

**EXAMINATION REPORT**

**OF**

**THE RESPONSIVE AUTO INSURANCE COMPANY**

**PLANTATION, FLORIDA**

**AS OF**

**DECEMBER 31, 2015**

**BY THE**

**FLORIDA OFFICE OF INSURANCE REGULATION**

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August 12, 2016

David Altmaier  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2015, of the financial condition and corporate affairs of

The Responsive Auto Insurance Company  
8151 Peters Road, Suite 1000  
Plantation, Florida 33324

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2011 through December 31, 2015. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2010 through December 31, 2010. This examination commenced with planning at the Office on April 26, 2016 to April 28, 2016. The fieldwork commenced on May 2, 2016 and concluded as of August 12, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles (SSAP).

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition.

There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Examination Findings**

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements.

### **Prior Examination Findings**

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2010.

## **COMPANY HISTORY**

### **General**

The Company was incorporated in Florida on February 14, 2008, and commenced business on May 1, 2008.

The Company was authorized to transact insurance coverage in Florida on March 27, 2008 and is currently authorized for the following coverages as of December 31, 2015.

Private Passenger Auto Liability      Private Passenger Auto Physical Damage

### **Dividends**

The Company did not declare or pay any dividends during the period of this examination.

## **Capital Stock and Capital Contributions**

As of December 31, 2015, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Responsive Holdings LLC, which owned one hundred percent (100%) of the stock issued by the Company, which in turn was fifty percent (50%) owned by John Machul, and fifty percent (50%) owned by various other investors.

The Company's parent, Responsive Holdings, LLC, contributed additional cash in the amount of \$500,000 on June 30, 2011 as "Gross Paid in and Contributed Surplus."

## **Surplus Notes**

The Company did not have any surplus notes during the period of this examination.

## **Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance**

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

## **CORPORATE RECORDS**

The recorded minutes of the Shareholder, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## **MANAGEMENT AND CONTROL**

### **Management**

The Company did not have annual shareholder meetings for the election of directors in accordance with Section 628.231, Florida Statutes. The Directors were elected during quarterly Board meetings. Directors serving as of December 31, 2015 are shown on the following page.



## **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
John Dennis Machul Aventura, Florida	Chairman, Chief Executive Officer & President The Responsive Auto Insurance Company
Michael Joseph Murray Naples, Florida	Commodities Trader Chicago Board of Trade
John Michael Cox, Jr. River Forest, Illinois	Trader Century Trading Company
Thomas Louis Fahey Oak Brook, Illinois	Owner Universal Form Clamp
Timothy Brendan Nee Richmond, Virginia	Owner TEACH Insurance, LLC
Juan Carlos Porro Biscayne, Florida	Vice President Century Trading Company

In accordance with the Company's bylaws, the Board appointed the following senior officers:

## **Senior Officers**

<b>Name</b>	<b>Title</b>
John Dennis Machul Aventura, Florida	Chief Executive Officer, President & Secretary
Hector Manuel Estrada Grapevine, Texas	Chief Financial Officer and Treasurer

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2015:

### **Audit Committee**

John Michael Cox, Jr. River Forest, Illinois	Director
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Thomas Fahey Oak Brook, Illinois	Director
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Michael Murray Naples, Florida	Director
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### **Investment Committee**

John Dennis Machul Plantation, Florida	Chief Executive Officer, President & Secretary
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Thomas Fahey Oak Brook, Illinois	Director
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Michael Murray Naples, Florida	Director
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The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

