

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA**

REPORT OF EXAMINATION

OF

QUALITY CASUALTY INSURANCE COMPANY, INC.

New Orleans, Louisiana

AS OF

DECEMBER 31, 2013

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EXAMINER AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF MONTGOMERY**

Blase Francis Abreo, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Quality Casualty Insurance Company, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Quality Casualty Insurance Company, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Francis Blase Abreo

Blase Francis Abreo

Subscribed and sworn before me by Francis Blase Abreo on this 22nd day of June, 2015.

(SEAL)

Tisha R F Joh
Notary Public

My Commission expires 10/12/15



ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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DEPUTY COMMISSIONER
CHARLES M. ANGELL (acting)
CHIEF OF STAFF
RAGAN INGRAM
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
EDWARD S. PAULK
GENERAL COUNSEL
REYN NORMAN

June 22, 2015

Honorable Jim L. Ridling
Commissioner of Insurance
State of Alabama
Department of Insurance
Post Office Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2013, has been made of

Quality Casualty Insurance Company, Inc.

at its office located at 400 Poydras Street, Suite 1150, New Orleans, Louisiana 70130. The report of examination is submitted herewith.

Where the description "the Company" appears herein, without qualification, it will be understood to indicate **Quality Casualty Insurance Company, Inc.**

EQUAL OPPORTUNITY EMPLOYER

SCOPE OF EXAMINATION

The Company was last examined for the five-year period ended December 31, 2008. A targeted limited scope examination was conducted for the period ended December 31, 2011, which limited the scope of examination to an inspection of the Company's outstanding claims and its reported receivables. The current examination covers the intervening period from January 1, 2009 through December 31, 2013, and was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to December 31, 2013, were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the State of Alabama Insurance Code and in accordance with Alabama Insurance Department regulations and bulletins in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2013, and to identify the prospective risks by obtaining information about the Company including corporate governance. In addition, the examination was planned and performed to identify and assess inherent risks within the Company, and to evaluate 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 presentation of the financial statements, management's compliance with statutory accounting principles and annual statement instructions.

A review of the Company's information systems (IS) was conducted concurrently with the financial examination. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Company's territory and plan of operation, compliance with producers' licensing requirements,

claims payment practices, advertising and marketing, policy forms, rates and underwriting practices, policyholder complaints, and privacy standards. See the caption “**MARKET CONDUCT ACTIVITIES**” - Page 16 .

The Company was audited by the certified public accounting firm of Hullett, Kellum & McKinney, PC, Hoover, Alabama for the year 2009 and Kellum, Wilson & Associates P.C, Hoover Alabama for the year 2010. The Company was granted an exemption by ALDOI from filing the 2011 and 2012 Audited Financial Statement due to the Company’s run-off position under ALA. ADMIN, CODE 482-1-141-.02 (2008), which states: “(2) Every insurer shall be subject to this chapter. Insurers having direct premiums written in this state of less than \$1,000,000 in any calendar year and less than 1,000 policyholders or certificateholders of direct written policies nationwide at the end of the calendar year shall be exempt from this chapter for the year...”

On August 1, 2013, the Company was acquired by Americas Insurance Company (AIC) a Louisiana domiciled Company and was audited by the certified public accounting firm of Postlewaite & Netterville, Baton Rouge, Louisiana. The Company’s 2013 Annual Statement was reconciled to the 2013 general ledger account balances. The Annual Statement was also agreed to the statutory audited statement.

A signed certificate of representation was obtained during the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2013. A signed letter of representation was also obtained at the conclusion of the examination, whereby management represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities.

ORGANIZATION AND HISTORY

The information contained in this section of the examination report was excerpted from the prior examination report as of December 31, 2009 and updated as appropriate.

The Company was incorporated on February 28, 2001, under the laws of the State of Alabama. The Articles of Incorporation were filed for record with the Judge of Probate, Michael F. Bolin, in Jefferson County, Alabama.

Article II of the Company’s Articles of Incorporation lists the purpose or purposes for which the organization was incorporated. The primary purpose of incorporation

was “(a) To engage in the business of selling casualty insurance (b) To engage in the transaction of any or all lawful business for which corporations may be incorporated under the laws of Alabama.”

Article III of the Company’s Articles of Incorporation authorized 500,000 shares of common stock with a par value of \$1 per share, with an aggregate value of \$500,000.

The Company issued 500,000 shares of common capital stock to Chappell Insurance Services, Inc. (CIS), fully paid-up, and commenced business with capitalization of \$1,250,000. The paid-in capital consisted of 500,000 shares of common capital stock with a par value of \$1 per share, for \$500,000, and paid-in surplus for \$750,000.

After consultation with Alabama Department of Insurance (ALDOI), the Company entered into voluntary run-off on July 1, 2010. On July 18, 2013, a Form A filing was approved by the ALDOI. Effective August 1, 2013, the Company was purchased by Americas Insurance Company (AIC) a Louisiana domiciled Company and a subsidiary of Assure Holding Corporation a Delaware domiciled Company. AIC contributed \$309,793 in paid in and contributed surplus, increasing the surplus above the minimum statutory required amount of \$600,000. Effective October 1, 2013, the Company started writing new business.

At December 31, 2013, the Company’s Annual Statement reflected the following:

Description	Share issued & Outstanding	Amount
Common Capital Stock @ \$1 per share	500,000	\$ 500,000
Gross paid-in and contributed surplus		1,925,011
Unassigned funds (surplus)		<u>-1,692,314</u>
Surplus as regards policyholders		<u>\$ 732,697</u>

Line of Business/Operations

The Company started writing business on October 1, 2013. At December 31, 2013 the Company’s Annual Statement reflected the following:

<u>Line</u>	<u>Direct Business</u>	<u>Business Reinsured</u>
Private passenger auto liability	\$ 350,020	100%
Auto physical damage	<u>364,174</u>	100%
TOTAL	<u>\$ 714,194</u>	

The Company was a fronting Company for Americas Insurance Company. The Inter-Company Quota Share Reinsurance Agreement was filed and approved by the

MANAGEMENT AND CONTROL

Stockholders

At December 31, 2013, the Company was wholly-owned by Americas Insurance Company, a Louisiana corporation and a wholly-owned subsidiary of Americas Sub Holding Corporation (ASHC). ASHC is a Louisiana corporation and a wholly owned subsidiary of ISG Acquisition II, LLC (ISGA). ISGA is a Delaware corporation and wholly owned by Assure Holding Corporation (Assure). Assure is a Delaware corporation and ultimate parent corporation in the insurance holding company system.

The Company did not maintain the minutes of the stockholders, Board of Directors and committee meetings as required by ALA. CODE § 10A-2-16.01 (a)(1975), which states:

A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

Board of Directors

The following were listed as Directors and Trustees on the December 31, 2013 Annual Statement:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Ronald Rayburn Pate Jr. Chevy Chase, Maryland	Chief Executive Officer, President and Chairman of the Board of Directors
Anne Kail Missett Fairfax, Virginia	Executive Vice President and Chief Operating Officer
*	

*On October 7, 2014, Dr. William Huitt Rabel, Professor at The University of Alabama was elected to the Board of Directors.

Effective August 1, 2013, the control of the Company shifted to Americas Insurance Company (AIC), a Louisiana domiciled Company. AIC was the only stockholder of the Company. The Company did not provide the minutes of the shareholders meetings to verify the election of the Board of Directors. The Company was not in compliance with ALA. CODE § 27-27-23(b)(1975), which states:

Directors must be elected by the members or stockholders of a domestic insurer at the annual meeting of stockholders or members...

According to the December 31, 2013 Annual Statement, there were only two directors on the Board. The Company was not in compliance with ALA. CODE §27-27-23(a)(1975), which states:

The affairs of every domestic insurer shall be managed by not less than three directors, and at least one-third of the directors shall be bona fide residents of this state.

Effective October 7, 2014, Dr. William Huitt Rabel, Professor, The University of Alabama, Tuscaloosa, AL was elected to the Board of Directors.

The examination determined that ARTICLE I - Shareholders, Section 1 of the *By-Laws* requires that the annual meeting be held for the purpose of electing Directors and the transactions of such other business as may come before the meeting. Since there were no minutes of the shareholders meetings in 2013, the Company did not comply with its *By-Laws*. See CORPORATE RECORDS – Page 8

Officers

The following were listed as officers on the December 31, 2013 Annual Statement.

<u>Officer</u>	<u>Title</u>
Ronald Rayburn Pate Jr.	Chief Executive Officer & President and Chairman of the Board.
Anne Kail Missett	Executive Vice President and Chief Operating Officer

The *By-Laws* of the Company require that the Board of Directors appoint the officers of the Company. ARTICLE III - Officers, Section 1 of the *By-Laws* states:

The officers of the Corporation shall be a President and a Secretary, both of whom shall be appointed by the Board of Directors.

The 2013 Annual Statement did not name the secretary for the Company.

CONFLICT OF INTEREST

The Company conflict of interest/code of ethics guidelines (Code) was reviewed. The Code did not require the directors and principal officers of the Company to sign a conflict of interest statement on a periodic basis indicating their adherence to the Code. As of December 31, 2013, the Company had two directors who were also the officers of the Company. The conflict of interest statement was not submitted by either of the directors/officers of the Company for the period ending December 31, 2013.

In item 14.1 of General Interrogatories of the December 31, 2013, Annual Statement the Company stated “Yes” to the question:

Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

- a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationship;
- b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filled by the reporting entity;
- c. Compliance with applicable governmental laws, rules and regulations;
- d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- e. Accountability for adherence to the code.

The Company’s Conflict of Interest /Code of Ethic policy should include a procedure for the ethical handling of actual or apparent conflict of interest of its directors and principal officers and timely and periodic disclosure by the directors and officers of the Company indicating their adherence to the Code.

