

REPORT OF EXAMINATION
OF THE
ASI SELECT AUTO INSURANCE CORP
AS OF
DECEMBER 31, 2017

Filed on May 17, 2019

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Los Angeles, California
March 15, 2019

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ASI SELECT AUTO INSURANCE CORP

(hereinafter also referred to as the Company). The Company's statutory home address is located at 1430 Truxtun Avenue, 5th Floor, Bakersfield, CA 93301.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The qualifying examination of the Company was as of November 30, 2016. This examination covered the period from November 30, 2016 through December 31, 2017.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (*Handbook*). The *Handbook* requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, 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 Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to other regulators and/or the Company.

This was a coordinated examination with Ohio as the lead state of the property and casualty insurance companies of The Progressive Group for the period January 1, 2013 to December 31, 2017. It was conducted concurrently with other insurance entities in the holding company group. The following states participated on the examination: California, Delaware, Florida, Illinois, Indiana, Louisiana, Michigan, New Jersey, New York, Texas, and Wisconsin.

COMPANY HISTORY

The Company was incorporated by ARX Holding Corp (“ARX”) in the state of California on January 13, 2016 as ASI Select Automobile Insurance Corp. Effective March 20, 2017, the Company’s name was changed to ASI Select Auto Insurance Corp. The Company was licensed on April 11, 2017, and commenced business on July 5, 2017 with its first policies written in August 2017.

The Progressive Corporation (“Progressive”) acquired a controlling interest in ARX in April 2015. Progressive and the other ARX stockholders and stock option holders are parties to a stockholders’ agreement, which allows for, and in certain circumstances

requires, Progressive to acquire 100% of the outstanding equity of ARX by the second quarter of 2021.

