# REPORT ON EXAMINATION

# OF THE

# AMERIHEALTH CASUALTY INSURANCE COMPANY

# AS OF

# DECEMBER 31, 2011

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

**AMERIHEALTH CASUALTY INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: Brandi Biddle

Date: March 13, 2013

*In Witness Whereof,* I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13th day of March, 2013.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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(302) 674-7300 Dover (302) 739-5280 fax (302) 577-5280 Wilmington

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

# REPORT ON EXAMINATION

# OF THE

# AMERIHEALTH CASUALTY INSURANCE COMPANY

# AS OF

# DECEMBER 31, 2011

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 13th day of March, 2013

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## TABLE OF CONTENTS


**SALUTATION** ........ 1
**SCOPE OF EXAMINATION** ........ 1
**SUMMARY OF SIGNIFICANT FINDINGS** ........ 3
**SUBSEQUENT EVENTS** ........ 3
**COMPANY HISTORY** ........ 3
**MANAGEMENT AND CONTROL** ........ 4
Director ........ 4
Officer ........ 4
Insurance Holding Company System ........ 5
Intercompany Management and Service Agreements ........ 6
Administrative Services Agreement with IBC ........ 7
Underwriting Agency Agreement between ACIC and CSI Services, Inc. ........ 7
Third Party Claims administration Agreement between ACIC and Comp Services Inc. ........ 7
Inter Company Loan Agreement ........ 7
Tax Sharing Agreement ........ 8
**TERRITORY AND PLAN OF OPERATION** ........ 8
**GROWTH OF THE COMPANY** ........ 9
**LOSS EXPERIENCE** ........ 10
**REINSURANCE** ........ 11
**ACCOUNTS AND RECORDS** ........ 13
**FINANCIAL STATEMENTS** ........ 13
**Analysis of Assets** ........ 14
**Statement of Liabilities, Surplus and Other Funds** ........ 15
**Underwriting and Investment Exhibit - Statement of Income** ........ 16
**Reconciliation of Surplus from Prior Examination** ........ 17
**SCHEDULE OF EXAMINATION ADJUSTMENTS** ........ 17
**NOTES TO FINANCIAL STATEMENTS** ........ 17

## SALUTATION

October 25, 2012

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 11.034, dated May 9, 2012, an examination has been made of the affairs, financial condition and management of the

**AMERIHEALTH CASUALTY INSURANCE COMPANY**

hereinafter referred to as the "Company" or "ACIC" and incorporated under the laws of the state of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, DE 19801. The examination was conducted at the administrative offices of the Company, located at 1717 Arch Street, Philadelphia, PA 19103. A coordinating examination of the Company was conducted concurrently with that of its affiliates, Independence Insurance, Inc. and Healthcare Delaware, Inc. Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2009. This examination covered the period of January 1, 2010 through December 31, 2011, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2011. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included 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. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Deloitte and Touche, LLP (D&T). Certain auditor work papers of their 2011 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of tests of controls, risk mitigation and substantive testing.

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

Corporate Records
Fidelity Bonds and Other Insurance
Pensions, Stock Ownership and Insurance Plans
Statutory Deposits

## SUMMARY OF SIGNIFICANT FINDINGS

The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's Loss and LAE reserves as of December 31, 2011. The review indicated a net increase of $3,298,000 was required to the Company's loss reserves.

## SUBSEQUENT EVENTS

There were no material subsequent events noted.

## COMPANY HISTORY

ACIC was incorporated on November 12, 1997. The Company commenced operations in 2000. Since inception, the Company has been a subsidiary of AmeriHealth Inc., in turn a subsidiary of Independence Blue Cross (IBC), of Philadelphia, Pa.

Since the commencement of operations, ACIC has only written workers' compensation and employers' liability insurance. All of the Company's business both direct and assumed is produced by its sole agent and affiliate, CSI Services Inc. (CSI).