CORPORATE RECORDS

The Company's Articles of Incorporation, *By-Laws*, and related amendments were inspected and found to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations. There were no amendments to the Articles of Incorporation and the *By-Laws* after the Company was acquired by Americas Insurance Company (AIC), a Louisiana domiciled Company.

The minutes of the meetings of the Shareholders, Board of Directors and board appointed committees were requested to determine the actions taken on behalf of the Company after the Company was acquired by AIC. Company management indicated that there were no Shareholders or Board meetings during 2013. The Company did not comply with ALA. CODE § 10A-2-16.01 (a)(1975), which states:

A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

Since the Company did not have the Board of Directors meetings, the Company's investment transactions were not authorized, approved or ratified by the Board of Directors. Company management explained that the Company did not have any investments after the Company was acquired by AIC. The investment which was made by the previous owner was pledged as collateral to the Alabama Department of Insurance and that the interest earned was reinvested. The examination determined that the transaction should have been approved or ratified by the Board of Directors as required by ALA. CODE § 27-41-5 (1975), which states:

An insurer shall not make any investment or loan exceeding 10 percent of the admitted assets of the insurer, other than loans on policies or annuity contracts, unless authorized, approved, or ratified by the board of directors of the insurer or by the committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee, or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors.

Designation of Independent Certificate Public Accountant

During the review of the planning material, the examiners determined that the Company had not registered the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit as required by ALA. ADMIN. CODE 482-1-141-.06(2008), which states:

(1) Each insurer required by this chapter to file an annual audited financial report must within sixty (60) days after becoming subject to the requirement, register with the commissioner in writing the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit set forth in this chapter. Insurers not retaining an independent certified public accountant on the effective date of this chapter shall register the name and address of their retained independent certified public accountant not less than six (6) months before the date when the first audited financial report is to be filed.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is subject to the *Alabama Insurance Holding Company Regulatory Act* as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System. The Company is responsible for the holding company registration and periodic filings in accordance with ALA. CODE § 27-29-4 (1975) and ALA. ADMIN. CODE 482-1-055 (1994).

The first filing by the Company under the Holding Company Act was made on June 27, 2014. The filing was not made in a timely manner by June 1, for the previous calendar year as required by ALA. CODE § 27-29-4(a)(1975), which states:

Registration....Any insurer which is subject to registration under this section shall register within 60 days after September 3, 1973, or 15 days after it becomes subject to registration, and annually thereafter by June 1 of each year for the previous calendar year, unless the commissioner for good cause shown extends the time for registration and, then, within such extended time.

Dividends to Stockholders

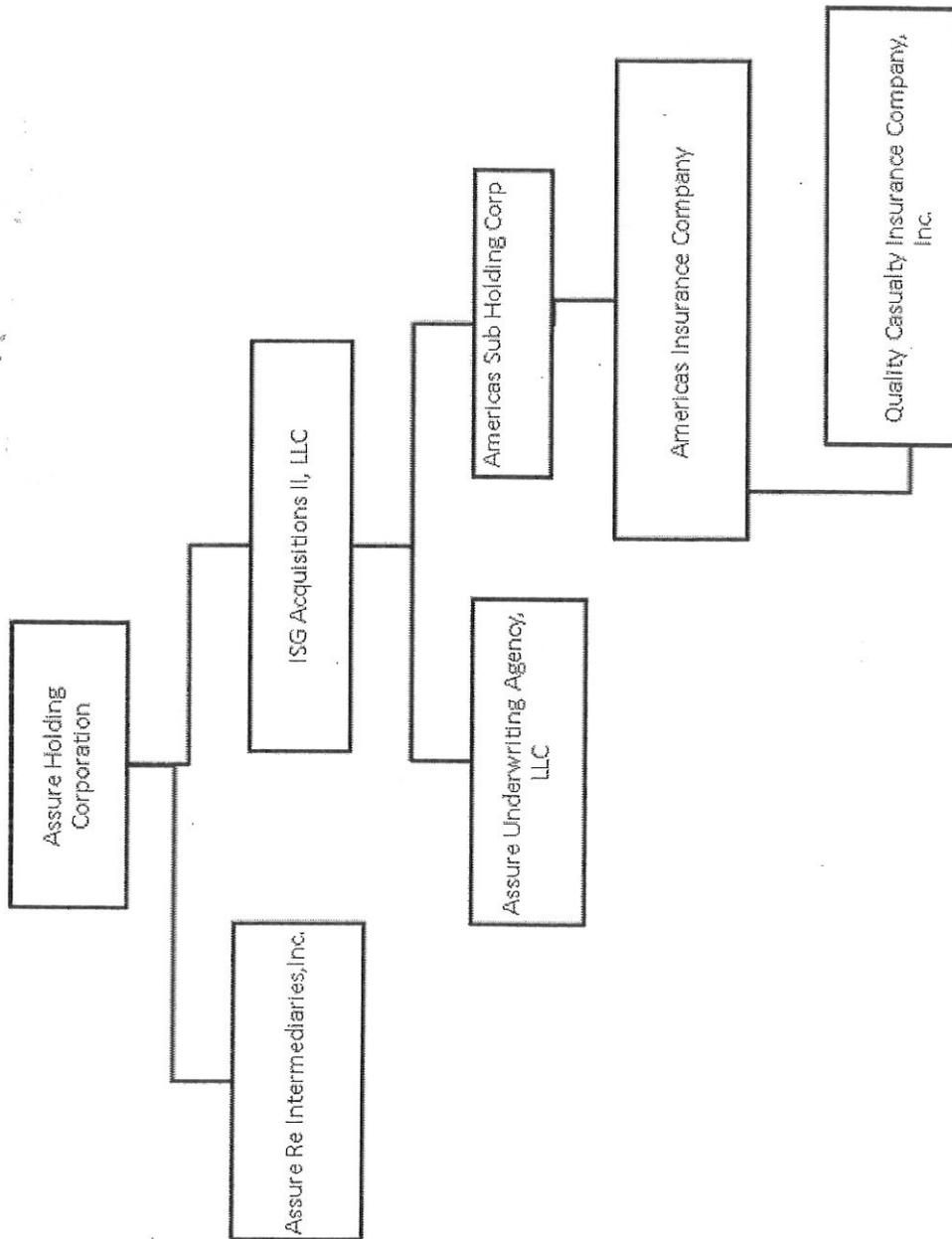
As of December 31, 2013, the Company reimbursed Americas Insurance Company (AIC) a sum of \$22,079 for certain professional, managerial and administrative personnel expenses incurred by AIC. The examination determined that AIC did not have any employees to provide the services mentioned in the Administration Services Agreement which was approved by ALDOI. The amount of \$22,079 was reclassified from expenses to Dividends to Stockholders. See Note 3 – *Receivables from parent, subsidiaries and affiliates* under the heading Notes to Financial Statement – Page 32

Organizational Chart

The examiners reviewed the 2013 Annual Statement and determined that the Organizational Chart did not include the Federal Employer's Identification Number for the Company, and members of the holding company group. The Organizational Chart also did not include the NAIC company code and the two-character state abbreviation of the state of domicile for the domestic insurers as required by the NAIC Annual Statement Instructions, which states:

Attach a chart or listing presenting the identities of and interrelationships between the parent, and all affiliated insurers and reporting entities; and other affiliates, identifying all insurers and reporting entities as such and listing the Federal Employer's identification Number for each. The NAIC company code and the two-character state abbreviation of the state of domicile should be included for all domestic insurers.

ORGANIZATIONAL CHART



Transactions and Agreements with Affiliates

Administrative Services Agreement

The Administrative Services Agreement (Agreement) was effective September 1, 2013, by and between the Company and Americas Insurance Company (AIC), a Louisiana domiciled insurance company. The terms of the Agreement included the following:

1. Duties of AIC: AIC shall provide the Company certain professional, managerial and administrative personnel, as well as various operational and office equipment, so as to facilitate the Company's operations in the state of Alabama. Any managerial and administrative personnel provided by AIC to the Company as part of the Agreement shall remain employees of AIC for all purpose, but shall perform certain duties for the Company in accordance with the Agreement.
2. Payment and Allocation of Expenses: The Company shall be responsible for all costs and expenses under the Agreement provided by AIC to the Company. AIC will bill the Company for all charges pursuant to this Agreement on the 25th day in the month following the period the services or facility was provided. Full payment for all services billed shall be made within 30 days following the billing date.
3. Term: The Term of the Agreement shall be a period of one year, commencing on the Effective Date, and continuing in effect for an indefinite number of successive one-year periods from year to year thereafter. The Agreement could be terminated by written notice by either party to the Agreement as described in the Agreement.

The agreement was filed with the Alabama Department of Insurance on January 3, 2014. On January 13, 2014, ALDOI requested changes to the Agreement to bring the Agreement into compliance with Alabama laws and regulations and SSAP No. 25 of the NAIC Accounting Practices and Procedures Manual. The agreement was approved on April 29, 2014. Since the Company did not file the Agreement for approval at least 30 days prior to entering into the related party transactions, the Company was not in compliance with ALA. CODE § 27-29-5 (b) (1975), which states:

The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as

the commissioner may permit, and the commissioner has not disapproved it within that period...

(4) All management agreements, service contracts, and all cost-sharing arrangements;...

Reinsurance Agreement with Americas Insurance Company

The Inter-Company Quota Share Reinsurance Agreement (Agreement) with Americas Insurance Company (AIC) was effective September 1, 2013. See the caption Reinsurance – Page 23

Tax Sharing Agreement

The Note 9F of the NOTES TO FINANCIAL STATEMENTS of the 2013 and 2014 Annual Statement indicated the Company's federal income tax return as consolidated with the following affiliated companies: 1) ISG Acquisition, Inc., 2) Assure Re Intermediaries, Inc., 3) Assure Underwriting Agency, LLC, 4) Americas Insurance Company, 5) Americas Sub Holding Corporation and 6) Assure Holding Corporation, its ultimate parent.

