REPORT ON EXAMINATION

OF

MERCURY INDEMNITY COMPANY OF AMERICA

CLEARWATER, FLORIDA

AS OF

DECEMBER 31, 2013

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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January 26, 2015

Kevin M. McCarty
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, 2013, of the financial condition and corporate affairs of:

MERCURY INDEMNITY COMPANY OF AMERICA
1901 ULMERTON ROAD
CLEARWATER, FLORIDA 33762

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, 2010 through December 31, 2013. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on May 5, 2014 to May 9, 2014. The fieldwork commenced on May 12, 2014 and concluded as of January 26, 2015.

This financial examination was an association examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2013.

Prior Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

HISTORY

General

The Company was incorporated in Florida on August 27, 2001 as Mercury Indemnity Company of Florida. The Company changed its name to Mercury Indemnity Company of America during 2003.

The Company was authorized to transact the following insurance coverage in Florida on various dates in 2001, 2009 and 2013 and continued to authorized as of December 31, 2013:

Private Passenger Auto Liability	Private Passenger Auto Physical Damage
Homeowners Multi Peril	Commercial Automobile Liability
Commercial Auto Physical Damage	

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

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

Capital Stock and Capital Contributions

As of December 31, 2013, the Company's capitalization was as follows:

Number of authorized common capital shares	2,400,000
Number of shares issued and outstanding	2,400,000
Total common capital stock	$2,400,000
Par value per share	$1.00

The Company was wholly owned and controlled by its parent, Mercury General Corporation (MGC), who owned 100 percent of the stock issued by the Company, in turn controlling stockholders George Joseph and Gloria Joseph, who owned 34.3 percent and 16.7 percent respectively, owned MGC. The remaining 49 percent was owned by public stockholders and traded on the New York Stock Exchange.

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, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholders, 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 annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2013, were:

Directors

Name and Location	Principal Occupation
Bruce Allan Bunner Winter Park, Florida	Retired President Financial Structures Ltd.
Christopher Wadewitz Graves Palos Verdes Peninsula, California	Vice President and Chief Investment Officer Mercury General Corporation

Richard Eugene Grayson Murietta, California	Retired; Senior Vice President Union Bank
George Joseph Los Angeles, California	Chairman of the Board Mercury General Corporation
Donald Patrick Newell Pinehurst, North Carolina	Retired; Partner Law Firm of Lathem & Watkins, LLP
Gabriel Tirador Tustin, California	President and Chief Executive Officer Mercury General Corporation
Judith Ann Walters Oxnard, California	Secretary Mercury General Corporation

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

Senior Officers

Name	**Title**
Gabriel Tirador	President & CEO
Theodore Robert Stalick	Senior Vice President/CFO & Treasurer
Judith Ann Walters	Secretary
Christopher Wadewitz Graves	Vice President

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2013:

Statutory Audit Committee	**Investment Committee**
Theodore Stalick [1]	Richard Grayson [1]
Eleanor Ingalla	Christopher Graves
David Yeager	George Joseph
	Gabriel Tirador