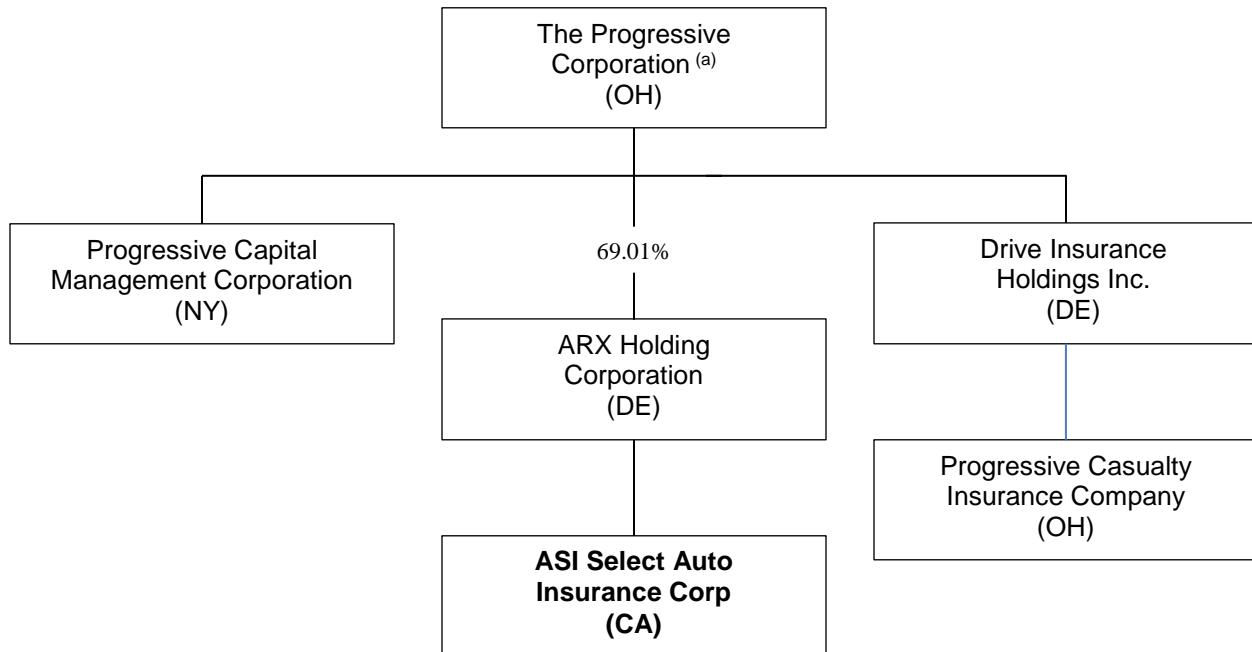
Capitalization

The Company is authorized to issue 1,900 shares of common stock with a par value of \$1,000 per share. On November 8, 2016, the Company reported that it sold all its authorized shares of capital stock to ARX at a purchase price of \$7,894.74 per share for a gross proceeds of \$15,000,006. As of December 31, 2017, 100% of shares were outstanding.

In 2017, the Company received an \$8,000,000 capital infusion by ARX to increase surplus to offset set-up expenses related to its information systems. Capital infusion included paid in capital of \$1,900,000 and \$6,100,000 paid in surplus.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which The Progressive Corporation (“Progressive”) is the ultimate controlling entity. The Company is wholly-owned by ARX Holding Corporation (“ARX”), which in turn, is owned 69.01% by Progressive. Following is an abridged organizational chart. All ownership is 100%, unless otherwise stated.



- (a) The Progressive Corporation, owned 69.01% of ARX Holding Corporation, a Delaware company, while ARX Executive Holdings, LLLP, a Florida company, owned 22.26%, and various other individuals and entities owned the remaining 8.73%.

The four members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Ross P. Bowie Tampa, FL	Vice President ASI Select Auto Insurance Corp.

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Dennis E. Funkhouser Tampa, FL	Actuary American Strategic Insurance Corp.
Elizabeth J. Gregovits St. Petersburg, FL	Secretary ASI Select Auto Insurance Corp.
Richard D. Hanlon New Port Richey, FL	Chairman and President ASI Select Auto Insurance Corp.

Principal Officers

<u>Name</u>	<u>Title</u>
Richard D. Hanlon	President
Elizabeth J. Gregovits	Secretary
Dawn M. Anderson ^(a)	Treasurer
Ross P. Bowie ^(b)	Vice President

The following changes in management occurred subsequent to the examination date:

- (b) Dawn M. Anderson was Treasurer at December 31, 2017, but was not listed on the Jurat page of the Company's 2017 filed Annual Statement. She was replaced by Brian Latzke, effective April 1, 2018.
- (c) Ross P. Bowie, Vice President resigned, effective May 12, 2018. He was replaced by Joyce Hwu, effective August 29, 2018.

California Insurance Code (CIC) Section 900 states that every insurer doing business in the state of California shall file a financial statement as prescribed by the commissioner for the preceding year, on or before the first of every March. In accordance to the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions the Jurat page of the annual statement should list officers identifying the President, Secretary, Treasurer, and Actuary. It is recommended that the Company follow the NAIC Annual Statement Instructions and correctly list all required officers on its Jurat page.

Management Agreements

Federal Tax Allocation Agreement: Effective May 16, 2017, the Company entered into a Federal Tax Allocation Agreement with ARX and its other ASI insurance and non-insurance affiliates. Under the terms of the Agreement, a consolidated Federal income tax return with ARX and all subsidiaries and affiliates included in the Agreement, is filed by ARX. The allocation is based upon separate tax return calculations with current credit for net losses or other items utilized in the consolidated tax return. The Agreement was filed and approved by the California Department of Insurance (CDI) on April 11, 2017.

Investment Services Agreement: Effective April 17, 2017, the Company entered into an Investment Services Agreement with Progressive Capital Management Corporation (“PCMC”), a non-insurance affiliate. Under the terms of the Agreement, PCMC manages the investment portfolio of the Company which includes cash, securities and other assets. The Company pays PCMC a fee based on a percentage of the value of the assets being managed, which is payable within 90 days. The Agreement was filed and approved by the CDI on April 11, 2017. For 2017, the Company paid PCMC \$7,236.