ACIC does not have a rating from A.M. Best Company. As per the Company's management, ACIC cannot obtain a rating from A.M. Best because the Company's ultimate parent, IBC, is not rated. In situations where a broker or policyholder requires an A.M. Best rating, the Company assumes business from The Companion Group (Companion), a South Carolina-domiciled insurer which serves as a fronting company.

It should also be noted that ACIC utilizes another affiliate, CompServices, Inc. (CompServices), as the claims administrator. CompServices also operates as a third-administrator for other self-funded workers compensation customers. Coverage was provided to such large groups as the City of Philadelphia and SEPTA.

## MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board). The Board shall consist of at least three members and is subject to a maximum of seven members.

The control and management of the Company is vested in the Board. The persons elected and serving as Directors of the Company at December 31, 2011, were:

| Director | Principal Business Affiliation |
|---|---|
| John Christopher Cashman III | EVP & President Commercial Markets, IBC |
| Alan Krigstein | EVP, CFO & Treasurer, IBC |
| Donald J. Liskay | President and CEO, ACIC |
| Richard J. Neeson | President AmeriHealth Administrators and Ancillary Products |

The Company experienced turnover in the membership of the Board during the period under examination. Don Liskay, the President and CEO of ACIC, was elected to the Board in 2010.

The Officers of ACIC are elected by the Board of Directors annually. Those persons serving as of December 31, 2011 were:

| Officer | Title |
|---|---|
| Donald J. Liskay | President & CEO |
| Alan Krigstein | Treasurer & CFO |

Lilton R. Taliaferro Jr. Secretary

The minutes of the meetings of the Stockholder and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at the Assistant Secretary level or above for the examination period.

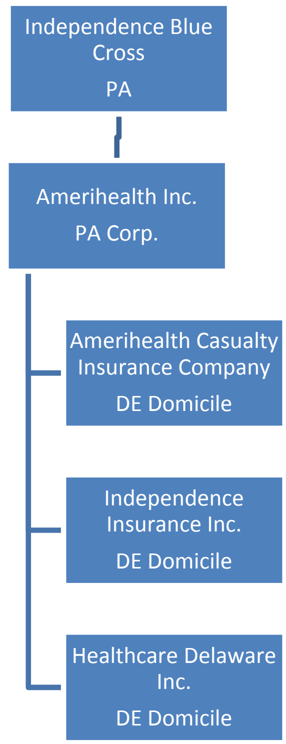
During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001 (4) "Insurance Holding Company System". The Company's Holding Company Registration Statements were properly filed with the Delaware Insurance Department for the years under examination.

The Company is a direct wholly-owned subsidiary of Independence Blue Cross (the "Parent").

The following is an abbreviated organization chart:




At December 31, 2011, IBC reported the following:

| | |
|---|---|
| Assets | $2,505,375,021 |
| Unassigned Funds | $1,912,976,045 |
| Underwriting Income for 2011 | $ (42,057,117) |
| Net Income | $ 116,952,738 |

Intercompany Management and Service Agreements

The Company has entered into various agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit cost. The Company had the following material intercompany agreements in effect as of December 31, 2011.

Administrative Services Agreement with IBC

Effective January 1, 1999 ACIC entered into an Administrative Services Agreement with IBC wherein IBC provides executive administration, legal, data processing services, treasury, including cash management and investment portfolio management services. Fees for these services are allocated on a cost basis and are settled monthly between the parties.

Underwriting Agency Agreement between ACIC and CSI Services, Inc.

CSI solicits and binds risks on behalf of ACIC and performs all other functions necessary for the production of business for consideration of 15% of earned premiums. In 2011 ACIC paid CSI $1,401,032 for these services.

Third Party Claims administration Agreement between ACIC and Comp Services Inc.

CompServices investigates and adjudicates all claims on behalf of the Company for consideration of 7% of earned premiums. In 2011 ACIC paid CompServices $1,008,273 for these services.

Inter Company Loan Agreement

This agreement, effective December 19, 2007, supersedes an earlier agreement dating back to 1999. This agreement enables participating affiliates to borrow cash from time to time to meet temporary short-falls. By this agreement participating affiliates are able to provide short-term loans to each other. The loans can be repaid at any time up to a maximum of 364 days after issue date. Interest rates are the same as overnight rates charged to IBC by commercial banks. As of December 31, 2011 the Company reported a total of $1,251,474 receivable from CompServices. During 2012, the loan was repaid.