During 2013 and 2014, the Company did not have an ALDOI approved Tax Sharing Agreement (Agreement). The Company did not comply with ALA. CODE § 27-29-5 (b) (1975), which states:

The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period...

(4) All management agreements, service contracts, and all cost-sharing arrangements;...

The Agreement was submitted to ALDOI on March 18, 2015. The First Amendment to the agreement included the name of the Company as a participant to the consolidated Federal Income Tax filings.

Assure Re Intermediaries, Inc.

Assure Re Intermediaries, Inc. (Assure Re) is one of the affiliates of the Company. The reinsurance transactions recorded on the Company's Annual Statements were

handled by Assure Re. There was no agreement between the Company and Assure Re as required by ALA. CODE § 27-29-5 (b) (1975), which states:

The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period...

(4) All management agreements, service contracts, and all cost-sharing arrangements;...

Assure Underwriting Agency, LLC

Assure Underwriting Agency, LLC (AUA) is one of the affiliates of the Company. The review of the *Schedule Y – Summary of Insurer’s Transactions with Any Affiliates* indicated that there were transactions occurring between the Company and AUA. There was no agreement between the Company and AUA. The Company did not comply with ALA. CODE § 27-29-5 (b) (1975), which states:

The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period...

(4) All management agreements, service contracts, and all cost-sharing arrangements;...

FIDELITY BOND AND OTHER INSURANCE

Company management provided a Financial Institution Bond issued by National Insurance Company of Pittsburgh, Pennsylvania to Assure Holding Corporation (AHC), the ultimate parent of the Company. The policy covered the period beginning January 30, 2013 and ending January 30, 2014. The Company was not one of the named insured along with Americas Insurance Company a subsidiary of AHC.

As of December 31, 2013, the Company did not have the protection of a fidelity bond against dishonest or fraudulent acts committed by employees, including directors and officers elected/appointed for the Company.

The Company is required to maintain a fidelity bond in an amount meeting or exceeding the minimum amount suggested by the NAIC Financial Condition Examiners Handbook.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees of its own; therefore, it has no employees' or producer benefits program. The Company's operations are conducted by the employees of Assure Underwriting Agency, LLC (AUA). The Company did not have an agreement with AUA. See Transactions and Agreements with Affiliates – Page 12

Section § 1033 of Title 18 of the U.S. CODE (ALA. ADMIN. CODE 482-1-146-.11 (2009))

The Company was asked how they complied with ALA. ADMIN. CODE 482-1-146-.11 (2009). Company management indicated the following: 1) All directors and officers are required to complete the NAIC Biographical Affidavit and undergo a background check as part of the affidavit. 2) Most of the employees of Assure Holding Company are hired through employment agencies which conduct background checks as part of their operating procedures and 3) The third-party claim administrator performs background checks on all their employees.

The Company was asked to provide the criminal background checks of the officers, directors and employees of the Company. Company management indicated that the copies of the background checks were not maintained. The Company was not in compliance with ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Company management indicated that the Company did not perform criminal background checks on employees on an ongoing basis as required by ALA. ADMIN. CODE 482-1-146-.11 (2009), which states:

Responsibilities of Section § 1033 of Title 18 of the U.S. CODE;
Insurers.

(1) A Section 1033 insurer subject to the Commissioner's examination

authority shall have and apply the following:

(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

(c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

(2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.

(3) As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

SPECIAL DEPOSITS

In order to comply with the statutory requirements for doing business in the state of Alabama, the Company had the following security on deposit with the Alabama Department of Insurance at December 31, 2013:

Description	Par Value	Book/ Adjusted Value	Fair Value
First America Prime Obligation Fund*	\$ <u>382,035</u>	\$ <u>382,035</u>	\$ <u>382,035</u>
Total	\$ <u>382,035</u>	\$ <u>382,035</u>	\$ <u>382,035</u>

*See Note 1 – Cash... under the caption Notes to Financial Statements – Page 32

MARKET CONDUCT ACTIVITIES

Territory

The Company was issued a perpetual certificate of authority effective December 12, 2001, for Miscellaneous Casualty, Surety excluding Official Surety Bonds, and Marine. The Company was only authorized to transit business in the state of Alabama. There were no pending licenses at the examination date.

Plan of Operation

The Company was acquired by Americas Insurance Company (AIC) on August 1, 2013. Effective October 1, 2013, the Company began writing private passenger automobile insurance policies in the state of Alabama and ceding 100% of the premiums written to AIC under a 100% Quota Share Reinsurance Agreement.

In the holding Company group, the Company is considered as a division of AIC. As of December 31, 2013, the Company's plan which follows AIC's plan was to grow the auto insurance business in Alabama by producing business through Chappell Insurance Services a Managing General Agent licensed in the state of Alabama.

Effective September 5, 2014, the Company entered into a MGA agreement with AssuranceAmerica Managing General Agency LLC, to write business in Alabama. The MGA's authority includes the production, appointment and supervision of authorized licensed personnel (producers), underwriting and accounting as set forth in the MGA agreement.

Dividend to Policyholders

No dividend was paid to policyholders.

Policy Forms and Rates

The Company is a property and casualty insurance company licensed in Alabama. On August 1, 2013, the Company was acquired by Americas Insurance Company a Louisiana Domiciled Company. Prior to the acquisition, the Company operated in run-off. The Company started writing private passenger automobile insurance policies through a managing general agency.

The coverage provided by the Company was the minimum auto insurance required in Alabama. A review of the forms and rate filings indicated that the Company made the appropriate filings with the Alabama Department of Insurance. The application form used by the Company after it started writing business had the required fraud warning

Advertising and Marketing

The Company has no advertising and marketing program. The Managing General Agent appointed by the Company is not allowed to use the name of the Company in any advertisements without prior approval.

Claims Payment Practices

Paid Claims

The Company was acquired by Americas Insurance Company on August 1, 2013 in runoff. The Company started writing new business on October 1, 2013 and had 24 reported claims as of December 31, 2013, which were ultimately closed with indemnity payments. The examiner reviewed the claim files maintained on Engle Martin Claims Administrative Services (EMCAS) server. The examination determined and agreed by EMCAS, that the acknowledgment letters sent to the insured/claimant for three reported claims were not included under the event/claim number as required by ALA. ADMIN. CODE 482-1-125-.06 (2003), which states:

(1) Every insurer, upon receiving notification of a first party claim from a first party claimant shall, within fifteen (15) days, acknowledge the receipt of such notice unless payment is made within that period of time. If an acknowledgement is made by means other than writing, an appropriate notation of the acknowledgement shall be made in the claim file of the insurer and dated.

The examination determined that the copies of the cancelled checks were not included in the claim files; however, on request, EMCAS and the Company obtained the copies of the cancelled checks from the bank utilized by EMCAS for claim payments. The Company should require EMCAS maintain copies of the cancelled checks in the claim files, including the documents required by ALA. ADMIN. CODE 482-1-125-.03 (2003), which states:

(b) CLAIM FILE. Any retrievable electronic file, paper file or combination of both relative to the claim that may contain: The notice of claim, claims forms, proof of loss or other form of claim submission, settlement demands, accident reports, police reports, adjusters logs, claim investigation documentation... payment or denial of the claim, copies of claim checks or drafts, or check numbers and amounts, releases, all applicable notices, correspondence used for determining and concluding claim payments or denials, subrogation and salvage documentation, any other documentation, maintained in a paper or electronic format, necessary to support claim handling activity, and any claim manuals or other information necessary for reviewing the claim.

Denied Claims

The examination determined that there were 19 claims reported as of December 31, 2013, which were closed without payment. A review of the documentations was made to determine if it supported or justified the ultimate claim determination and the Company complied with ALA. ADMIN. CODE 482-1-125 (2003). There were no discrepancies found.

Policyholder Complaints

The Company was acquired by Americas Insurance Company (AIC) on August 1, 2013 and started writing new business on October 1, 2013. During the three-month period October 1, 2013 through December 31, 2013, there were no complaints forwarded by the Alabama Department of Insurance (ALDOI) or received directly from the policyholders, claimants or consumers.

The Company was requested to provide the complaint register to verify if the Company maintained the following information in its register: 1) line of business, 2) function and 3) reason for the complaint. The register included the format to capture the required information; however, the register had the name of Americas Insurance Company (AIC). The Company should maintain its own complaint register for the purpose of recording all complaints (both consumer direct and insurance department) and the resolution of those complaints.

The Company management indicated that the Company did not have a written complaint handling policy and procedures. The Company should maintain a written complaint handling procedures which would adequately describe the method for the distribution of and obtaining and recording responses to complaints. This method should be sufficient to allow response within the time frame required by state law. ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

The request for the complaint register was dated December 4, 2014; follow-up memos were dated March 10, 2015, March 19, 2015 and April 8, 2015. The information was received on April 8, 2015. The Company did not comply with the ALA. ADMIN. CODE 482-1-118-.06 (1999).

Compliance with Producers' Licensing Requirements

The examiners requested the detailed listing of the appointed and terminated producers of the Company that were licensed and appointed to write business for the Company after the Company was acquired by Americas Insurance Company (AIC). Company management obtained the listing from the National Insurance Producer Registry (NIPR), because its Managing General Agent (MGA) did not provide the Company with the producers' information. Since the Company did not maintain the listing at the office of records in New Orleans, the Company was not in compliance with ALA. CODE § 27-27-29 (e)(1975), which states:

... All records kept at the executive offices outside Alabama shall be made available to the commissioner of Alabama upon reasonable notice by the commissioner.