Cost Allocation Agreement: Effective April 11, 2017, the Company entered into a cost allocation agreement with Progressive Casualty Insurance Company (“PCIC”), an insurance affiliate domiciled in Ohio. Under the terms of the Agreement, PCIC provides facilities and services as may reasonably be required for the Company’s operations. Such services include claims handling, actuarial, financial reporting, data processing, statistical, and accounting services. The Company shall reimburse PCIC for direct and allocated services provided within 90 days after the close of each calendar quarter. The Agreement was filed and approved by the CDI on April 11, 2017. For 2017, the Company paid PCIC \$6,999,635.

Intercompany Settlement Agreement: Effective May 16, 2017, the Company entered into an Intercompany Settlement Agreement with ARX and its subsidiaries and affiliates. Under the terms of the Agreement, any company within the ARX group may pay expenses incurred on behalf of another, such expenses include, but are not limited to the following: reinsurance settlements, corporate federal and state income tax payments, and shared overhead expenses. The companies mutually agree to submit bills and shall remit payments in full no later than 90 days after receipt. The Agreement was filed and approved by the CDI on April 11, 2017. No fees were paid in 2017.

Corporate Records

Based on the review of the Company's corporate records, the following deficiencies were noted:

- (1) No annual meeting of the stockholders of the Company was conducted to elect directors and approve business transactions;
- (2) The number of directors varied from three to five members throughout the examination period. The bylaws state the exact number to be fixed from time by resolution of the board or stockholders. No resolution by the board or stockholders was made to define the exact number of directors;
- (3) Significant transactions during the examination period, including the election and/or removal of its directors and officers, were not approved by the shareholders, the board, or disclosed in the minutes.
- (4) The board's action regarding the authorization and approval of investments did not comply with the requirements of CIC Sections 1200 and 1201. The board did not authorize or approve investment transactions in accordance with CIC Section 1200. In addition, specific references to amounts, facts and the value of the investments were not recorded in the minutes as required by CIC Section 1201.

Based on the above, the following recommendations are made:

- (1) It is recommended the stockholders of the Company comply with its bylaws, and hold annual meetings for the election of directors of the Company;

- (2) It is recommended the exact number of directors be specified by resolution of either the board or stockholders;
- (3) It is recommended the shareholders and board document in its minutes the review and approval of all significant events and transactions affecting the Company, including the election and/or removal of its directors and officers.
- (4) It is recommended the Company immediately implement procedures to ensure compliance with CIC Sections 1200 and 1201.

TERRITORY AND PLAN OF OPERATION

The Company began writing business in August 2017, and is only licensed to write liability and automobile insurance in the state of California. The Company offers personal automobile insurance policies on a single, standard California preferred auto policy, and will offer a multi-policy discount to insureds that have a policy with its affiliated California licensed homeowners insurer, ASI Select Insurance Corp. In 2017, the Company wrote \$247,971 of direct premiums.

REINSURANCE

Ceded

Effective July 1, 2017, the Company entered into a 50% Quota Share Reinsurance Contract with ASI Select Insurance Corp (ASI). The Company cedes 50% of all premiums and losses on private passenger automobile insurance to ASI. The Company receives a commission rate of 27% on ceded premiums.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance, and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments to the amounts reported in the annual statements should be considered an

integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2016 through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

<u>Assets</u>	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	\$ 14,524,268	\$	\$ 14,524,268	
Cash and short-term investments	929,060		929,060	
Investment income due and accrued	28,239		28,239	
Premiums and agents' balances in course of collection	10,205	4	10,201	
Premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	128,898		128,898	
Amount recoverable from reinsurers	2,580		2,580	
Current federal and foreign income tax recoverable and interest thereon	2,647,565		2,647,565	
Net deferred tax assets	5,775		5,775	
Receivables from parent, subsidiaries and affiliates	12,299		12,299	
Aggregate write-ins for other than invested assets	1,803	1,803		
Total assets	<u>\$ 18,290,692</u>	<u>\$ 1,807</u>	<u>\$ 18,288,885</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses		\$ 5,373		(1)
Loss adjustment expenses		1,265		
Other expenses		11,103		
Taxes, licenses and fees		5,828		
Unearned premiums		104,382		
Advance premiums		3,711		
Ceded reinsurance premiums payable		37,850		
Amounts withheld or retained by company for account of others		346		
Drafts outstanding		22,068		
Payable to parent, subsidiaries and affiliates		51,117		
Aggregate write-ins for liabilities		413		
Total liabilities		243,456		
Common capital stock	\$ 1,900,000			
Gross paid-in and contributed surplus	21,100,006			
Unassigned funds (surplus)	(4,954,577)			
Surplus as regards policyholders		18,045,429		
Total liabilities, surplus and other funds		\$ 18,288,885		

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income

Premiums earned	\$ 19,603
Deductions:	
Losses expenses incurred	\$ 7,656
Loss adjustment expenses incurred	1,867
Other underwriting expenses incurred	<u>7,444,725</u>
Total underwriting deductions	<u>7,454,248</u>
Net underwriting loss	(7,434,645)

Investment Income

Net investment income earned	<u>\$ 110,244</u>
Net investment gain	110,244

Other Income

Net loss from agents' or premium balances charged off (amount recovered \$0 amount charged off \$367)	\$ (367)
Finance and service charges not included in premiums	<u>424</u>
Total other income	<u>57</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes	<u>(7,324,344)</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes	<u>(7,324,344)</u>
Federal and foreign income taxes incurred	<u>(2,548,945)</u>
Net Loss	<u>\$ (4,775,399)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016	\$ 14,816,860
Net income	\$ (4,775,399)
Change in net deferred income tax	5,775
Change in nonadmitted assets	(1,807)
Capital changes: Paid-in	1,900,000
Surplus adjustments: Paid-in	<u>6,100,000</u>
Change in surplus as regards policyholders for the year	<u>3,228,569</u>
Surplus as regards policyholders, December 31, 2017	<u>\$ 18,045,429</u>

Reconciliation of Surplus as Regards Policyholders
from November 30, 2016 through December 31, 2017

Surplus as regards policyholders, November 30, 2016		\$ 0
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net Loss	\$ 5,775	\$ 4,958,545
Change in net deferred income tax		1,807
Change in nonadmitted assets		
Capital changes: Paid-in	1,900,000	
Surplus adjustments: Paid-in	<u>21,100,006</u>	<u> </u>
Total gains and losses	<u>\$ 23,005,781</u>	<u>\$ 4,960,352</u>
Net decrease in surplus as regards policyholders		<u>18,045,429</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 18,045,429</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company filed for and received approval for an Actuarial Opinion filing exemption (Exemption) from the National Association of Insurance Commissioners as the Company had; 1) less than \$1.0 million in direct and assumed premiums written, and 2) less than \$1.0 million in direct and assumed loss and loss adjustment expense (LAE) reserves. Due to the approval of this exemption, Ohio, the lead state, did not perform a review of the Company's loss and LAE reserves in its review of The Progressive Group's loss and LAE reserves. An analysis was not performed by a California Department of Insurance Casualty Actuary as the Company's loss and LAE reserves reported as of December 31, 2017 were immaterial and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control (Page 3): It is recommended that the Company follow the NAIC Annual Statement Instructions and correctly list all required officers on its Jurat page.

Management and Control - Corporate Records (Page 7): It is recommended the stockholders of the Company comply with its bylaws, and hold annual meetings for the election of directors of the Company.

Management and Control – Corporate Records (Page 7): It is recommended the exact number of directors be specified by resolution of either the board or stockholders.

Management and Control – Corporate Records (Page 7): It is recommended the shareholders and board should document in its minutes the review and approval of all

significant events and transactions affecting the Company, including the election and/or removal of its directors and officers.

Management and Control – Corporate Records (Page 7): It is recommended that the board immediately implement procedures to ensure compliance with CIC Sections 1200 and 1201.

Previous Report of Examination

There is no prior report of examination as the Company was incorporated during the current examination period.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/

Anjanette Briggs, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

/S/

Isabel Spiker, CFE
Bureau Chief
Department of Insurance
State of California