[1] Chairman

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

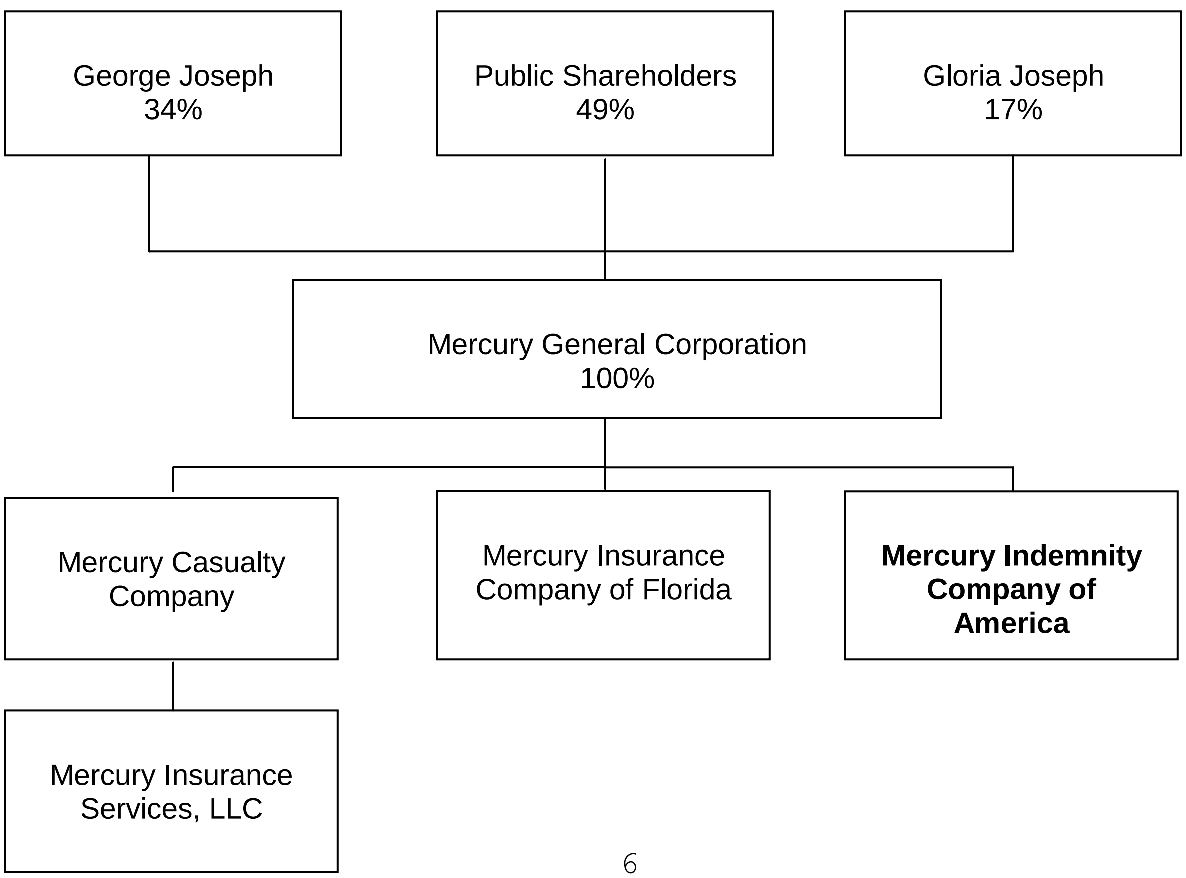
Affiliated Companies

The most recent holding company registration statement was filed with the Office on February 26, 2014, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2013, reflecting the holding company system, is shown below. Schedule Y of the Company's 2013 annual statement provided a list of all related companies of the holding company group.

MERCURY INDEMNITY COMPANY OF AMERICA
ORGANIZATIONAL CHART

DECEMBER 31, 2013



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

Tax Allocation Agreement

The Company, along with its parent, Mercury General Corporation (MGC), and affiliates, filed a consolidated federal income tax return. On December 31, 2013, the method of allocation of tax liability between the Company and MGC was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with MGC. Within ninety days of the remittance by MGC of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

Management Agreement

The Company had a management agreement with Mercury Insurance Services, LLC (MIS). Pursuant to the agreement, MIS provided all personnel and performed underwriting and loss adjustment services on behalf of the Company for the period under review. The Company utilized independent agents to produce the business and MIS was responsible for the underwriting process and ultimate decisions on binding risk based upon previously established guidelines provided by the Company. MIS was also responsible for adjusting and settling all losses the Company was liable for. The loss adjustments and settlements were performed by MIS and settled out of the Company bank accounts. The fees for the services rendered were billed to the Company at the actual incurred expenses. The Company paid MIS $41,836,548 during 2013 under the terms of this agreement.