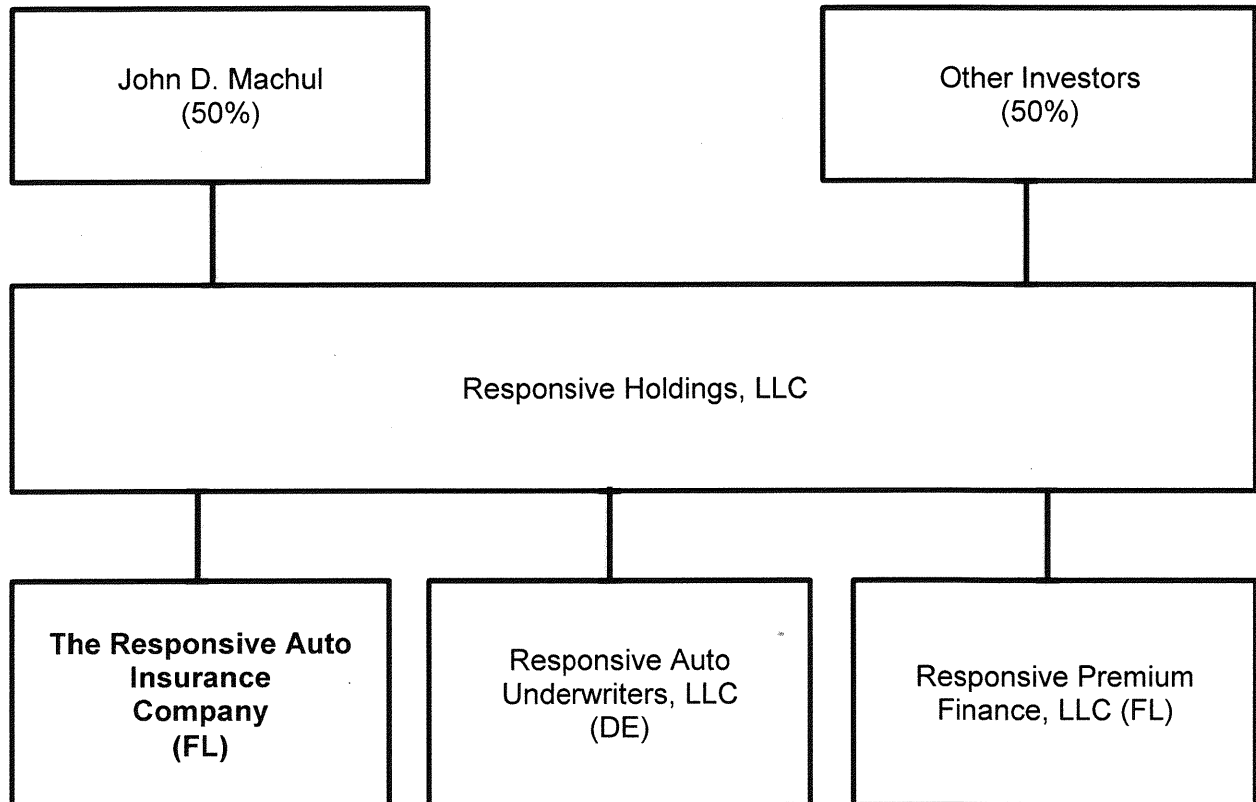
### **Affiliated Companies**

The most recent holding company registration statement was filed with the Office on February 19, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

# **The Responsive Auto Insurance Company**

## **Organizational Chart**

**December 31, 2015**



The following agreements were in effect between the Company and its affiliates:

### **Cost Allocation Agreement**

The Company entered into a cost allocation agreement with Responsive Auto Underwriters, LLC (RAU) on March 10, 2008. Pursuant to the agreement, the parties agree to equitably allocate costs associated with office space, equipment, supplies and certain non-management personnel utilizing: direct allocation, or revenue-based allocation, whichever is more readily determinable. The agreement continues in force for one-year periods unless otherwise terminated within the guidelines of the agreement. The costs are allocated among the parties within 15 days following the end of the month. During 2015, approximately \$684,000 was allocated to the Company as follows: IT costs and system maintenance \$326,000; consulting \$232,000; rent and rent related \$240,000; salary and salary related \$42,000; other underwriting (\$250,000); and office related expenses \$94,000. The amount paid in 2015 for cost allocations totaled \$500,000. The related outstanding balance payable to RAU as of December 31, 2015 for these costs totals \$451,000. The amount was paid subsequent to the examination date in January 2016.

### **Managing General Agent Agreement**

The Company entered into a managing general agency (MGA) agreement with its affiliate RAU on February 28, 2008, to provide certain management services. The agreement continues in force for a term of three years and will automatically renew for successive one-year periods, unless otherwise terminated within the guidelines of the agreement. The agreement provided for claims administration services, marketing, underwriting and issuance of policies, endorsements, premium collection, and indemnity payments. MGA fees were based on twenty-five percent (25%) of direct written premium, plus a per policy fee not to exceed that allowed under Section

626.7451(11), Florida Statutes, and as currently set at \$25. Direct premium written by the MGA during 2015 totaled \$26,404,808. Such premiums are comprised solely of Private Passenger Auto Liability of \$23,452,467 and Private Passenger Physical Damage of \$2,952,341. Fees incurred under this agreement during 2015 amounted to \$6,412,645.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance only in the State of Florida.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i) 3.a, Florida Statutes.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

### **Assumed**

The Company did not assume any reinsurance during the period of this examination.

## **Ceded**

The Company was party to two reinsurance agreements, an excess and facultative reinsurance agreement and a quota share reinsurance agreement, both with General Reinsurance Corporation, (Gen Re), which is rated A++ by A. M. Best.

