

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of American Automobile Insurance Company for the period ended  
December 31, 2010

### ORDER

After full consideration and review of the report of the financial examination of American Automobile Insurance Company for the period ended December 31, 2010, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of American Automobile Insurance Company as of December 31, 2010, be and is hereby ADOPTED as filed and for American Automobile Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 15th day of June, 2012.



John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF THE  
FINANCIAL EXAMINATION OF  
**American Automobile Insurance Company**  
AS OF  
DECEMBER 31, 2010

**FILED**  
JUN 25 2012  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND  
PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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May 31, 2012

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65102

Director Huff:

In accordance with your financial examination warrant, a full scope financial association examination has been made of the records, affairs and financial condition of

**American Automobile Insurance Company**

hereinafter referred to as such, as American Auto, or as the Company. Its administrative office is located at 777 San Marin Drive, Novato, California 94998, telephone number 415-899-2000. The fieldwork for this examination concluded on the above date.

**SCOPE OF EXAMINATION**

This is a multi-state examination of the Company. The previous multi-state examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2010. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination and was conducted concurrently with other insurance entities in the holding company group and included participation from the following States: California, Illinois, Louisiana, New Jersey and Ohio.

## SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

## SUBSEQUENT EVENTS

Fireman's Fund Insurance Company (Fireman's Fund) and the Pooled Subsidiaries, including American Auto, entered into a Second Amended and Restated Intercompany Reinsurance Agreement (Amended Pooling Agreement) effective January 1, 2012. Under the Amended Pooling Agreement, each of the Pooled Subsidiaries will continue to cede 100% of its insurance business to Fireman's Fund; however, the retroceded shares for all Pooled Subsidiaries is reduced to zero and Fireman's Fund's share is increased to 100%. The new Amendment was approved by the domiciliary Department of Insurance of each participating company.

Effective January 1, 2012, Fireman's Fund and the Pooled Subsidiaries entered into an Intercompany Service Agreement (Service Agreement) pursuant to which Fireman's Fund is authorized to provide all services necessary to operate the pooled subsidiaries' insurance business.

## COMPANY HISTORY

### General

American Auto was incorporated on December 14, 1911 under the laws of Missouri and was issued a certificate of authority on January 1, 1912. The Company operates under provisions of Chapter 379 (Insurance Other Than Life).

In 1956, American Auto was acquired by The American Insurance Company of Omaha, Nebraska. On December 31, 1963, The American Insurance Company was acquired by Fireman's Fund, which was ultimately owned by The Fund American Companies, Inc. of Greenwich, Connecticut. On January 2, 1991, Fireman's Fund and its subsidiaries were sold to Allianz of America, Inc.

### Capital Contributions

No capital contributions were received during the current examination period.

### Dividends

No dividends were paid in 2008. On November 1, 2009, American Auto dividended its common stock investment in its wholly owned subsidiary, Associated Indemnity, to its parent, Fireman's Fund. The statutory book value of Associated Indemnity at the time of transfer was

\$81,506,676. American Auto paid ordinary cash dividends of \$16 million to its parent on December 14, 2010.

### Mergers and Acquisitions

No mergers or acquisitions occurred during the examination period.

## CORPORATE RECORDS

A review was made of the Articles of Incorporation and Bylaws for the examination period. The Articles of Incorporation were amended, effective February 5, 2010, to revise the principal office from St. Louis County to St. Charles County. The Bylaws were also amended, effective November 9, 2009, to change the principal place of business to St. Charles County.