The examiners requested the Company's underwriting and premium collection records. Company management provided access to the MGA system as the Company's underwriting and premiums collection records were on the MGA's system. Since the Company did not archive and maintain the records in New Orleans, the Company was not in compliance with the above mentioned statute.

A sample of 114 items was selected from a population of 1591 policies from the premiums written listing for the period October 1, 2013 through December 31, 2013. The examiners utilized the application files to determine the producers / agencies used by the Company at the time of sale of the policies. The examiners determined the following:

- 23 policies out of the sample of 114 were written by 8 agencies that were not licensed in Alabama and appointed for the Company at the time of sale. The premiums written totaled \$12,653, and commissions paid totaled \$1,567.
- An additional five policies were written by four agencies that were not appointed for the Company at the time of sale. The premiums written amounted to \$1,629.

The Company's response indicated that four policies were written by three agencies that were not appointed /licensed for the Company. The Company's response also indicated that 24 out of the 28 policies were written by 11 agencies operated by licensed and appointed producers. Alabama Department of Insurance Bulletin No. 2010-06 dated May 17, 2010, states in paragraph 3:

The requirement for a business entity producer license is not satisfied by individual licensing of entity officers or employees. By the same token, a business entity license does not relieve an individual employee or contractor actually involved in the solicitation, negotiation, or sale of insurance from the legal requirement of having an individual producer license qualified in the appropriate line(s) of authority.

Since the 12 agencies listed above were not licensed /appointed at the time of sale of the policy, the Company was not in compliance with ALA. CODE § 27-7-4 (1975), which states:

(a) No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person.

For the producers who were not licensed in Alabama, the Company was not in compliance with ALA. CODE § 27-7-35.1 (1975), which states:

a) An insurance company or insurance producer shall not pay a commission, service fee, brokerage, or other valuable consideration to a person for selling, soliciting, or negotiating insurance in this state if that person is required to be licensed under this chapter and is not so licensed... (e) Any insurer or producer violating this section shall be liable for a fine in an amount of up to three times the amount of the commission paid. The fine shall be levied and collected by the commissioner. Upon failure to pay the fine the commissioner may, in his or her discretion, revoke the license of the producer or the insurer's certificate of authority, or both.

Privacy Policy

The Company's Privacy Notice disclosed the following information: 1) why the Company collects consumers information; 2) the types of information collected; 3) how the information is disclosed; and 4) how the information is protected.

The Privacy Notice also specifically stated the customers' rights, and the Company does not disclose any information to any nonaffiliated third parties unless permitted to do so by law. The Company's name, phone number, e-mail address and mailing address are included on the privacy notice. The privacy notice was in compliance with ALA. ADMIN. CODE 482-1-122.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following schedule presents financial data taken from copies of filed annual statements, which reflects the growth of the Company for the years indicated:

<u>Year</u>	<u>Premiums Earned</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2008	\$ 1,036,487	\$ 2,545,327	\$ 1,769,514	\$ 775,813
2009	967,084	2,493,899	1,692,724	801,175
2010	700,418	955,560	326,443	629,117
2011	-133	698,177	120,513	577,664
2012	-0-	313,200	42,577	270,623
2013	-0-	1,395,841	715,905	679,936

* Data for the years 2008 and 2013 are per the examination. Data for the remaining years was obtained from the Company's Annual Statements.

LOSS EXPERIENCE

The Company entered into voluntary run-off on July 1, 2010. No premiums were earned in 2011 – 2013. The following were the net underwriting gains / (losses) for the years under examination stated as a percentage of premium earned for the respective years as reported in the Five-Year Historical Data of the Company's 2013 Annual Statement.

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
(17.6)%	(25.2)%	-0-	-0-	-0-

In addition, the following are the One Year Loss Development and Two Year Loss Development for each year under examination.

(\$000 Omitted)	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
One Year Loss	38	28	(6)	17	(18)
Two Year Loss	31	47	43	11	1

REINSURANCE

Reinsurance Assumed

The Company did not assume any business during the period covered by the examination.

Reinsurance Ceded

Effective September 1, 2013, the Company entered in an Inter-Company Quota Share Reinsurance Agreement (Agreement) with Americas Insurance Company (AIC). Pursuant to the contract the Company will cede and AIC will accept 100% share of the interest and liabilities under the contract. The agreement can be terminated by either party by giving the other party not less than 30 days prior written notice. The agreement can also be terminated under the following circumstances:

1. AIC has its financial condition impaired by a reduction in policyholder surplus of 25% or more in any 12-month or less period from the inception of the agreement.
2. AIC is declared insolvent or put into liquidation by any competent regulatory authority or court of competent jurisdiction.
3. AIC loses its operating license or has its operating license suspended in its state of domicile.
4. AIC fails to remit premiums or losses due under the terms of the Agreement within 120 days of any applicable due date, and subject always to the provisions of the Reinsurance Premium Article.

In the event of the insolvency of the Company, reinsurance shall be payable on demand, with reasonable provision for verification, on the basis of claims allowed against the insolvent Company by any court of competent jurisdiction or by any liquidator, receiver, conservator, or statutory successor of the Company having authority to allow such claims without diminution because of such insolvency or because such liquidator, receiver, conservator, or statutory successor has failed to pay all or a portion of any claims. Such payment by AIC shall be made directly to the Company or its liquidator, receiver, conservator, or statutory successor with some exceptions noted in the insolvency clause.

The agreement was filed with the Alabama Department of Insurance on January 3, 2014. On January 13, 2014, ALDOI requested changes to the Agreement to bring the Agreement into compliance with Alabama laws and regulations. The agreement was approved on April 29, 2014. Since the Company did not file the Agreement for approval 30 days prior to entering into the related party transactions, the Company was not in compliance with ALA. CODE § 27-29-5 (b) (1975), which states:

The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period...

(3) Reinsurance agreements or modifications thereto in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding,...

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained on electronic data processing equipment and personal computers. The Company outsources its business processing to multiple service providers. The majority of its financially significant processing (policy administration and claim processing) is performed by Engle Martin; a managing general agency. For financial reporting (Pro Financial General Ledger), the Company utilized commercially developed software. The Company's investments were managed using the "PortMan" application; a commercially available software product utilized by many insurance companies. Network connectivity, disaster recovery, and data storage were performed by Network Alliance; a commercial network support company located in New Orleans, Louisiana.

External Auditors

Prior to the acquisition of the Company by Americas Insurance Company, a Louisiana domiciled company, the Company was audited by the certified public accounting firm of Hullett, Kellum & McKinney, PC, Hoover, Alabama for the year 2009 and Kellum, Wilson & Associates P.C, Hoover Alabama for the year 2010. The Company was granted an exemption by ALDOI from filing the 2011 and 2012 Audited Financial Statements due to the Company's run-off position under ALA. ADMIN, CODE 482-1-141-.02 (2008). For the period ended December 31, 2013, the Company was

audited by the certified public accounting firm of Postlewaite & Netterville, Baton Rouge, Louisiana.

Permitted Practice

The request to maintain the executive office and books and records at the former home office of Americas Insurance Company (AIC), the parent company, in New Orleans, Louisiana was approved by ALDOI via letter dated September 10, 2013.

The examination of the Company after it was acquired by AIC, noted the following issues:

1. The documents supporting the requests for information were received from the main office of Americas Insurance Company located at 8133 Leesburg Pike Suite 700, Vienna, VA 22182.
2. The claim payment records were not archived and maintained at the office in New Orleans, Louisiana. The Company provided the internet access to the service provider's website.
3. The underwriting and premium collection information was not archived and maintained at the office in New Orleans, Louisiana. The Company provided internet access to the managing general agency's website.
4. The reports generated on the service provider's website were not maintained at the office located in New Orleans, Louisiana.
5. The December 31, 2014, Annual Statement reported that the Statutory Home Office of the Company was 2311 Highland Avenue South, Birmingham, Alabama. The December 31, 2013, Annual Statement had listed the New Orleans, Louisiana office.
6. The December 31, 2014, Annual Statement reported that the primary location of books and records is 8133 Leesburg Pike, Suite 700, Vienna, VA 22182.

Since the Company had not maintained the books and records in New Orleans as approved by the commissioner and moved the books and records to the 8133 Leesburg Pike, Suite 700, Vienna, Virginia office, without the prior written permission from the commissioner, the Company was in violation of ALA. CODE § 27-27-29 (e)(1975), which states:

With the written permission of the commissioner, a domestic insurer may maintain its executive offices outside the State of Alabama and keep there complete records of its assets, transactions, and affairs in accordance with the methods and systems as are customary or suitable for the kind or kinds of insurance transacted. All records kept at the

executive offices outside Alabama shall be made available to the commissioner of Alabama upon reasonable notice by the commissioner.

If the Company desires to maintain its books and records in a place other than the New Orleans, Louisiana office, the Company should obtain written permission from the commissioner as required by ALA. CODE § 27-27-29 (e)(1975).

Audit Committee Meetings

The Company management indicated that the Audit Committee of Assure Holding Corporation (AHC) was also the audit committee of the Company. Company management also indicated that no formal minutes were maintained of the audit committee meetings. The Company did not comply with ALA. CODE § 10A-2-16.01 (a)(1975), which states:

(a) A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

Awareness Letter

The examiners requested the awareness letter issued by Postlethwaite & Netterville (PN), the Company's external auditor. PN indicated that the awareness letter was not issued, which was not in compliance with ALA. ADMIN. CODE 482-1-141-.06 (2008), which states:

“(2) The insurer shall obtain a letter from the accountant, and file a copy with the commissioner stating that the accountant is aware of the provisions of the insurance code and the regulations of the insurance department of the state of domicile that relate to accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as he or she may believe appropriate.”