The excess and facultative reinsurance agreement was first effective from August 1, 2010 to July 31, 2011, and has been renewed each year, with the current period of coverage being from August 1, 2015 to July 31, 2016. The agreement provided excess of loss (catastrophe) coverage for the Company's private passenger physical damage line of business, excluding collision. The Company was reinsured for \$500,000 in excess of \$500,000 for each loss event. The agreement limits the reinsurer's liability to \$1,000,000 for all loss events during the term of the agreement. The Company did not experience any losses to which this agreement would apply during the examination period.

On March 31, 2012, the Company entered into a twenty percent (20%) quota share agreement also with Gen Re. The treaty has been renewed for each year since its inception on March 31, 2012, with the period covered under the current renewal from March 31, 2015 to March 31, 2016. For the purpose of determining the limits of liability of the reinsurer, the indemnity limits of liability of the Company with respect to any one policy shall be deemed not to exceed the following: \$10,000 each person/\$20,000 per accident for Automobile Bodily Injury Liability and Uninsured Motorists Bodily Injury, \$10,000 each accident for Automobile Property Damage Liability and Uninsured Motorists' Property Damage, \$10,000 per person for Personal Injury Protection and \$75,000 each vehicle for Automobile Physical Damage.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Plantation, Florida.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Wilmington Trust, executed on April 3, 2014.

The agreement complied with Rule 69O-143.042, Florida Administrative Code.

### **Investment Management Agreement**

On June 22, 2010, the Company entered into an investment management agreement with Sage Advisory Services, Ltd. Co. (Sage). Sage acted as investment manager and advisor with respect to certain of the Company's assets held by Wilmington Trust, pursuant to a separate custodial agreement. Sage supervised and directed investments on behalf of the Company subject to the terms of the written investment policies and guidelines established by the Company.

### **Independent Auditor Agreement**

An independent CPA firm, Goldstein Schechter Koch, PA (GSK) audited the Company's statutory basis financial statements annually for the years 2012, 2013, 2014 and 2015, in accordance with

Section 624.424(8), Florida Statutes. Supporting work papers were prepared by GSK as required by Rule 69O-137.002, Florida Administrative Code. An independent CPA firm, DeMeo, Young, McGrath, PA, audited the Company's statutory basis financial statements for 2011 in accordance with Section 624.424(8), Florida Statutes. DeMeo, Young, McGrath, PA was purchased by GSK in 2012.

## INFORMATION TECHNOLOGY REPORT

Paul Berkebile, CFSA, CISA, of INS Services, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes.

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	Cash	<u>\$ 1,743,152</u>	<u>\$ 1,743,152</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 1,743,152</u>	<u>\$ 1,743,152</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 1,743,152</u></u>	<u><u>\$ 1,743,152</u></u>



## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

# **The Responsive Auto Insurance Company**

## **Assets**

**December 31, 2015**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$9,942,517		\$9,942,517
Cash and Short-Term Investments	9,073,833		9,073,833
Investment income due and accrued	68,216		68,216
Premiums and consideration:			
Uncollected premium and agents' balances	1,071,428		1,071,428
Deferred premiums	4,571,703		4,571,703
Reinsurance:			
Amounts recoverable	668,860		668,860
Current federal and foreign income tax recoverable	23,603		23,603
Net deferred tax asset	1,209,000		1,209,000
Totals	<u>\$26,629,160</u>		<u>\$26,629,160</u>

**The Responsive Auto Insurance Company**

**Liabilities, Surplus and Other Funds**

**December 31, 2015**

	Per Company	Examination Adjustment	Per Examination
Losses	\$5,396,737		\$5,396,737
Loss adjustment expenses	1,219,926		1,219,926
Other expenses	771,392		771,392
Unearned premium	7,870,423		7,870,423
Ceded reinsurance premiums payable	980,288		980,288
Payable to parent, subsidiaries and affiliates	860,674		860,674
Payable for securities	262,685		262,685
Total Liabilities	\$17,362,125		\$17,362,125
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	11,750,000		11,750,000
Unassigned funds (surplus)	(2,483,965)		(2,483,965)
Surplus as regards policyholders	\$9,267,035		\$9,267,035
Total liabilities, surplus and other funds	\$26,629,160		\$26,629,160

**The Responsive Auto Insurance Company**  
**Statement of Income and Capital and Surplus Account**

**December 31, 2015**

**Underwriting Income**

Premiums earned	\$21,495,328
<b>Deductions:</b>	
Losses incurred	\$10,537,601
Loss adjustment expenses incurred	2,917,344
Other underwriting expenses incurred	7,509,146
Total underwriting deductions	<u>\$20,964,091</u>
Net underwriting gain or (loss)	\$531,237

**Investment Income**

Net investment income earned	\$111,850
Net realized capital gains or (losses)	<u>(12,297)</u>
Net investment gain or (loss)	\$99,553

**Other Income**

Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	<u>\$630,790</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$630,790
Federal & foreign income taxes	<u>3,000</u>
Net Income	<u><u>\$627,790</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$8,102,708
Net Income	\$627,790
Change in net deferred income tax	335,000
Change in non-admitted assets	201,537
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$1,164,327</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$9,267,035</u></u>

**The Responsive Auto Insurance Company**

**Reconciliation of Capital and Surplus**

**December 31, 2015**

No adjustments were made to surplus, as a result of this examination.