The minutes of the Board of Directors' meetings, committee meetings, and policyholder meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

## MANAGEMENT AND CONTROL

### Board of Directors

The management of the Company is vested in a Board Directors which is appointed by the shareholder. The Company's Articles of Incorporation specify that the Board of Directors shall consist of nine members. The Board of Directors appointed and serving as of December 31, 2010 was as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Lori D. Fouche	San Anselmo, CA	President, Commercial Insurance Fireman's Fund
Bruce F. Friedberg	Novato, CA	Senior Vice President, Chief Actuary Fireman's Fund
Jeffery F. Johnson	San Anselmo, CA	Vice President & Controller Fireman's Fund
Michael E. LaRocco <sup>1</sup>	Sonoma, CA	President & Chief Executive Officer Fireman's Fund
Sally B. Narey	Larkspur, CA	Senior Vice President, General Counsel & Secretary Fireman's Fund

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<sup>1</sup>Michael E. LaRocco resigned as director and was replaced by Gregory A. Tacchetti effective July 6, 2011. Effective September 1, 2011, Douglas E. Franklin replaced Tacchetti as director.

Roger M. Nulton, Jr. <sup>2</sup>	Santa Rosa, CA	President of Agribusiness Fireman's Fund
Jill E. Paterson <sup>3</sup>	Tiburon, CA	Executive VP, Chief Financial Officer & Treasurer Fireman's Fund
Paul M. Stachura	Petaluma, CA	Senior VP, Chief Claims & Risk Services Officer Fireman's Fund
David M. Zona	Novato, CA	Senior Vice President, Product Management Fireman's Fund

### Principal Committees

The Articles of Incorporation and Bylaws do not require any committees but the Bylaws do allow for committees to be appointed by the Board of Directors. An Executive Committee was active during the examination period. The primary purpose of the committee is to exercise certain authorities of the Board of Directors in managing the affairs of the Company. The members of the Executive Committee appointed and serving as of December 31, 2010 were as follows: Michael E. LaRocco (replaced by Lori D. Fouche in July 2011), Sally B. Narey, and Jill E. Paterson (replaced by Kevin E. Walker in September 2011).

American Auto also utilizes and relies upon several key committees of its parent company, Fireman's Fund, that regularly review and approve actions or transactions that may directly or indirectly affect the operations of American Auto. These committees include the Audit Committee, the Finance Committee, and the Reserve Committee.

### Senior Officers

The officers elected by the Board of Directors and serving as of December 31, 2010 were as follows:

<u>Officer</u>	<u>Position</u>
Michael E. LaRocco <sup>4</sup>	Chairman of the Board, President & Chief Executive Officer
Jill E. Paterson <sup>5</sup>	Executive Vice President, Chief Financial Officer & Treasurer
Sally B. Narey	Senior Vice President, General Counsel & Secretary
Jeffery F. Johnson	Vice President & Controller

<sup>2</sup>Roger M. Nulton, Jr. resigned effective June 3, 2011. Alan D. Page replaced Nulton as director effective June 14, 2011. Bruce D. Peterson was elected to replace Page effective September 26, 2011.

<sup>3</sup>Jill E. Paterson resigned as director and was replaced by Kevin E. Walker effective September 19, 2011.

<sup>4</sup>Lori D. Fouche replaced Michael E. LaRocco as Chairman of the Board, President & Chief Executive Officer effective July 11, 2011.

<sup>5</sup>Kevin E. Walker replaced Jill E. Paterson. He was elected Senior Vice President, Chief Financial Officer & Treasurer effective September 19, 2011.



**Holding Company, Subsidiaries and Affiliates**

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). Allianz SE is the ultimate controlling entity. Allianz SE, formerly Allianz Aktiengesellschaft, is a European Company incorporated in the Federal Republic of Germany and the European Union. An Insurance Holding Company System Registration Statement was filed by Allianz SE for each year of the examination period.

**Organizational Chart**

The following chart depicts the ownership of the Company as of December 31, 2010.

**Intercompany Transactions**

Intercompany agreements that were in effect as of December 31, 2010 are outlined below.

1. **Type:** Investment Management Agreement
- Parties:** American Auto, Fireman's Fund, The American Insurance Company, National Surety Corporation, and Fireman's Fund Insurance Company of Ohio
- Effective:** January 1, 1981
- Terms:** Fireman's Fund agrees to perform administrative, accounting, clerical, statistical, and corporate services that are required in connection with the administration of the investment affairs of all parties to the agreement. Costs are distributed on the basis of percentage of assets invested to total investments under management.

