ferris, AES, CFE, CISA; Ryan S. Gibson, CFE, FLMI; Aaron R. Hibbs, CFE, ChFC, CPA, FLMI; Leroy J. Moster, AES, CFE, CISA, CPA; and Zachary L. Wheatley, CPA.

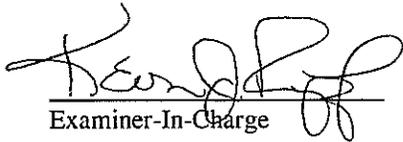
Respectfully,

  
\_\_\_\_\_  
Kevin J. Rupp, CFE  
Examiner-in-Charge  
Ohio Department of Insurance

  
\_\_\_\_\_  
Jeffrey K. Ebert, 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, 2011.

  
Examiner-In-Charge

2/28/13  
Date

  
Assistant Chief Examiner

2/28/13  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, 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 28 day of February, 2013.

  
Notary Public)

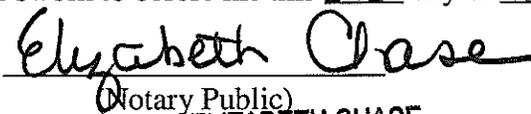
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017

My Commission Expires

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 28 day of February, 2013.

  
Notary Public)

**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017

My Commission Expires