<u>Tax Sharing Agreement</u>

Effective February 21, 2001 the Company entered into a consolidated tax sharing agreement between and among IBC and its qualifying subsidiaries. The agreement was approved by the Company's Board and states that the total consolidated federal income tax for all entities is allocated to each entity based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled monthly.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in the states of Delaware, Pennsylvania, New Jersey and South Carolina.

As per a revision effective August 18, 2006 to the Company’s Certificate of Authority issued by the Delaware Insurance Department, the Company is authorized to write the following lines of business: property, casualty, including workers’ compensation and employers liability, vehicle, liability, burglary & theft, personal property floater, glass, boiler and machinery and miscellaneous.

Since the commencement of operations, ACIC has only written workers compensation and employers liability insurance. All of the Company’s business, both direct and assumed, is administered by its sole agent and affiliate, CSI.

Effective March 1, 2003 a plan was adopted by which ACIC would write directly as much of the CSI-produced business as possible. In situations where the policyholder requests an insurer with an A.M. Best rating, a non-related insurer would write the business and cede the exposure to ACIC. The lack of an A.M. Best rating has severely curtailed those plans and the Company derives most of its premiums through a fronting arrangement with Companion.

Per the 2011 Annual Statement, the Company reported the following distribution of Direct Premiums Written:

| **Line of Business Premiums Percent** | | **Direct Premiums Written** | **Percent** |
|---|---|---|---|
| Workers' Compensation | $ | 10,199,719 | 64.7% |
| Other Liability - Occurrence | | 5,563,192 | 35.3% |
| Total | $ | 15,762,911 | 100.0% |

## GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the two preceding years since its last examination (2009).

| Year | Admitted Assets | Policyholder's Surplus | Net Premiums Written | Underwriting Gain/(Loss) | Net Income |
|---|---|---|---|---|---|
| 2009 | $ 195,199,705 | $ 51,554,991 | $ 77,599,341 | $ (6,789,623) | $ 2,807,460 |
| 2010 | $ 207,974,585 | $ 48,627,132 | $ 79,507,138 | $ (18,797,887) | $ (6,592,129) |
| 2011 | $ 210,342,921 | $ 38,974,460 | $ 89,312,060 | $ (13,199,981) | $ (3,922,081) |

The 2009 balances do not reflect the prior examination decrease in Policyholder Surplus of $8,064,550 related to loss experience and federal income tax. These changes are reflected in the 2010 annual statement filings. The 2011 balances are not reflective of current examination changes of $3,298,000 related to loss experience.

Since December 31, 2009, the Company's financial results were as follows:

- 7.75 % increase in admitted assets
- 24.40 % decrease in capital and surplus
- 15.09 % increase in net premiums written
- 94.41 % increase in underwriting loss
- 239.70% decrease in net income

Total net admitted assets increased by $2.4 million from 2010 to 2011. The increase in net admitted assets was mainly due to the increase in cash and invested assets resulting from cash flows from operations and the continued recovery of investment market values during 2011.

The capital and surplus decrease is due to net losses, the change in unrealized capital gains or losses, the change in net deferred income tax and the change in non-admitted assets. An examination reserve adjustment of $3.3 million decreased surplus.

The net written premium increased $11.7 million from 2009 to 2011. The increase was mainly due to the Company developing favorable business opportunities.

The Company reported net underwriting losses in 2009, 2010 and 2011. The Company's management attributes the underwriting loss primarily to two factors: greater claim frequency which is a normal occurrence in the workers compensation line of business during a recession and decreased premium due to reductions in state rates and the "soft-market".