Effective February 1, 2011, the Company consented to the delegation of investment management services by Fireman's Fund to an affiliate, Pacific Investment Management Company, LLC ("PIMCO"). PIMCO will perform investment management services for the fixed income securities portfolio of American Auto. Investment functions will be performed at all times subject to the authority and control of American Auto's Board of Directors.

- 2. Type:** Tax Reimbursement Agreement
- Parties:** Allianz of America, Inc., Fireman's Fund, and its insurance subsidiaries, including American Auto.
- Effective:** December 17, 1999
- Terms:** The Company entered into this Tax Reimbursement Agreement for the purpose of clarifying an agreement that was in effect since 1991. The parties to the Agreement agree to annually file a consolidated federal income tax return for each taxable year. The tax liability or refund due from or to each party will be computed as if each member had filed a separate stand-alone federal return. Payments shall be made at the time and in the amounts as if each member had filed a separate stand-alone return. Final settlement shall be made within 90 days after the filing of the consolidated returns with the IRS.

In addition to the above listed agreements, American Auto is a party to the Intercompany Reinsurance Agreement with Fireman's Fund and its subsidiaries as described in the Reinsurance section of this report.

The following table summarizes the amounts incurred by American Auto during the examination period under the Investment Management Agreement with Fireman's Fund.

<u>Affiliate</u>	<u>Agreement</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Fireman's Fund	Investment Management	<u>\$311,828</u>	<u>\$286,018</u>	<u>\$288,002</u>

### FIDELITY BOND AND OTHER INSURANCE

The indirect parent company, Allianz of America, Inc., has a fidelity bond that provides coverage for all of its subsidiaries, including American Auto. The fidelity bond covers losses resulting from dishonest or fraudulent acts of employees. The bond has a liability limit of \$17 million with a \$1 million deductible, which meets the minimum coverage recommended by the NAIC. Allianz of America, Inc. also has several insurance policies that provide coverage for subsidiary companies. The risks insured by these additional policies are as follows: commercial property, commercial general liability, business auto, electronic and computer crime, worker's compensation and employers' liability, directors and officers' liability, and umbrella liability.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

American Auto does not have any direct employees and thus, does not directly incur or accrue any expenses for employee benefits. Most of the Company's daily business operations are conducted by employees of the parent company, Fireman's Fund. An allocated portion of the payroll and benefit costs of Fireman's Fund employees are paid by American Auto pursuant to an Intercompany Reinsurance Agreement, which is described in the Reinsurance section of this report.

## TERRITORY AND PLAN OF OPERATIONS

American Auto is licensed and writes business in all 50 states and the District of Columbia. The Company is licensed as a property and casualty insurer by the Missouri DIFP under Chapter 379 RSMo (Insurance Other than Life). In 2010, direct written premium in three states exceeded 10% of the total: California (14.4%), New York (13%), and Florida (12.3%).

American Auto's major lines of business, based upon direct written premiums, are listed in the table below:

<u>Line of Business</u>	<u>As a % of 2010 Direct Written Premiums</u>
Homeowners Multiple Peril	25.5%
Other Liability - Occurrence	24.5%
Workers Compensation	6.4%
All Other Lines	<u>21.5%</u>
Total	100.0%

The parent, Fireman's Fund, and its insurance subsidiaries, including American Auto, are marketed on a group basis. At the end of 2007, the main business segments of the Fireman's Fund group of companies were Commercial, Personal, and Specialty. In 2008, a restructuring occurred. As of December 31, 2010, business segments were Commercial, Personal, and Agribusiness. The former Specialty segment was split up with some components merged into the Commercial segment and the remaining components comprising the new Agribusiness segment.