The Company obtained an awareness letter from PN dated April 22, 2015.

Claims Services Agreement – Engle Martin & Associates

The Company retained Engle Martin & Associates to provide claims administration services for the business written by the Company. ARTICLE II - E of the Claim Services Agreement (Agreement) states: "At least semi-annually, the Client shall conduct or cause to be conducted an on-site review of the claims processing operations of Service Company...." It was determined that during the period October 1, 2013 through December 31, 2014 only one review of the claims processing operations was conducted by "Altair" hired by the Company. The examination determined that the Company did not comply with the Agreement and ALA. CODE § 27-6A-5 (1975), which states:

Insurers shall have the following duties:... (3) The insurer shall periodically, and at least semi-annually, conduct an onsite review of the underwriting and claims processing operations of the managing general agent.

Record Retention

The ARTICLE - II E of the Claim Service Agreement (Agreement) with Engle Martin & Associates states: "At least semi-annually, the Client shall conduct or cause to be conducted an on-site review of the claims processing operations of Service Company. This review shall remain on file with the Client for three (3) years. This section of the Agreement is not in compliance with the record retention requirement of ALA. ADMIN. CODE 482-1-118-.03 (1999), which states:

Records Required for Purposes of Financial Examinations. Every insurer, which term shall include every domestic insurer, foreign insurer,... and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years.

The Company should maintain all records for at least five (5) years as required by ALA. ADMIN. CODE 482-1-118-.03 (1999).

Consideration of Fraud

The Company was asked to provide its antifraud policy and procedure for detecting, prosecuting and preventing fraudulent insurance acts including reporting fraudulent

acts to the commissioner of the Alabama Department of Insurance (ALDOI). Company management indicated that there was no written policy for reporting fraudulent act to ALDOI as required by ALA. CODE § 27-12A-21 (1975), which states:

Mandatory reporting requirements. (a) Persons engaged in the business of insurance, having knowledge or a reasonable belief that insurance fraud is being, will be, or has been committed, shall provide to the department such information that is required by, and in a manner prescribed by, the department. As used in this section, persons engaged in the business of insurance refers only to those entities defined in Section 27-12A-1(5) which hold a certificate of authority from the commissioner.

FINANCIAL STATEMENTS

Financial statements included in this report, which reflect the financial condition of the Company at December 31, 2013, and its operations for the years under examination, consist of the following:

	<u>Page</u>
Statement of Assets	30
Statement of Liabilities, Capital and Surplus	30
Statement of Revenue and Expenses	31
Statement of Changes of Capital and Surplus	31

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

Quality Casualty Insurance Company, Inc.
Statement of Assets, Liabilities, Surplus & Other Funds
For the Year Ended December 31, 2013

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Prior Year Admitted Assets</u>
<u>ASSETS</u>				
Cash, cash equivalents and short-term investment (Note 1)	\$ 684,796	\$ 52,761	\$ 632,035	\$ 242,156
Uncollected premiums and agents' balance in the course of collection (Note 2)	548,606		548,606	
Reinsurance: Amounts recoverable from reinsurer	27,420		27,420	70,528
Net deferred tax asset	95,313	95,200	113	-0-
Electronic data processing equipment and software				516
Receivables from parent, subsidiaries and affiliates (Note 3)	<u>187,667</u>		<u>187,667</u>	<u>-0-</u>
<u>TOTAL ASSETS</u>	<u>\$ 1,543,802</u>	<u>\$ 147,961</u>	<u>\$ 1,395,841</u>	<u>\$ 313,200</u>
 <u>LIABILITIES</u>				
Losses			\$ 7,603	\$ 33,000
Loss adjustment expenses			3,440	
Other expenses (Note 4)			42,726	9,575
Taxes, licenses and fees (Note 5)			29,976	
Ceded reinsurance premiums payable			<u>632,160</u>	<u>-0-</u>
<u>TOTAL LIABILITIES</u>			<u>\$ 715,905</u>	<u>\$ 42,575</u>
<u>CAPITAL AND SURPLUS</u>				
Common capital stock			\$ 500,000	\$ 500,000
Gross paid in and contributed surplus			1,925,011	1,615,218
Unassigned funds (surplus)			\$ -1,692,314	-1,844,595
Surplus as regards policyholders (Note 6)			<u>679,936</u>	<u>270,623</u>
<u>TOTAL LIABILITIES, CAPITAL & SURPLUS</u>			<u>\$ 1,395,841</u>	<u>\$ 313,198</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

Quality Casualty Insurance Company, Inc.
Statement of Income
For the Years Ended December 31, 2013, 2012, 2011, 2010 and 2009

<u>UNDERWRITING INCOME</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Premiums earned	\$ -0-	\$ -0-	\$ -133	\$ 700,418	\$ 967,084
<u>DEDUCTIONS:</u>					
Losses incurred	-19,939	1,063	-42,090	538,502	688,684
Loss adjustment expenses incurred (Note 3)	13,872	16,288	35,912	60,789	87,985
Other underwriting expenses incurred (Note 3)	<u>10,904</u>	<u>12,958</u>	<u>65,996</u>	<u>277,611</u>	<u>360,366</u>
Total underwriting deductions	\$ <u>4,837</u>	\$ <u>30,309</u>	\$ <u>59,817</u>	\$ <u>876,902</u>	\$ <u>1,137,035</u>
Net Underwriting gain/(-)loss	\$ <u>-4,837</u>	\$ <u>-30,309</u>	\$ <u>-59,951</u>	\$ <u>-176,485</u>	\$ <u>-169,951</u>
<u>INVESTMENT INCOME</u>					
Net investment income (Note 3)	\$ -8,489	\$ 4,913	6,863	9,234	18,715
Net realized capital gains	<u>-0-</u>	<u>21</u>	<u>1,545</u>	<u>-1,962</u>	<u>-227</u>
Net investment gain	\$ <u>-8,489</u>	\$ <u>4,934</u>	\$ <u>8,408</u>	\$ <u>7,272</u>	\$ <u>18,487</u>
<u>OTHER INCOME</u>					
Net gain from agents' or premium balances charged off			\$ -706	\$ -13,410	\$ 9,710
Aggregate write-ins for miscellaneous income	\$ <u>-228,094</u>	\$ <u>15,308</u>	<u>72</u>	<u>6,866</u>	<u>6,695</u>
Total other income	\$ <u>-228,094</u>	\$ <u>15,308</u>	\$ <u>-634</u>	\$ <u>-6,543</u>	\$ <u>16,405</u>
Net income after capital gains tax and before all other federal and foreign income taxes	\$ -241,420	\$ -10,067	-52,176	-175,756	-135,058
Federal and foreign income taxes incurred	<u>-118,694</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net income	\$ <u>-122,726</u>	\$ <u>-10,067</u>	\$ <u>-52,176</u>	\$ <u>-175,756</u>	\$ <u>-135,058</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>					
Surplus as regards policyholders, December 31, prior year	\$ 270,622	\$ 577,663	\$ 629,117	\$ 801,175	\$ 932,236
Net income	-122,726	-10,067	-52,176	-175,756	-135,058
Change in net deferred income tax	-170,984				
Change in nonadmitted assets	415,310	-296,974	722	3,699	<u>3,997</u>
Surplus adjustments:					
Paid in	309,793				
Dividends to stockholders	<u>-22,079</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Change in surplus as regards policyholders	\$ <u>409,314</u>	\$ <u>-307,041</u>	\$ <u>-51,454</u>	\$ <u>-172,057</u>	\$ <u>-131,061</u>
Surplus as regards policyholders	\$ <u>679,936</u>	\$ <u>270,622</u>	\$ <u>577,663</u>	\$ <u>629,117</u>	\$ <u>801,175</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Cash, cash equivalents and short-term investments \$632,035

The caption amount is \$52,761 less than the \$684,796 reported by the Company in its 2013 Annual Statement and consisted of the following two adjustments:

<u>Depository</u>	<u>A/S Amount</u>	<u>Adjustment</u>	<u>Balance Per Examination</u>
<u>Schedule E – Part 1</u>			
Compass Bank, Birmingham, AL	\$ 280,083	\$ 30,083	\$ 250,000
Wells Fargo Bank, Atlanta, GA	<u>22,678</u>	<u>22,678</u>	<u>0</u>
Total cash	\$ <u>302,761</u>	\$ <u>52,761</u>	\$ <u>250,000</u>
<u>Schedule DA – Part 1</u>			
Prime Obligation Fund*	\$ <u>382,035</u>	\$ <u>0</u>	\$ <u>382,035</u>
Total short-term inv.	<u>382,035</u>		<u>382,035</u>
Total – Cash & short-term inv.	\$ <u>684,796</u>	\$ <u>52,761</u>	\$ <u>632,035</u>

*Effective April 24, 2015, the amount was transferred to First American Treasury Obligation fund

Compass Bank

The examination determined that the Company's cash deposit of \$280,083 in Compass Bank was subject to the investment limitation of ALA. CODE § 27-41-6(a) (1975), which states:

An insurer shall not have at any one time any single investment or combination of investments in or loans upon the security of the obligations, property, or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of Section 27-3-26 of the Alabama Insurance Code, less the minimum capital and surplus required of said insurer for authority to transact insurance by Sections 27-3-7 and 27-3-8 of the Alabama Insurance Code.

The above guidance was utilized in the calculation of the not admitted portion of \$280,083. As of the December 31, 2012, the admitted assets were \$313,200 and the Surplus as regards policyholders was \$270,623. The calculated amount of 10 percent of the asset or \$31,320 was greater than the \$270,623 less the minimum required

capital and surplus of \$600,000. For the purpose of the examination, \$250,000 from the Compass Bank deposit of \$280,083 is admitted as the amount is FDIC insured and \$30,083 is not admitted.