## LOSS EXPERIENCE

Reserves as of December 31, 2011 were $121,117,000. As of December 31, 2011, $46,637,000 has been paid for incurred losses and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now $73,475,000. Therefore, there has been $4,157,000 of unfavorable prior year development between December 31, 2010 and December 31, 2011. Additionally the Company reported a two year unfavorable development of $12,300,000 in 2011. The unfavorable development is primarily due to higher than anticipated claim costs and unfavorable utilization trends.

## REINSURANCE

During 2011, the Company reported the following distribution of written premiums;

| | |
|---|---|
| Direct | $15,762,911 |
| Assumed | 77,608,840 |
| Ceded | (4,059,691) |
| Net | $89,312,060 |

Assume

Effective March 1, 2003 the Company entered into a contract with Companion Property and Casualty Insurance Company and Companion Commercial Insurance Company (Companion). Both Insurers are domiciled in South Carolina. Companion cedes 100% of the workers compensation and employers liability business generated by CSI Services, Inc. with a limit of $500,000 for each policy. Assumed written premiums for Companion were $77,520,000. The Company's only other assumed business is attributable to the mandatory Delaware assigned risk pools. Written premium associated with this pool was $89,000.

On April 30, 2009 the Company entered into a collateral agreement which requires the Company to maintain securities in a trust account for the purpose of providing collateral to cover reinsurance recoverable due to Companion in case the Company fails to pay undisputed balances within 90 days. The trust account is required to maintain investments with fair market values of not less than 110% of the unearned premium balance and loss reserves insured by the Company. The trust account contained investments with fair values and amortized costs totaling $153,552,069 and $145,971,516 as of December 31, 2011. Assets held were in excess of minimum fair value requirements. The assets held are included in Bonds and Stocks.

Ceded

Effective March 1, 2011 the Company's reinsurance protection with unrelated parties is as follows:

| Layer | Coverage | LOB * |
|---|---|---|
| Underlying | 90% of $500,000 excess of $500,000, $1,000,000 AAD | WC, EL |
| First | $1,000,000 excess of $1,000,000 | WC, EL |
| Second | $3,000,000 excess of $2,000,000 | WC,EL |
| Third | $5,000,000 excess of $5,000,000 | WC, EL |
| CAT | $20,000,000 excess of $10,00,000 | WC, EL |
| Per occurrence | $3,000,000 excess of $2,000,000 | PEO, ELO, TEA |

* Workers Compensation -WC
Employers Liability - EL
Professional Employment Organization - PEO
Employment Leasing Organizations - ELO
Temporary Employment agencies - TEA

Specific

Unified Reinsurance Co. Ltd (Unified Re): The Company writes workers compensation insurance for a consortium of companies that own a captive, Unified Re, domiciled in the Cayman Islands. The Company cedes 100% of total losses and allocated loss adjustment expenses subject to limits of $300,000 per occurrence and 135% of Pennsylvania gross written premiums plus 125% of New Jersey gross written premiums. During 2011, the Company ceded $3,352,345 to Unified under this program.

Highmark Casualty Insurance Company (Highmark): The Company writes a single policy for a risk located in Delaware and cedes 100% to Highmark. Ceded premium for this business during 2011 amounted to $350,373.

## ACCOUNTS AND RECORDS

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the financial statements as of December 31, 2011. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors were evaluated.

The consulting firm of INS Services, Inc. performed a review of the Company's global controls over its information and technology IT environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

## FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2011 as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2011
Statement of Liabilities, Surplus and Other Funds, December 31, 2011
Underwriting and Investment Exhibit, Statement of Income, December 31, 2011
Reconciliation of Surplus Since last Examination
Schedule of Examination Adjustments