## GROWTH OF THE COMPANY AND LOSS EXPERIENCE

Direct and net written premiums have decreased steadily for the years under examination reflecting decreases in commercial and personal business generated by the Fireman's Fund Group and the transfer of marine business to a new Allianz global marine unit. The transfer of marine business resulted in a decrease in net premiums written for the Fireman's Fund Group of \$508 million in 2009. The loss ratio and combined ratios have remained relatively stable during this time period. In 2010, underwriting results were negatively impacted by increased catastrophe losses and adverse development on asbestos and environmental reserves and workers compensation reserves. Underwriting expenses increased as a result of additional investments in

technology. Management has implemented initiatives to improve underwriting performance by controlling underwriting expenses and limiting catastrophe exposures.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Gross Written Business	549,485,757	501,977,466	449,839,012
Net Written Premiums	119,740,382	100,281,113	85,409,301
Net Income (Loss)	13,626,302	83,812,076	10,603,257
Net Loss & LAE Reserves	159,142,371	150,715,625	151,581,939
Total Capital and Surplus	212,575,701	161,785,525	152,090,246
Total Admitted Assets	468,296,528	397,400,080	378,569,837
Gross Written Premium to Surplus	258.5%	310.3%	295.8%
Net Written Premium to Surplus	56.3%	62.0%	56.2%
Net Loss & LAE Reserves to Surplus	74.9%	93.2%	99.7%
Net Loss & LAE Incurred to Premium Earned	75.0%	70.8%	78.1%
Other Underwriting Expenses to Premium	27.7%	31.1%	33.4%
Combined Ratio	102.7%	102.0%	111.5%

## REINSURANCE

### General

The Company's written premium activity on a direct, assumed, and ceded basis for the period under examination is detailed below:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Direct Business	\$429,745,375	\$401,696,353	\$364,429,711
Reinsurance Assumed			
Affiliates	119,740,382	100,281,113	85,409,301
Non-affiliates	0	0	0
Reinsurance Ceded:			
Affiliates	429,745,375	401,696,353	364,429,711
Non-affiliates	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Premiums Written</b>	<b><u>\$119,740,382</u></b>	<b><u>\$100,281,113</u></b>	<b><u>\$85,409,301</u></b>

### Pooling

American Auto, along with Fireman's Fund and six other insurance subsidiaries of Fireman's Fund, is a party to an Intercompany Reinsurance Agreement effective January 1, 1999. Under the terms and conditions of this agreement, each subsidiary or pool member is required to cede 100% of its direct and assumed business to the parent, Fireman's Fund, which acts as the lead insurer in the intercompany pool. The participants share all underwriting and insurance business and the related assets, liabilities, income and expenses according to each insurer's respective

participation percentage. Pooled accounts do not include investment operations, dividends to stockholders, or federal income tax liabilities.

Other companies within the Fireman's Fund Group, referred to as Specialty Companies, cede 100% to the Fireman's Fund. Specialty Companies receive a commission from Fireman's Fund, and also pay Fireman's Fund a management fee, resulting in minimal income for the Specialty Companies. The cessions from the Specialty Companies are combined with Fireman's Fund business, and are included in the pooled balance to be allocated to each company in the pool including American Auto, as noted above.

Two companies in the pool, Interstate Fire & Casualty Company and Chicago Insurance Company, submit business to the pool net of external reinsurance arrangements with third parties.

Fireman's Fund is responsible for securing the necessary external reinsurance on behalf of the entire pooled business and redistributing the net retained pooled business to each participant in accordance with the percentages stated in the Intercompany Reinsurance Agreement. As of December 31, 2010, the following members or participants retained the following percentage of the net retained pooled business:

<u>Participating Company</u>	<u>Pooling Percentage</u>
Fireman's Fund Insurance Company	75.8%
The American Insurance Company	11.5%
National Surety Corporation	4.0%
Interstate Fire & Casualty Company	3.5%
American Automobile Insurance Company	2.5%
Chicago Insurance Company	1.5%
Associated Indemnity Corporation	1.0%
Fireman's Fund Insurance Co. of Ohio	<u>0.2%</u>
Total	100.0%

Effective January 1, 2012, the retroceded shares for all Pooled Subsidiaries was reduced to zero and Fireman's Fund's share is increased to 100%. See the Subsequent Events section for additional details.