Wells Fargo Bank

The examination determined that the \$22,678 at deposit with Wells Fargo Bank in Atlanta, GA and reported on Schedule E - Part 1 - Cash was not in the name of the Company. The amount was not admitted in accordance with ALA. CODE § 27-41-2 (1975), which states:

(5) INVESTMENT. Any asset owned by an insurer

Prime Obligation Fund

In Schedule DA – Part 1, the Company reported the Class One Money Market Mutual fund as First American Treasury Obligation Fund in the amount of \$382,035. The CUSIP identification # 31846V104 indicated that the investment was in Frist American Prime Obligation Fund. The Company did not report the fund accurately in Column 2 – Description in accordance with the guidance provided by the NAIC Annual Statement Instruction manual, which states:

Column 2 – Description

Give a complete and accurate description of all bonds, including identifying the kind of investment vehicle if other than short-term bond...

The examination determined that 72.3% of the portfolio allocation of First American Prime Obligation had a maturity of 90 days or less and 27.7% had a maturity of greater than 90 days. The amount of \$276,211 was considered cash equivalent out of \$382,035 and was exempted from the investment limitation in accordance with ALA. CODE § 27-41-39 (b) (1975), which states:

- (1) Cash equivalents are exempt from the limitations of this section.
- (2) Cash equivalents means investments with a maturity of 90 days or less which are highly rated by a nationally recognized statistical rating organization recognized by the Commissioner of Insurance and which are highly liquid, readily convertible to known amounts of cash without penalty, and so near maturity that they present insignificant risk of change in value.

The \$105,824 out of \$382,035 did not qualify as cash equivalent and was a not admitted asset in accordance with ALA. CODE § 27-41-41, which states:

If part of an investment qualifies as an eligible investment under any provision of this act and part does not, then only the part of the investment so qualifying shall be counted as an admitted asset.

During the examination, the Company was informed that the Frist American Prime Obligation Fund was subject to investment limitation. Effective April 24, 2015, the Company transferred the amount to First American Treasury Obligation Fund which was not subject to investment limitation. Since corrective action was taken by the Company, the amount was admitted for the purpose of this examination.

Schedule E - Part 1 - Cash

The examination determined that the Company's Schedule E - Part 1 - Cash was not completed in accordance with the guidance provided by the NAIC Annual Statement Instructions. On Schedule E - Part 1- Cash, the Company reported a net amount of \$280,083 at deposit with Compass Bank. The amounts combined included \$300,525 and two negative balances totaling \$20,442. The NAIC Annual Statement Instructions, which states:

Report separately all deposits in excess of \$250,000 or less than (\$250,000). Deposits not exceeding \$250,000 or not less than (\$250,000) in federally insured depositories may be combined.

Note 2 - Uncollected premiums and agents' balances in the course of collection

\$ 548,606

The caption amount is the same as reported by the Company in its 2013 Annual Statement.

Company management was asked to provide the aging agents' balances listing on a policy-by-policy basis that reconciles to the *Uncollected premiums and agents' balance in the course of collections*. Company management indicated that the Managing General Agent maintains the policy level details and that the Company did not have the detailed listing. Since the Company did not maintain the requested information at its office of records the Company did not comply with ALA. CODE § 27-27-29 (1975), which states:

(a) Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

The Company entered into a Managing General Agency contract with Chappell Insurance Services (CIS) which was effective September 1, 2013. The terms of the contract gives CIS the binding authority for underwriting and premiums collection. The review of the accounts and records indicated that the premiums collected by CIS from Alabama policyholders were deposited into an escrow account with premiums collected from policyholders of Americas Insurance Company (AIC) from Georgia, Mississippi and South Carolina. When funds are due to the Company, CIS wire transfers the funds into the operating account of AIC along with the funds collected from AIC policyholders.

Since the escrow account was utilized to deposit premiums collected from both the Company's and AIC policyholders and the funds due to the Company were not deposited into the Company's bank account, the Company was not in compliance with ALA. CODE § 27-6A-4(1975), which states:

(b) The managing general agent shall render accounts to the insurer detailing all transactions and remit all funds due under the contract to the insurer on not less than a monthly basis. (c) All funds collected for the account of an insurer will be held by the managing general agent in a fiduciary capacity in a bank that is a member of the Federal Reserve System. This account shall be used for all payments on behalf of the insurer. The managing general agent may retain no more than three months estimated claims payments and allocated loss adjustment expenses.

Note 3 – Receivables from parent, subsidiaries and affiliates **\$ 187,667**

The captioned amount is the same as reported by the Company in the 2013 Annual Statement. The examination reclassified certain professional, managerial and administrative personnel expenses in the amount of \$22,079 reimbursement to Americas Insurance Company (AIC) to dividend to stockholders because the payment did not comply with the terms of the Administrative Services Agreement.

According to the Administrative Services Agreement, AIC would provide professional, managerial and administrative personnel to the Company. However, the

examination determined that AIC did not have any employees to provide the services mentioned in the Agreement. Company management in their response stated: "AIC contracted with Assure Underwriting Agency, LLC (AUA) under a separate Administrative Services Agreement for the professional, managerial and administrative personnel, and AIC recharged QCIC's share of those costs under the AIC QCIC Administrative Services Agreement."

Since the reimbursement to AIC, the Company's parent in the amount of \$22,079 was classified to dividend to stockholders, the Company was considered not in compliance with ALA. CODE § 27-29-5 (g) (1975), which states:

Dividends and other distributions. (1) A domestic insurer shall not pay any extraordinary dividend or make any other extraordinary distribution to its shareholders until 30 days after the commissioner has received notice of the declaration of the dividend or distribution and has not disapproved such payment within the period, or until the time the commissioner has approved the payment within the 30-day period.

In order to ensure that the Company was complying with the terms of the approved related party agreement an information request for documents supporting services reimbursement was made on March 17, 2015. Company management provided a response dated April 2, 2015, which included the listing of transactions as recorded in the Company's General Ledger. The follow-up memorandum requested vouchers or other disbursements documents explaining the calculation of the amounts allocated to the Company by Americas Insurance Company. On April 27, 2015, Company management provided copies of the journal entries which did not explain the allocation of expenses. Since the Company did not provide the documents in a timely manner, the Company did not comply with ALA. ADMIN. CODE 482-1-118-.06(1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by an duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule...

Since Company management did not provide the vouchers, the Company did not comply with ALA. CODE § 27-27-30 (1975), which states:

(a) It is recommended that the (a) No insurer shall make any disbursement of \$25.00 or more unless evidenced by a voucher or other document correctly describing the consideration for the payment and support by a check or receipt endorsed or signed by, or on behalf of, the person receiving the money. (b) If the disbursement is for services and reimbursement, the voucher or other document, or some other writing referred to therein, shall describe the services and itemize the expenditures.

Note 4 - Other expenses

\$ 42,726

Aggregate write-ins for liabilities

-0-

The captioned \$42,726 is the same as reported by the Company, but \$9,599 more than that determined by the examination. The captioned \$-0- is the same as reported by the Company, but \$9,599 less than that determined by the examination. Since the error was a reclassifying error, there would be no impact on the policyholders' surplus. No changes were made to the financial statements.

The examination determined that the Company reported the unclaimed property liability in the amount of \$9,599 under *Other expenses*, which was not in accordance with the guidance provided by the NAIC Annual Statement Instructions manual, which states:

Details of Write-ins Aggregated at Line 25 for Liabilities...

Include: Uncashed drafts and checks that are pending escheatment to a state.

The Company was acquired by Americas Insurance Company (AIC) on August 1, 2013. The transfer of the accounts and records included the transfer of the liability in the amount of \$9,599 for unclaimed properties. Company management indicate that they did not receive any records supporting the liability,

At the time of acquisition, the Company was licensed in Alabama. The total amount of \$9,599 in unclaimed properties was escheatable to the residents of the state of Alabama. Company management indicated that no filings were made during the years 2013 and 2014. The Company did not comply with ALA. CODE § 35-12-72 (2004), which states:

Property is presumption of abandonment (a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property...(18) All other property, three

years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.

The Company should also request an extension from filing the unclaimed property as required by ALA. CODE § 35-12-76(f) (2004), which states

Before the date for filing the report, the holder of property presumed abandoned may request the Treasurer to extend the time for filing the report. The Treasurer may grant the extension for good cause. The holder, upon receipt of the extension, may make an interim payment on the amount the holder estimates will ultimately be due, which terminates the accrual of penalties on the amount paid.

Note 5 - Taxes, licenses and fees

\$ 29,976

The captioned \$29,976 is \$4,265 more than the \$25,711 determined by the examination. Due to immateriality no changes were made to the December 31, 2013 2013 financial statements.

The review of the accounts and records included a review of the premium tax calculation and payment made by the Company. The examination determined that the premium tax amount calculated by the Company was \$11,039, which was based on the premiums collected amount of \$306,638 at the rate of 3.6 percent. The calculation when based on the premiums written in Alabama in the amount of \$714,194 at the rate of 3.6 percent was \$25,711. After adjusting the calculated premium tax amount for credit and deduction of \$950, the Company paid \$10,089 instead of \$24,761 (\$25,711 - \$950). The amount of \$10,089 paid by the Company along with the December 3, 2013 premium tax return was \$14,762 less than the \$25,711 as calculated during the examination. The Company did not comply with ALA.CODE § 27-4A-2 (1975), which states:

(8) PREMIUMS. All amounts received in cash or otherwise on risks in this state as consideration for contracts of insurance, less all of the following:

- a. Insurance premiums returned.
- b. Reinsurance premiums from insurance companies authorized to do business in Alabama and subject to the premium tax provided for in Chapter 4 of Title 27.