## Analysis of Assets
## As of December 31, 2011

| | Assets | Nonadmitted Assets | Net Admitted Assets | Note |
|---|---|---|---|---|
| Bonds | $ 120,594,299 | | $ 120,594,299 | 1 |
| Common stocks | 33,573,634 | | 33,573,634 | 2 |
| Cash and short-term investments | 23,053,287 | | 23,053,287 | |
| Other invested assets | 3,960,467 | | 3,960,467 | |
| Receivables for securities | 439 | | 439 | |
| Investment income due and accrued | 1,324,845 | | 1,324,845 | |
| Uncollectible premiums and agents'balances in course of collection | 5,842,324 | $ 422,972 | 5,419,352 | |
| Deferred premiums, agents balances and installments booked but deferred & not yet due | 16,515,140 | | 16,515,140 | |
| Accrued retrospective premiums | 1,052,646 | | 1,052,646 | |
| Amounts recoverable from reinsurers | 277,538 | | 277,538 | |
| Other amounts receivable under reinsurance contracts | 9,434 | | 9,434 | |
| Current federal and foreign income | 1,936,000 | - | 1,936,000 | |
| Net deferred tax asset | 5,737,100 | 5,737,100 | | |
| Receivables from parent, subsidiaries & affiliates | 1,251,474 | | 1,251,474 | |
| Aggregate write-ins: | 2,663,121 | 1,288,755 | 1,374,366 | |
| Total Assets | $ 217,791,748 | $ 7,448,827 | $ 210,342,921 | |

## Statement of Liabilities, Surplus and Other Funds
## As of December 31, 2011

| Liabilities, Surplus and Other Funds | | | Note |
|---|---|---|---|
| Losses | $ | 109,965,179 | 3 |
| Loss adjustment expenses | | 14,450,000 | 3 |
| Other expenses | | 280,000 | |
| Taxes, licenses and fees | | 740,260 | |
| Unearned premiums | | 34,213,160 | |
| Advanced premiums | | 399,415 | |
| Ceded reinsurance premiums payable | | 853,524 | |
| Funds held by company under reinsurance treaties | | 200,000 | |
| Provision for reinsurance | | 474,000 | |
| Payable to parent, subsidiaries and affiliates | | 627,101 | |
| Liabilities for amounts held under uninsured plans | | 11,983,817 | |
| Aggregate write-ins for liabilities | | 480,005 | |
| Total Liabilities | $ | 174,666,461 | |
| Common capital stock | $ | 4,000,000 | 4 |
| Gross paid in and contributed surplus | | 37,725,000 | |
| Unassigned funds (surplus) | | (6,048,540) | |
| Surplus as regards policyholders | $ | 35,676,460 | |
| Total Liabilities, Capital and Surplus | $ | 210,342,921 | |

## Underwriting and Investment Exhibit - Statement of Income
## As of December 31, 2011

| | | |
|---|---|---|
| **UNDERWRITING INCOME** | | |
| Premiums earned | $ | 84,679,375 |
| | | |
| **DEDUCTIONS** | | |
| Losses incurred | $ | 69,354,405 |
| Loss adjustment expenses incurred | | 7,363,437 |
| Other underwriting expenses incurred | | 24,459,514 |
| Total underwriting deductions | $ | 101,177,356 |
| Net underwriting gain or (loss) | $ | (16,497,981) |
| | | |
| **INVESTMENT INCOME** | | |
| Net investment income earned | $ | 5,500,667 |
| Net realized capital gains or (losses) | | 1,913,233 |
| Net investment gain or (loss) | $ | 7,413,900 |
| | | |
| **OTHER INCOME** | | |
| Net income before dividends to policyholders and before federal income taxes | $ | (9,084,081) |
| Dividends to policyholders | | - |
| Net income after dividends to policyholder but before federal income taxes | $ | (9,084,081) |
| Federal and foreign income taxes incurred | | (1,864,000) |
| Net income | $ | (7,220,081) |

**Reconciliation of Surplus from Prior Examination**

| | | |
|---|---|---|
| Surplus as regards to policyholders, December 31, 2009 | $ | 51,554,991 |
| Net Income | | (13,812,210) |
| Change in net deferred income taxes | | 2,042,595 |
| Change in net unrealized capital (losses) | | 1,306,013 |
| Change in non-admitted assets and related items | | (5,013,929) |
| Change in provisions for reinsurane | | (401,000) |
| Change in surplus as regards to policyhildors, December 31, 2011 | $ | (15,878,531) |
| Surplus as regards to policyholders, December 31, 2011 | $ | 35,676,460 |