## ACCOUNTS AND RECORDS

The Company uses a mix of internally developed applications and purchased (and customized) applications for its key business processes. The majority of the applications and associated databases are hosted on IBM mainframe servers located at the IBM datacenter in Boulder, CO. A smaller number of applications are hosted on the AIX (Advanced Interactive eXecutive) operating system based servers (AIX is an IBM propriety UNIX based operating system). The Company is heavily dependent on application maintenance support from IBM Corporation. This support is primarily from IBM support teams located offshore. Policy application administration

is provided by the in-house staff and IBM. Two Microsoft Windows server based applications, Automated Policy System and Princeton Financial System, are also in use.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the MO DIFP as of December 31, 2010, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with RSMo Section 379.098 (Securities to be Deposited).

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$2,896,000	\$3,156,121	\$2,948,058
U.S. Treasury Bond	1,000,000	1,420,470	1,275,418
Total	<u>\$3,896,000</u>	<u>\$4,576,591</u>	<u>\$4,223,476</u>

### Deposits with Other States

The Company has the following deposits with other states:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Arizona	Political Subdivision Bond	\$832,000	\$ 935,326	\$ 882,347
California	Corporate Bonds	14,563,000	16,649,352	14,599,992
Delaware	Political Subdivision Bond	110,000	117,149	112,504
Georgia	Political Subdivision Bonds	205,000	228,091	215,895
Idaho	U.S. Treasury Note or Bond	83,000	90,380	83,735
Massachusetts	Political Subdivision Bonds	150,000	163,154	166,614
Montana	U.S. Treasury Note or Bond	25,000	26,257	25,103
Nevada	Political Subdivision Bond	100,000	106,499	102,277
New Mexico	Political Subdivision Bond	350,000	406,032	377,377
N. Carolina	Political Subdivision Bond	302,000	342,993	324,663
Ohio	Corporate Bond	100,000	105,286	101,118
Oklahoma	Political Subdivision Bond	300,000	341,619	318,733
Oregon	Political Subdivision Bonds	940,000	1,073,544	1,004,606
Tennessee	Political Subdivision Bond	750,000	845,453	822,034
Virginia	Political Subdivision Bonds	<u>520,000</u>	<u>579,290</u>	<u>548,424</u>
Total		<u>\$19,330,000</u>	<u>\$22,010,425</u>	<u>\$19,685,422</u>

## FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of American Automobile Insurance Company for the period ending December 31, 2010. Any

examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the Comments on Financial Statement Items. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the Comments on Financial Statement Items. These differences were determined to be immaterial concerning their effect on the financial statements and therefore were only communicated to the Company and noted in the workpapers for each key activity.

	<u>Assets</u>		
	Assets	Non- Admitted Assets	Net Admitted Assets
Bonds	\$284,887,074		\$284,887,074
Cash and Short-term Investments	16,489,195		16,489,195
Other Invested Assets	948,276		948,276
Receivables for Securities	196,098		196,098
Investment Income Due and Accrued Uncollected Premiums and Agents' Balances in the Course of Collection	3,556,525		3,556,525
Deferred Premiums, Agent Balances, and Installments Booked and Not Yet Due	17,751,944	\$816,638	16,935,306
Accrued Retrospective Premiums	9,537,148	34,239	9,502,909
Amounts Recoverable from Reinsurers Current Federal Income Tax Recoverable	33,257	3,154	30,103
Net Deferred Tax Asset	19,471,505		19,471,505
Guaranty Funds Receivable or on Deposit	3,422,343	1,395,100	2,027,243
Receivable from Parent, Subsidiaries and Affiliates	19,463,675	2,677,650	16,786,025
Aggr. Write-Ins for Other than Invested Assets: Automobiles	84,959		84,959
	7,014,876		7,014,876
	639,742		639,742
<b>TOTAL ASSETS</b>	<u>\$383,496,617</u>	<u>\$4,926,781</u>	<u>\$378,569,836</u>