**Capital/Surplus Change During Examination Period**

Surplus at December 31, 2010, per Annual Financial Statement			\$5,775,750
	<u>Increase</u>	<u>Decrease</u>	
Net Income	\$1,733,240		\$1,733,240
Change in net deferred tax asset	1,224,000		1,224,000
Change in nonadmitted assets	34,045		34,045
Surplus adjustment: Paid in	500,000		500,000
Net increase (or decrease)			<u>\$3,491,285</u>
Surplus at December 31, 2015, after adjustment			<u>\$9,267,035</u>

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

**Bonds** **\$ 9,942,517**

The above-captioned amounts, which are the same as reported by the Company in its Annual Statement, have been accepted for purposes of this report.

The Company's bond holdings totaled approximately \$9.94 million and were approximately thirty-seven and three tenths percent (37.3%) of total admitted assets and fifty-two and three tenths percent (52.3%) of the Company's total cash and invested assets. Approximately seventy-seven and five tenths percent (77.5%) of the Company's bonds are Class "1" designation with respect to NAIC credit quality standards, with the remaining twenty-two and five tenth percent (22.5%) being Class "2" designation.

**Cash, and short-term investments** **\$ 9,073,833**

The above-captioned amounts, which are the same as reported by the Company in its Annual Statement, have been accepted for purposes of this report.

The Company's cash, cash equivalents and short-term investments totaled approximately \$9.1 million and were approximately thirty-four and one tenth percent (34.1%) of total admitted assets and forty-seven and seven tenths percent (47.7%) of the Company's total cash and invested assets. The amount is comprised of \$8.4 million in cash and \$0.6 million in short-term investments, comprised primarily of Money Market Mutual Funds.

<b>Uncollected premiums in the course of collection</b>	<b>\$ 1,071,428</b>
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<b>Deferred premiums</b>	<b>\$ 4,571,703</b>
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The above-captioned amounts, which are the same as reported by the Company in its Annual Statement, have been accepted for purposes of this report. The amounts are related to the managing general agency agreement with its affiliate, RAU.

## **Liabilities**

<b>Losses</b>	<b>\$ 5,396,737</b>
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<b>Loss Adjustment Expenses</b>	<b>\$ 1,219,926</b>
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The appointed actuary, Charles C. Emma, a Managing Principal with the firm EVP Advisors, Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuaries, Robert W. Gardner, FCAS, MAAA and David J. Macesic, ACAS, MAAA of INS Consultants, Inc., reviewed the reserves for loss and loss adjustment expenses as of December 31, 2015 and they were in concurrence with this opinion.

<b>Unearned Premiums</b>	<b>\$ 7,870,423</b>
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The above-captioned amounts, which are the same as reported by the Company in its Annual Statement, have been accepted for purposes of this report.

The amount represents the unearned premium reserve on direct premiums, net of premium reserve on ceded amounts.

## **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$9,267,035, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.



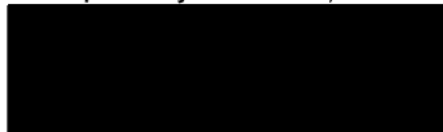
## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **The Responsive Auto Insurance Company** as of December 31, 2015, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$9,267,035, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Kelly M. Willison, CFE, CPA, Examiner-in-Charge of INS Regulatory Insurance Services, Inc., David J. Macesic, ACAS, MAAA, and Robert W. Gardner, FCAS, MAAA, consulting actuaries of INS Consultants, Inc., and Kevin Ralston and Paul Berkebile, CFSA, CISA, consulting IT specialists of INS Services, Inc., also participated in this examination. Members of the Office who participated in the examination include: Jeffrey Rockwell, MBA, Financial Examiner/Analyst Supervisor, Examination Manager and Paula Bowyer, APIR, Financial Examiner/Analyst II, Participating Examiner.

Respectfully submitted,



Brian Sewell, CFE, MCM  
Chief Examiner  
Florida Office of Insurance Regulation