## SCHEDULE OF EXAMINATION ADJUSTMENTS

The following examination adjustments were noted:

| Item | Amount Per Company | Amount Per Examination | Change to Surplus |
|---|---|---|---|
| Liabilities: | | | |
| Loss Reserves | $ 106,667,179 | $ 109,965,179 | $ 3,298,000 |
| Net Surplus Change per Examination | | | $ 3,298,000 |

## NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds $120,594,299

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

| Type | Statement Value |
|---|---|
| US Goverments | $ 16,812,602 |
| Mortgage and Asset Backed Securirites | 27,978,420 |
| Corporate Debt Securities | 54,694,662 |
| Municiple Securities | 21,108,615 |
| Total | $ 120,594,299 |

Of the Company's bond holdings, which comprised 66.6% of the Company's total invested assets and 57.3% of total admitted assets at December 31, 2011, 74.8% were categorized as Class 1 with respect to NAIC credit quality standards as compared to 75.1% at December 31, 2010.

Note 2 - Common Stock $33,573,634

As of December 31, 2011 the Company's common stock holdings were comprised of primarily unaffiliated stock. Unaffiliated common stock is carried at market value. Affiliated common stock is carried at the underlying statutory equity basis. Investments in non-insurance affiliates are valued based on the audited GAAP equity. Unrealized appreciation or depreciation on common stocks is credited or charged directly to unassigned surplus.

| Type | Amount |
|---|---|
| Unaffiliated investments-common stock | $ 24,098,648 |
| Mutual funds | 9,474,985 |
| Total Common Stock | $ 33,573,633 |

| | |
|---|---|
| Note 3 - Losses | $109,965,179 |
| Note 3 - Loss Adjustment Expenses | 14,450,000 |
| | $123,465,179 |

The above-captioned amounts reflect an adjustment indicated by the independent consulting actuary. The adjustment of $3,298,000 represents a higher amount than what was reported by the Company in its' Annual Statement. The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the

Company's loss and LAE reserves as of December 31, 2011. The INS analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The review does not address the collectability of reinsurance recoverables.

The conclusions set forth in INS's report are based on information provided by the Company, including the 2011 Annual Statement and the related 2011 Statement of Actuarial Opinion with underlying actuarial work papers.

Note 4 – Common Capital Stock $4,000,000

At December 31, 2011, the Company has common shares 50,000 authorized with a par value of $100 per share, of which 40,000 shares were issued and outstanding.

## COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has complied with the following recommendations noted in the December 31, 2009 Report on Examination:

1. It is recommended the Company comply with the Annual Statement instructions and report reinsurance balances in the appropriate lines of the Annual Statement Blank.

2. It is recommended the Company take action to comply with the diversification requirements of 18 Del. C. § 1305 (1).

## SUMMARY OF RECOMMENDATIONS

1. As indicated by the independent consulting Actuarial firm, retained by the Delaware Department of Insurance, it is recommended that the Company increase loss reserves by $3,298,000.

## CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

| Description | December 31, 2009 | December 31, 2011 | Increase (Decrease) |
|---|---|---|---|
| Assets | $ 199,542,155 | $ 210,342,921 | $ 10,800,766 |
| Liabilities | $ 156,051,714 | $ 174,666,461 | $ 18,614,747 |
| Common Capital Stock | 4,000,000 | 4,000,000 | - |
| Gross Paid In and Contributed Surplus | 37,725,000 | 37,725,000 | - |
| Unassigned Funds (Surplus) | 1,765,441 | (6,048,540) | (7,813,981) |
| Total Surplus as Regards Policyholders | $ 43,490,441 | $ 35,676,460 | $ (7,813,981) |
| Totals | $ 199,542,155 | $ 210,342,921 | $ 10,800,766 |

In addition to the undersigned, Anthony Cardone CFE, CPA (Examination Supervisor) participated in the examination. The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,

Albert M. Piccoli, Sr.

Albert M. Piccoli, Sr., CFE
Examiner-In-Charge
State of Delaware