Liabilities, Surplus and Other Funds

Losses	\$134,777,042
Reinsurance Payable on Paid Losses and LAE	4,755,948
Loss Adjustment Expenses	16,804,897
Commissions Payable, Contingent Commissions and Other Similar Charges	3,545,919
Other Expenses (Excluding Taxes, Licenses and Fees)	1,443,407
Taxes, Licenses and Fees (Excluding Federal and Foreign Income Taxes)	651,547
Unearned Premiums	34,213,769
Advance Premium	(3,479)
Dividends Declared and Unpaid – Policyholders	109,581
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	29,194,942
Payable for Securities	970,070
Aggregate Write-in for Liabilities – CA Minimum Schedule P Liab	15,948
<b>TOTAL LIABILITIES</b>	<b>226,479,591</b>
Aggregate Write-ins for Special Surplus Funds	10,664,354
Common Capital Stock	3,500,000
Gross Paid in and Contributed Surplus	89,524,996
Unassigned Funds	48,400,895
Surplus as Regards Policyholders	<b>152,090,245</b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$378,569,836</b>

Statement of Income**Underwriting Income:**

Premiums Earned	\$90,092,394
Deductions:	
Losses Incurred	58,170,042
Loss Adjustment Expenses Incurred	12,149,819
Other Underwriting Expenses Incurred	28,493,199
<b>Net Underwriting Gain or (Loss)</b>	<b>(8,720,666)</b>

**Investment Income:**

Net Investment Income Earned	16,305,757
Net Realized Capital Gains or (Losses)	238,516
<b>Net Investment Gain or (Loss)</b>	<b>16,544,273</b>

**Other Income:**

Net Gain or (Loss) from Agents' or Premium Balances Charged Off	(123,058)
Aggregate Write-ins for Miscellaneous Income	(431,515)
<b>Total Other Income</b>	<b>(\$554,573)</b>

**Net Income Before Federal and Foreign Income Taxes**

	<b>7,269,034</b>
Dividends to Policyholders	(122,105)
Net Income after Dividends	\$7,146,929
Federal and Foreign Income Taxes Incurred	(3,456,328)
<b>NET INCOME</b>	<b>\$10,603,257</b>

Capital and Surplus Account

<b>Surplus as Regards Policyholders, December 31, 2009</b>	<b>\$161,785,525</b>
Net Income	10,603,257
Change in Net Unrealized Capital Gains or (Losses)	76,772
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	(1,161)
Change in Net Deferred Income Tax	(5,776,733)
Change in Nonadmitted Assets	(392,214)
Dividends to Stockholders	(16,000,000)
Aggregate Write-ins for Gains and Losses in Surplus	
California Minimum Schedule P Liability	1,794,800
Additional Admitted Deferred Tax Assets	1,568,676
Reclassification Admitted Deferred Tax Assets to Special Surplus Funds	(1,568,676)
<b>Net Change in Surplus as Regards Policyholders for 2010</b>	<b><u>(9,695,279)</u></b>
<b>Surplus as Regards Policyholders, December 31, 2010</b>	<b><u>\$152,090,246</u></b>

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None

**SUMMARY OF RECOMMENDATIONS**

None

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of American Automobile Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Karen Baldree, CFE, examiner for the MO DIFP, participated in this examination.

**VERIFICATION**

State of Missouri )  
County of )

I, Vicki L. Denton, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of American Automobile Insurance Company its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



BEVERLY M. WEBB  
My Commission Expires  
April 14, 2016  
Clay County  
Commission #12464070

Vicki L. Denton  
Vicki L. Denton, CFE  
Examiner-In-Charge  
MO DIFP

Sworn to and subscribed before me this 31 day of May, 2012.

My commission expires: 04-14-2016 Beverly M. Webb  
Notary Public

**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed, except where practices, procedures and applicable regulations of the MO DIFP and statutes of the State of Missouri prevailed.

Mark A. Nance  
Mark A. Nance, CFE, CPA  
Audit Manager  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration