

REPORT OF EXAMINATION
OF THE
SPARTA AMERICAN INSURANCE COMPANY
AS OF
DECEMBER 31, 2010

Filed April 24, 2012

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Los Angeles, California
February 9, 2012

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

SPARTA AMERICAN INSURANCE COMPANY

(hereinafter also referred to as the Company) at its primary location of its books and records, 185 Asylum Street, City Place 11, Hartford, Connecticut 06103

SCOPE OF EXAMINATION

We have performed our single state examination of the Company. The last examination was completed 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.

This examination was conducted concurrently with the examinations of the Company's parent, SPARTA Insurance Company, and affiliate, SPARTA Specialty Insurance Company, by the Connecticut Department of Insurance, with the State of Connecticut serving as the lead state.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; statutory deposits; and sales and advertising.

SUBSEQUENT EVENTS

Effective January 1, 2011, the Company entered into a reinsurance pooling agreement with its parent, SPARTA Insurance Company (SIC), and affiliate, SPARTA Specialty Insurance Company (SSIC). Under the terms of the Pooling Agreement, the Company and SSIC cede 100% of their premiums, losses and underwriting expenses to SIC. The pooled premiums, losses, and underwriting expenses, net of third-party reinsurance, are reapportioned and shared by the three companies: 8% for the Company, 73% for SIC, and 19% for SSIC. The pooling agreement was approved by the California Department of Insurance (CDI) on February 16, 2011.

Effective, January 3, 2011, the Company entered into a Second Amended and Restated Tax Allocation Agreement with SPARTA Insurance Holdings, Inc., SPARTA Insurance Company, and SPARTA Specialty Insurance Company, effective for each taxable year ending on or after December 31, 2010. Under this agreement, the tax liability of the Company is computed as if the Company filed a separate, stand-alone return. SPARTA Insurance Holdings, Inc. is responsible for filing and making all tax payments on behalf of the Company. The Company incurred a tax benefit of \$449 under this agreement for the year ending December 31, 2010 and no payments were made. Approval of the agreement was granted by the California Department of Insurance on November 8, 2010.

Effective April 6, 2011, the Company and its parent, SIC, entered into an Administrative Services Agreement. Under the terms of the agreement, SIC provides the following services: human resources, underwriting, legal, actuarial, claims adjusting and payment assistance, facilities, accounting functions, computer resources, and marketing functions. The Company reimburses SIC for the actual cost of these services. The agreement was approved by the CDI on January 11, 2011.

COMPANY HISTORY

On May 10, 1989, the Company was incorporated in California as the San Francisco Automobile Insurance Company. Effective March 26, 1993, the Vintage Insurance Company (Vintage Insurance) name was adopted. All outstanding shares of Vintage Insurance were owned by its parent, Fireman's Fund Insurance Company (FFIC), a subsidiary of Allianz Global Risks US Insurance Company.

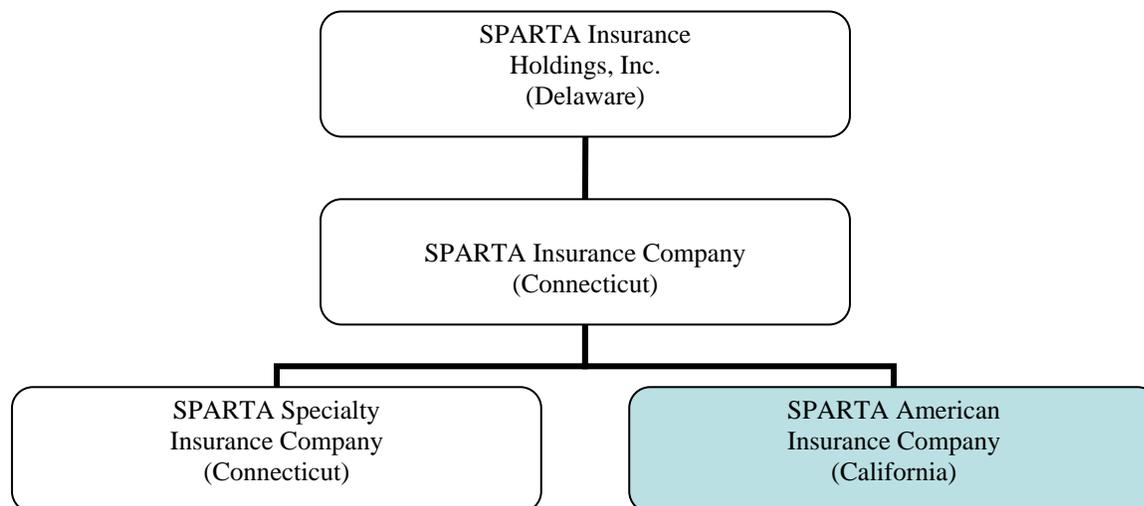
On October 1, 2010, prior to the purchase of the Company by its current parent, SPARTA Insurance Company (SIC), the California Department of Insurance (CDI) granted approval for the payment of an \$11,180,376 extraordinary cash dividend by the Company to its former parent FFIC. In addition, the CDI approved the purchase of 100 % of the interest in Vintage Insurance Company from FFIC by SIC, for \$10,886,653 on that same date.

Effective December 2, 2010, the CDI approved an amendment to the Company's Articles of Incorporation to change its name to SPARTA American Insurance Company. On December 8, 2010, the Company received a \$9,469,283 capital contribution from its parent, SPARTA Insurance Company.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of SPARTA Insurance Company (SIC), a Connecticut corporation. SIC in turn, is a wholly-owned subsidiary of SPARTA Insurance

Holdings, Inc., a Delaware holding company. The following organizational chart depicts the Company's relationship within the holding company system:



All ownership is 100%

Management of the Company is vested in a six- member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2010 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kevin G. Costello West Hartford, Connecticut	President and Chief Operating Officer SPARTA Insurance Company
George L. Estes, III West Hartford, Connecticut	Chairman and Chief Executive Officer SPARTA Insurance Company
Brian D. First Canton, Connecticut	Executive Vice President and Chief Marketing Officer SPARTA Insurance Company
Brian P. Mulroy * Tariffville, Connecticut	Executive Vice President and Chief Underwriting Officer SPARTA Insurance Company

Name and Residence

Principal Business Affiliation

Michael A. Visintainer
Burlington, Connecticut

Executive Vice President
and Chief Actuarial Officer
SPARTA Insurance Company

Dawne E. Ware
Farmington, Connecticut

Executive Vice President
and Chief Financial Officer
SPARTA Insurance Company

Principal Officers

Name

Title

George L. Estes, III
Kevin G. Costello
Brian D. First

Chairman and Chief Executive Officer
President and Chief Operating Officer
Executive Vice President

Michael A. Visintainer

and Chief Marketing Officer
Executive Vice President
and Chief Actuarial Officer

Dawne E. Ware

Executive Vice President
and Chief Financial Officer

Patricia B. Shea

Executive Vice President
and Chief Information Officer

Susan B. Putterman

Executive Vice President
and Chief Claims Officer

Christopher J. Nenninger

Executive Vice President
and Chief Risk Officer

Brian P. Mulroy*

Executive Vice President
and Chief Underwriting Officer

*Effective April 26, 2011, Brian P. Mulroy resigned his position as the Company's Executive Vice President and Director; Patricia B. Shea was appointed as the replacement for Brian P. Mulroy as director.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to transact multiple lines of property and casualty insurance business solely in California. In 2003, the Company was placed in run off by its former parent. The Company started writing workers' compensation coverage in the third quarter of 2011.

REINSURANCE

The Company had no reinsurance during the examination period.

ACCOUNTS AND RECORDS

In order to assure that proper safeguards are in place to protect the Company's interests, management must submit an executed copy of its Custodial Agreement to the California Department of Insurance (CDI) for review and approval pursuant to California Insurance Code Section (CICS) 1104.9.

The Company was unable to provide documentation showing its Custodial Agreement with J.P. Morgan Bank & Trust was submitted to the CDI for approval. It was recommended that the Company submit the revised Custodial Agreement with J.P. Morgan Bank & Trust to the CDI for approval pursuant to CICS 1104.9. On September 27, 2011 the Company submitted its amended Custody Agreement to the CDI. The CDI granted approval of the agreement on December 19, 2011.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2010

Underwriting and Investment Exhibit for the Year Ended December 31, 2010

Reconciliation of Surplus as Regards Policyholders from December 31, 2007
through December 31, 2010

Statement of Financial Condition
as of December 31, 2010

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 8,182,527	\$	\$ 8,182,527	
Cash and short-term investments	11,798,656		11,798,656	
Investment income due and accrued	88,300		88,300	
Current federal and foreign income tax recoverable and interest thereon	449		449	
Net deferred tax asset	<u>116,862</u>	<u>93,061</u>	<u>23,801</u>	
Total assets	<u>\$ 20,186,794</u>	<u>\$ 93,061</u>	<u>\$ 20,093,733</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Other expenses			\$ 4,778	
Payable to parent, subsidiaries and affiliates			<u>100</u>	
Total liabilities			4,878	
Common capital stock		\$ 7,000,000		
Gross paid-in and contributed surplus		12,469,283		
Unassigned funds (surplus)		<u>619,572</u>		
Surplus as regards policyholders			<u>20,088,855</u>	
Total liabilities, surplus and other funds			<u>\$ 20,093,733</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2010

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ 204
Deductions:		
Losses and loss expenses incurred	\$ (27,407)	
Other underwriting expenses incurred	<u>238</u>	
Total underwriting deductions		<u>(27,169)</u>
Net underwriting gain		27,373

Investment Income

Net investment income earned	\$ 532,705	
Net realized capital gain	<u>862,084</u>	
Net investment gain		1,394,789
Net income before federal and foreign income taxes		1,422,162
Federal and foreign income taxes incurred		<u>193,440</u>
Net income		<u>\$ 1,228,722</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2009		\$ 20,548,989
Net income	\$ 1,228,722	
Change in net deferred income tax	110,080	
Change in nonadmitted assets	(87,843)	
Surplus adjustments:		
Paid-in	9,469,283	
Dividends to stockholders	<u>(11,180,376)</u>	
Change in surplus as regards policyholders for the year		<u>(460,134)</u>
Surplus as regards policyholders, December 31, 2010		<u>\$ 20,088,855</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2010

Surplus as regards policyholders, December 31, 2007 per Examination				\$ 19,219,889
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 2,556,361	\$		
Change in net deferred income tax	114,698			
Change in nonadmitted assets		91,000		
Surplus adjustments: Paid-in	9,469,283			
Dividends to stockholders	<u> </u>	<u>11,180,376</u>		
Total gains and losses	<u>\$ 12,140,342</u>	<u>\$ 11,271,376</u>		
Net increase in surplus as regards policyholders				<u>868,966</u>
Surplus as regards policyholders, December 31, 2010, per Examination				<u>\$ 20,088,855</u>

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records – Information Systems Controls (Page 7): As the result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. It was recommended that the Company evaluate these recommendations and make appropriate changes to strengthen controls over its information systems. On October 1, 2010, the Company was acquired by its parent, SPARTA Insurance Company as a shell. The Company no longer utilizes the prior information systems; therefore this recommendation is no longer applicable.

Accounts and Records – Federal Income Taxes (Page 7): It was recommended that the Company identify and measure temporary differences using a balance sheet approach in compliance with Statement of Statutory Accounting Principles No. 10, paragraph 6.a. On October 1, 2010, the Company was acquired by its parent, SPARTA Insurance Company as a shell. The Company no longer uses the prior methodology for measuring temporary book/tax differences; therefore this recommendation is no longer applicable.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/s/_____
Duane Armstrong, CFE
Examiner-In-Charge
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California