The Company was requested to contact the Alabama Department of Insurance (ALDOI) and take corrective action in reference to the calculation of premium taxes

by e-mail dated March 18, 2015, followed by e-mail dated March 19, 2015. No response was received from the Company as to the corrective actions taken by the Company. On April 8, 2015, the Company was asked if ALDOI was contacted to correct the issue noted. Since the company did not respond to written request, the Company was not in compliance with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

In response to the April 8, 2015 e-mail, Company management indicated the following: “As previously advised QCIC is paying premium taxes in compliance with Alabama Code 27-4A-3(a), which provides in relevant part that “every insurer shall pay to the commissioner a premium tax equal to the percentage...of the premiums received by the insurer for business done in this state, whether the same was actually received by the insurer in this state or elsewhere” (underlining added). “Received by the insurer” appears to us to mean those premiums that are actually collected by Quality Casualty.”

Note 6 – Unassigned funds (surplus) **\$ 679,936**

Unassigned funds (surplus), as determined by this examination are \$52,761 less than the \$732,697 reported by the Company in its 2013 Annual Statement.

The following schedule presents a reconciliation of the unassigned funds per the Company’s filed statement to that developed by this examination:

Unassigned funds per Company		\$ 732,697
<u>Examination increase/(decrease) to assets:</u>		
• Cash, cash equivalent and short-term investments	\$-52,761	
<u>Examination (increase)/decrease to liabilities:</u>	\$ -0-	
Net increase /(decrease)		\$ -52,761
Unassigned funds (surplus) per examination		<u>\$ 679,936</u>

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included:

- An inspection of representation made by management to the Company's independent public accounts regarding the Company.
- An inspection of representation made by management to the examiners.
- An inspection of the legal letters obtained by the CPA's from the legal firms representing the Company.
- An inspection of the representation made by the Company's General Counsel for the period ending December 31, 2014 and from that date to the date of the Company's response.
- A review of the Company's records and files conducted during the course of the examination.
- A review of the disclosures made by the Company in the 2013 Annual Statement.

Nothing significant noted.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Since the Company was acquired by a new owner, the examination did not verify Company's compliance with issues noted in the previous examination report.

COMMENTS AND RECOMMENDATIONS

Stockholders – Page 5

Corporate Records – Page 8

It is recommended that the Company maintain complete records of the minutes of its Shareholders, Board of Directors and board committees, as required by ALA. CODE § 10A-2-16.01 (a)(1975), which states:

A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

Board of Directors - Page 5

It is recommended that the lone stockholder of the Company Americas Insurance Company appoint the Board of Directors and comply with ALA. CODE §27-27-23(b)(1975), which states:

Directors must be elected by the members or stockholders of a domestic insurer at the annual meeting of stockholders or members...

It is recommended that the stockholder of the Company appoint not less than three directors and at least one-third of the directors be bona fide residents of the state of Alabama and comply with ALA. CODE §27-27-23(a)(1975), which states:

The affairs of every domestic insurer shall be managed by not less than three directors, and at least one-third of the directors shall be bona fide residents of this state.

Officers – Page 6

It is recommended that the Company maintain the minutes of the Board of Directors meeting appointing the Secretary of the Company as required ARTICLE III - Officers, Section 1 of the By-Laws, which states:

The officers of the Corporation shall be a President and a Secretary, both of whom shall be appointed by the Board of Directors

Conflict of Interest – Page 7

It is recommended that the Company update its Conflict of Interest /Code of Ethic guidelines (Code) requiring the directors and officers of the Company to sign a conflict of interest statement periodically indicating their adherence to the Code.

Corporate Records – Page 8

It is recommended that the Company's Board of Directors approve or ratify investment transactions as required by ALA. CODE § 27-41-5 (1975), which states:

An insurer shall not make any investment or loan exceeding 10 percent of the admitted assets of the insurer, other than loans on policies or annuity contracts, unless authorized, approved, or ratified by the board of directors of the insurer or by the committee or person as the board of

directors shall expressly authorize. The action of the board of directors, the committee, or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors.

It is recommended that the Company maintain the minutes of the Shareholders meetings electing the Board of Directors as required by ARTICLE I - Shareholders, Section 1 of the By-Laws, which states:

...The annual meeting shall be held for the purpose of electing Directors and the transactions of such other business as may come before the meeting.

It is recommended that the Company register the name of the independent certified public accountant or accounting firm retained to conduct the annual audit as required by ALA. ADMIN. CODE 482-1-141-.06(2008), which states

(1) Each insurer required by this chapter to file an annual audited financial report must within sixty (60) days after becoming subject to the requirement, register with the commissioner in writing the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit set forth in this chapter. Insurers not retaining an independent certified public accountant on the effective date of this chapter shall register the name and address of their retained independent certified public accountant not less than six (6) months before the date when the first audited financial report is to be filed.

Holding Company Registration - Page 9

It is recommended that the Company make all filings required under the Holding Company Act in a timely manner, including the annual filings, which must be made by June 1 of each year for the previous calendar year as required by ALA. CODE § 27-29-4(a)(1975), which states:

Registration....Any insurer which is subject to registration under this section shall register within 60 days after September 3, 1973, or 15 days after it becomes subject to registration, and annually thereafter by June 1 of each year for the previous calendar year, unless the commissioner for good cause shown extends the time for registration and, then, within such extended time.

Organizational Chart - Page 10

It is recommended that the Company include the Federal Employer's Identification Number on the Organizational Chart for all members in the holding company group and also include the NAIC company code and the two-character state abbreviation of the state of domicile as required by the NAIC Annual Statement Instructions, which states:

Attach a chart or listing presenting the identities of and interrelationships between the parent, and all affiliated insurers and reporting entities; and other affiliates, identifying all insurers and reporting entities as such and listing the Federal Employer's identification Number for each. The NAIC company code and the two-character state abbreviation of the state of domicile should be included for all domestic insurers.

Administration Service Agreement - Page 12

Tax Sharing Agreement - Page 13

Assure Re Intermediaries - Page 13

Assure Underwriting Agency - Page 14

It is recommended that the Company not enter into any transactions with affiliated companies without an agreement that is approved by the Alabama Department of Insurance as required by ALA. CODE § 27-29-5 (b) (1975), which states:

The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period...

(4) All management agreements, service contracts, and all cost-sharing arrangements;...

Fidelity Bond and Other Insurance – Page 14

It is recommended that the Company be included as one of the named insured on the Financial Institution Bond issued to Assure Holding Corporation (AHC) if it desires to obtain the benefit of coverage against dishonest or fraudulent acts committed by employees, including directors and officers of the Company.

It is recommended that the fidelity bond obtained by the Company or if the

Company is named insured on the bond issued to AHC meet or exceed the minimum amount suggested by the NAIC Financial Condition Examiners handbook.

Section 1033 of Title 18 of the U.S. CODE – Page 15

It is recommended that the Company maintain the records of the background checks performed on employees and provide the same when requested by the examiners as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

It is recommended that the Company implement a policy and procedure to Comply with Violent Crime and Law Enforcement Act of 1994 including a procedure, applied on a periodic basis, to ascertain the existence of felony conviction a required by with ALA. ADMIN. CODE 482-1-146-.11 (2009), which states:

Responsibilities of Section 1033 Insurers.

(1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:

(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

(c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

(2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.

(3) As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

Claims Payment Practices – Page 18

It is recommended that the Company maintain the copy of the claim acknowledgement letter in the claim file as required by ALA. ADMIN. CODE 482-1-125-.06 (2003), which states:

(1) Every insurer, upon receiving notification of a first party claim from a first party claimant shall, within fifteen (15) days, acknowledge the receipt of such notice unless payment is made within that period of time. If an acknowledgement is made by means other than writing, an appropriate notation of the acknowledgement shall be made in the claim file of the insurer and dated.

It is recommended that the Company maintain all claims documentation, including the copy of the cancelled checks as required by ALA. ADMIN. CODE 482-1-125-.03 (2003), which states:

(b) CLAIM FILE. Any retrievable electronic file, paper file or combination of both relative to the claim that may contain: The notice of claim, claims forms, proof of loss or other form of claim submission, settlement demands, accident reports, police reports, adjusters logs, claim investigation documentation... payment or denial of the claim, copies of claim checks or drafts, or check numbers and amounts, releases, all applicable notices, correspondence used for determining and concluding claim payments or denials, subrogation and salvage documentation, any other documentation, maintained in a paper or electronic format, necessary to support claim handling activity, and any claim manuals or other information necessary for reviewing the claim.

Policyholder Complaints – Page 19

It is recommended that the Company have a register to log the complaints received from the Company's policyholders and complainants.

It is recommended that the Company maintain written claim handling procedures which would adequately describe the method for the distribution of and obtaining and recording responses to complaints. This method should be sufficient to allow response within the time frame required by state law. ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

It is recommended that the Company provide the information requested in writing by the examiners as required by ALA. ADMIN. CODE 482-1-118-.06 (1999).

Compliance with Producers' Licensing Requirements – Page 20

It is recommended that the Company maintain all records at the former home office of Americas Insurance Company as permitted by the commissioner of the Alabama Department and comply with ALA. CODE § 27-27-29 (e)(1975), which states:

With the written permission of the commissioner, a domestic insurer may maintain its executive offices outside the State of Alabama and keep there complete records of its assets, transactions, and affairs in accordance with the methods and systems as are customary or suitable for the kind or kinds of insurance transacted. All records kept at the executive offices outside Alabama shall be made available to the commissioner of Alabama upon reasonable notice by the commissioner.

It is recommended that the Company only accept business from producers who are licensed and /or appointed by the Company as required by ALA. CODE § 27-7-4 (1975), which states:

(a) No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person.

It is recommended that the Company only utilize producers who are licensed as required by ALA. CODE § 27-7-35.1 (1975), which states:

a) An insurance company or insurance producer shall not pay a commission, service fee, brokerage, or other valuable consideration to a person for selling, soliciting, or negotiating insurance in this state if that person is required to be licensed under this chapter and is not so licensed... (e) Any insurer or producer violating this section shall be liable for a fine in an amount of up to three times the amount of the commission paid. The fine shall be levied and collected by the commissioner. Upon failure to pay the fine the commissioner may, in his or her discretion, revoke the license of the producer or the insurer's certificate of authority, or both.

Reinsurance – Page 23

It is recommended that the Company not enter into any transactions with affiliated companies without an agreement that is approved by the Alabama Department of Insurance as required by ALA. CODE § 27-29-5 (b) (1975), which states:

The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period...

(3) Reinsurance agreements or modifications thereto in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding,...

Accounts and Records – Page 24

It is recommended that the Company maintain the books and records at the former home office of Americas Insurance Company as permitted by the commissioner of the Alabama Department of Insurance or if it desires to maintain the books and records at a location other than the approved location, the Company should obtain permission as required by ALA. CODE § 27-27-29 (e)(1975), which states:

With the written permission of the commissioner, a domestic insurer may maintain its executive offices outside the State of Alabama and keep there complete records of its assets, transactions, and affairs in accordance with the methods and systems as are customary or suitable

for the kind or kinds of insurance transacted. All records kept at the executive offices outside Alabama shall be made available to the commissioner of Alabama upon reasonable notice by the commissioner.

It is recommended that the Company maintain the minutes of the meetings of its audit committee and action taken by the audit committee without a meeting as required by ALA. CODE § 10A-2-16.01 (a)(1975), which states:

(a) A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

It is recommended that the Company obtain an awareness letter from Postlethwaite & Netterville, external auditor, and file the copy of the letter with the Commissioner of Insurance as required by ALA. ADMIN. CODE 482-1-141-.06 (2008), which states:

(2) The insurer shall obtain a letter from the accountant, and file a copy with the commissioner stating that the accountant is aware of the provisions of the insurance code and the regulations of the insurance department of the state of domicile that relate to accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as he or she may believe appropriate.

It is recommended that the Company conduct periodic review at least semi-annually of the service provider as required by the Claim Service Agreement and ALA. CODE § 27-6A-5 (1975), which states:

Insurers shall have the following duties:... (3) The insurer shall periodically, and at least semi-annually, conduct an onsite review of the underwriting and claims processing operations of the managing general agent.

It is recommended that the Company maintain all records including on-site review of claims processing operations records for at least five years as required by ALA. ADMIN. CODE 482-1-118-.03 (1999), which states:

Records Required for Purposes of Financial Examinations. Every insurer, which term shall include every domestic insurer, foreign insurer,... and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years.

It is recommended that the Company establish an antifraud policy for the reporting of fraudulent acts to ALDOI as required by ALA. CODE § 27-12A-21 (1975), which states:

Mandatory reporting requirements. (a) Persons engaged in the business of insurance, having knowledge or a reasonable belief that insurance fraud is being, will be, or has been committed, shall provide to the department such information that is required by, and in a manner prescribed by, the department. As used in this section, persons engaged in the business of insurance refers only to those entities defined in Section 27-12A-1(5) which hold a certificate of authority from the commissioner.

Cash, cash equivalent and short-term investments - Page 32

It is recommended that the Company comply with the investment limitation statute as required by ALA. CODE § 27-41-6 (1975), which states:

(a) An insurer shall not have at any one time any single investment or combination of investments in or loans upon the security of the obligations, property, or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of Section 27-3-26 of the Alabama Insurance Code, less the minimum capital and surplus required of said insurer for authority to transact insurance by Sections 27-3-7 and 27-3-8 of the Alabama Insurance Code.

It is recommended that the Company not include any investments not in the name of the Company and comply with ALA. CODE § 27-41-2 (1975), which states:

(5) INVESTMENT. Any asset owned by an insurer...

It is recommended that if part of the Company's investment in any one person qualifies as an eligible investment only the qualified portion of the investment is admitted for statutory purposes as required by ALA. CODE § 27-41-41, which states:

If part of an investment qualifies as an eligible investment under any provision of this act and part does not, then only the part of the investment so qualifying shall be counted as an admitted asset.

It is recommended that the Company report separately all deposits in excess of \$250,000 or less than \$250,000 in accordance with the guidance provided by the NAIC Annual Statement Instructions, which states:

Report separately all deposits in excess of \$250,000 or less than (\$250,000). Deposits not exceeding \$250,000 or not less than (\$250,000) in federally insured depositories may be combined.

Uncollected premiums and agents' balances - Page 34

It is recommended that the Company maintain the aging agents balance listing on a policy-by-policy basis at its home office and comply with ALA. CODE § 27-27-29 (1975), which states:

(a) Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

It is recommended that the premiums collected by the Managing General Agent from the Company policyholders must be held in a bank used solely for the benefit of the Company. **It is also recommended** that when the account of the transactions is rendered to the Company the funds should be remitted in the account of the Company as required by ALA. CODE § 27-6A-4(1975), which states:

(b) The managing general agent shall render accounts to the insurer detailing all transactions and remit all funds due under the contract to the insurer on not less than a monthly basis. (c) All funds collected for the account of an insurer will be held by the managing general agent in a fiduciary capacity in a bank that is a member of the Federal Reserve System. This account shall be used for all payments on behalf of the insurer. The managing general agent may retain no more than three

months estimated claims payments and allocated loss adjustment expenses.

Receivables from parent, subsidiaries and affiliates – Page 35

It is recommended that the Company not pay any extraordinary dividend to or make any extraordinary distribution without notifying the commissioner as required by ALA. CODE § 27-29-5 (g) (1975), which states:

“Dividends and other distributions. (1) A domestic insurer shall not pay any extraordinary dividend or make any other extraordinary distribution to its shareholders until 30 days after the commissioner has received notice of the declaration of the dividend or distribution and has not disapproved such payment within the period, or until the time the commissioner has approved the payment within the 30-day period.”

It is recommended that the Company provide all information requested in writing by an examiner within ten working days as required by ALA. ADMIN. CODE 482-1-118-.06(1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by an duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule...

It is recommended that the Company maintain records of all disbursements, including disbursements for services as required by ALA. CODE § 27-27-30 (1975), which states:

(a) It is recommended that the (a) No insurer shall make any disbursement of \$25.00 or more unless evidenced by a voucher or other document correctly describing the consideration for the payment and support by a check or receipt endorsed or signed by, or on behalf of, the person receiving the money. (b) If the disbursement is for services and reimbursement, the voucher or other document, or some other writing referred to therein, shall describe the services and itemize the expenditures.

Other expenses – Page 37

It is recommended that the Company report unclaimed properties under Aggregate write-ins for liabilities and comply with the NAIC Annual Statement Instructions, which states:

Details of Write-ins Aggregated at Line 25 for Liabilities...

Include: Uncashed drafts and checks that are pending escheatment to a state.

It is recommended that the Company escheat the unclaimed properties to the state of Alabama as required by ALA. CODE § 35-12-72 (2004), which states:

Property is presumption of abandonment (a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property...(18) All other property, three years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.

It is recommended that the Company request an extension from filing the unclaimed property as required by ALA. CODE § 35-12-76(f) (2004), which states

Before the date for filing the report, the holder of property presumed abandoned may request the Treasurer to extend the time for filing the report. The Treasurer may grant the extension for good cause. The holder, upon receipt of the extension, may make an interim payment on the amount the holder estimates will ultimately be due, which terminates the accrual of penalties on the amount paid.

Taxes, licenses and fees – Page 38

It is recommended that the Company calculate the premium taxes based on the premium written in Alabama as reported in Schedule T and comply with ALA.CODE § 27-4A-2 (1975), which states:

(8) PREMIUMS. All amounts received in cash or otherwise on risks in this state as consideration for contracts of insurance, less all of the following:

a. Insurance premiums returned.

b. Reinsurance premiums from insurance companies authorized to do business in Alabama and subject to the premium tax provided for in Chapter 4 of Title 27.

It is recommended that the Company respond to written request made by the examiners within 10 working days Company as required by ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

SUBSEQUENT EVENTS

Transactions and Agreements with Affiliates – Page 10

1. The Administrative Services Agreement between the Company and Americas Insurance Company was approved by ALDOI on April 29, 2014.
2. The Tax Sharing Agreement was submitted to ALDOI on March 18, 2015 and subsequently approved by ALDOI.

Holding Company Registration – Page 9

The Form B – Filing which was due on June 1, 2014 was filed on June 27, 2014.

MGA Settlement

In a letter dated May 11, 2015, Company management indicated that the Company and Americas Insurance Company have reached a settlement agreement with their MGA.

Special Deposit – Page 32

The Special Deposit investment in Frist American Prime Obligation Fund moved to First American Treasury Obligation Fund.

2014 Annual Statement

The December 31, 2014, Annual Statement reported that the primary location of books and records is 8133 Leesburg Pike, Suite 700, Vienna, VA 22182. See Accounts and Records – Page 24

Resignation of CFO

Effective May 20, 2015, the CFO of the Company resigned. Mr. Sean Barnes was appointed to the position of Executive Vice President of Finance.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing the Company during the course of the examination.

The customary examination procedures, as recommended by the National Association of Insurance Commissioners for health maintenance organizations, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Charles Turner, CISA, Charles Angell, FCAS, MAAA, all representing the Alabama Department of Insurance, participated in this examination.

Respectfully submitted,

Francis Blase Abreo

Blase Abreo, CFE
Examiner-in-Charge
Alabama Department of Insurance