Services Agreement

The Company entered into a Services Agreement with Mercury Insurance Company of Florida (MICFL) effective February 11, 2011. Under the terms of the agreement, MICFL pays agent commissions and receives return commissions on behalf of the Company. No fees are payable under this agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $3,000,000 with a deductible of $100,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance with limits of $30,000,000 and a retention point of $500,000. The policy is maintained at the holding company level but applies to all companies within the group.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or insurance plans.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the states of Florida and New Jersey.

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) 3a, Florida Statutes.

COMPANY GROWTH

The Company's gross written premiums grew steadily from 2010 to 2012, and declined by approximately five percent during 2013. As of the beginning of 2011, MICFL, an affiliate, no longer wrote new business but continued to renew existing business and the Company began writing new business that had previously been written by MICFL. All premiums, claims, loss reserves and loss adjustment expense reserves are ceded to Mercury Casualty Company (MCC), an affiliate.

Profitability of Company

The table below shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2013	2012	2011	2010
Premiums Earned	0	0	0	0
Net Underwriting Gain/(Loss)	(51,999)	(61,977)	0	0
Net Income	1,066,096	1,382,798	531,565	746,425
Total Assets	55,650,293	55,382,952	52,091,939	46,473,240
Total Liabilities	18,195,490	18,942,255	16,861,476	12,313,793
Surplus As Regards Policyholders	37,454,803	36,440,697	35,230,463	34,159,447

As detailed in the table, the Company has not recorded any premiums earned during the period under review. This is due to the 100 percent quota share agreement with their affiliate, MCC, whereas all earned premiums were ceded to the affiliate in exchange for the assumption of all losses and reserve liabilities. Because the Company does not earn any premiums, but is still responsible for the underwriting expenses, the Company has reported a net underwriting loss for two of the four years under review. These losses are primarily attributed to the licensing fees and taxes associated with the Company's business. The net income amounts were primarily attributed to the net Investment income earned.

LOSS EXPERIENCE

The Company had not experienced any losses during the period under review, nor has it experienced any losses since inception. As indicated above, the Company entered into a 100 percent quota share reinsurance agreement with their affiliate, MCC, whereas 100 percent of all losses were ceded to the assuming affiliate.

REINSURANCE

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

Assumed

The Company is a participant in a mandatory pool, the New Jersey Auto Insurance Risk Exchange. New Jersey statutes mandate New Jersey Auto Insurance Risk Exchange compliance by every auto insurer licensed to conduct business in New Jersey. An immaterial amount of premium was assumed from the pool during each of the years under examination.

Ceded

The Company ceded risk on a quota share basis to MCC, an affiliate. The Company ceded 100 percent of the ultimate net loss arising out of each occurrence for all lines written by the Company.

The reinsurance contracts were reviewed during the examination to verify transfer of risk was evident and the contracts were in force for the entire period under review.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Clearwater, Florida. The examination was a coordinated examination with the States of California, Florida, Georgia, Illinois, and Texas, and was primarily conducted at the MGC's corporate headquarters in Los Angeles, California.
The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with the Bank of New York Mellon executed on August 24, 2001, as amended on November 5, 2010. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA audited the Company's statutory basis financial statements annually for the years 2010, 2011, 2012 and 2013 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Jack Ho, CFE, CISA, AES, Senior Examiner/IT Specialist with the California Department of Insurance, contracted with Hunter Neumann, Advisory Manager and Viking Wang, Advisory Senior, Ernst & Young LLP, to perform 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:

STATE	Description	Par Value	Market Value
FL	USTNTS, 1.25%, 08/31/15	$ 350,000	$ 355,565
TOTAL FLORIDA DEPOSITS		$ 350,000	$ 355,565

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2013, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

MERCURY INDEMNITY COMPANY OF AMERICA

Assets

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Bonds	$12,871,303	$0	$12,871,303
Cash and Short-Term Investments	7,668,749		7,668,749
Agents' Balances:			
Uncollected premium	2,602,100		2,602,100
Deferred premium	19,026,896		19,026,896
Reinsurance recoverable	9,305,018		9,305,018
Interest and dividend income due & accrued	111,688		111,688
Receivable from parents, subsidiaries and affiliates	830		830
Aggregate write-in for other than invested assets	4,063,709		4,063,709
Totals	$55,650,293	$0	$55,650,293

MERCURY INDEMNITY COMPANY OF AMERICA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Commissions payable, contingent commissions and other similar charges	$2,304,550		$2,304,550
Other expenses	28,214		28,214
Taxes, licenses and fees	634,797		634,797
Current federal and foreign income taxes	36,589		36,589
Net deferred tax liability	1,055,317		1,055,317
Advance premium	1,131,272		1,131,272
Ceded reisnurance premiums payable	8,116,039		8,116,039
Remittances and items not allocated	186,779		186,779
Payable to parent, subsidiaries and affiliates	4,701,933		4,701,933
Total Liabilities	$18,195,490	$0	$18,195,490
Common capital stock	$2,400,000		$2,400,000
Gross paid in and contributed surplus	27,600,000		27,600,000
Unassigned funds (surplus)	7,454,803		7,454,803
Surplus as regards policyholders	$37,454,803	$0	$37,454,803
Total liabilities, surplus and other funds	$55,650,293	$0	$55,650,293

MERCURY INDEMNITY COMPANY OF AMERICA
Statement of Income

DECEMBER 31, 2013

Underwriting Income	
Premiums earned	$0
Deductions:	
Losses incurred	$0
Loss expenses incurred	0
Other underwriting expenses incurred	51,999
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$51,999
Net underwriting gain or (loss)	($51,999)
Investment Income	
Net investment income earned	$1,016,080
Net realized capital gains or (losses)	123,100
Net investment gain or (loss)	$1,139,180
Other Income	
Net gain or (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	39,376
Total other income	$39,376
Net income before dividends to policyholders and before federal & foreign income taxes	$1,126,557
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$1,126,557
Federal & foreign income taxes	60,461
Net Income	$1,066,096
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$36,440,697
Net Income	$1,066,096
Net unrealized capital gains or losses	47,548
Change in net deferred income tax	(71,212)
Change in non-admitted assets	(28,326)
Change in provision for reinsurance	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	$1,014,106
Surplus as regards policyholders, December 31 current year	$37,454,803

A comparative analysis of changes in surplus is shown below.

MERCURY INDEMNITY COMPANY OF AMERICA
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2013

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2013, per Annual Statement				$37,454,803
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS: No Adjustment				
LIABILITIES: No Adjustment				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2013, Per Examination				$37,454,803

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $0

The Company properly reported no losses or loss adjustment expense reserves at December 31, 2013. This is due to the 100 percent quota share agreement in place with affiliate MCC. An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2013, made a reasonable provision for all unpaid loss and loss expense obligations of the company under the terms of its policies and agreements.

Robert C. Holstrom, FSA, MAAA, Senior Casualty Actuary and Frederick A. Urschel, ACAS, Senior Casualty Actuary, both of the State of California Department of Insurance, reviewed the loss and loss adjustment expense work papers provided by the Company and they were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of $37,454,803, exceeded the minimum of $5,000,000 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 **Mercury Indemnity Company of America** as of December 31, 2013, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $37,454,803, which exceeded the minimum of $5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Scott R. Kalna, CFE, MCM, Examiner-In-Charge of Examination Resources LLC, and John Romano, CPA, CFE, Examination Manager representing Baker Tilly Virchow Krause, LLP participated in the examination. Additionally, Robert C. Holstrom, FSA, MAAA, Senior Casualty Actuary and Frederick A. Urschel, ACAS, Senior Casualty Actuary, both of the State of California Department of Insurance, Jack Ho, CFE, CISA, AES, Senior Examiner/IT Specialist with the California Department of Insurance, Hunter Neumann, Advisory Manager and Viking Wang, Advisory Senior, Ernst & Young LLP participated in the examination.

Respectfully submitted,

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Robin Brown, CFE
Chief Examiner
Property & Casualty Financial Oversight
Florida Office of Insurance Regulation