REPORT ON EXAMINATION

OF THE

STATE-WIDE INSURANCE COMPANY

AS OF

DECEMBER 31, 2008

DATE OF REPORT	JANUARY 7, 2010
EXAMINER	LAMIN JAMMEH

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

January 7, 2010

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30307 dated March 03, 2009, attached hereto, I have made an examination into the condition and affairs of State-Wide Insurance Company as of December 31, 2008, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate State-Wide Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative office located at 211 Main Street, Webster, MA 01570.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of State-Wide Insurance Company. The previous examination was conducted as of December 31, 2003. This examination covered the five year period from January 1, 2004 through December 31, 2008. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination 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. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment assessment. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

State-Wide Insurance Company was incorporated under the laws of New York on August 14, 1954, as the Truckmen's Insurance Company. The present name was adopted on September 24, 1956. The Company was licensed on September 9, 1954 and commenced business on October 1, 1954.

Effective November 18, 1976, a former wholly owned subsidiary, Banner Casualty Company was absorbed by merger. On November 15, 1989, majority control of the Company (87.6%) was acquired through a tender offer by SWICO Enterprises, Ltd. ("SWICO"), a Delaware holding company.

On April 2, 2007, ACIC Holding Company, Inc. ("AHI") acquired SWICO and thus gained control of State-Wide Insurance Company. AHI is 95% owned by Commerce Group Inc. ("Commerce Group") and 5% owned by AAA Southern New England. On October 30, 2007, Commerce Group entered into a merger agreement with MAPFRE, S.A. ("MAPFRE"), which was approved by Commerce Group shareholders on February 14, 2008. The merger became effective June 4, 2008. Based in Madrid, Spain, MAPFRE is a global insurance and financial services company and the leading non-life insurer in Spain. Effective December 3, 2008, SWICO was merged into ACIC Holding Company.

At December 31, 2008, capital paid in was $850,000 consisting of 170,000 shares of common stock at $5.00 par value per share. Gross paid in and contributed surplus was $924,800. Paid in capital and gross paid in and contributed surplus did not change during the examination period.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board met three times in 2007 and five times in 2008. At December 31, 2008, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Randall V. Becker Webster, MA	Executive Vice President and Chief Financial Officer, The Commerce Group Inc.
Gerald Fels Webster, MA	Chief Executive Officer, The Commerce Group Inc.
Mark S. Gill New York, NY	Writer
Frederick L. Gruel Bridgewater, NJ	President and Chief Executive Officer, AAA NJ Automobile Club
Richard Sidney Hamilton Allison Park, PA	President and Chief Executive Officer, AAA East Central
Charles B. Liekweg Kirkland, WA	President and Chief Executive Officer, AAA Washington
Robert W. McCann Bronxville, NY	ICP Capital
John D. Porter Tualatin, OR	President and Chief Executive Officer, AAA Oregon/Idaho
Henry Thomas Rowles West Warwick, RI	Retired
Mark Allen Shaw Barrington, RI	President and Chief Executive Officer, AAA Southern New England
Mark H. Shaw Gahanna, OH	President and Chief Executive Officer, AAA Ohio Auto Club
Jaime Tamayo Weston, MA	President and Chief Operating Officer, The Commerce Group Inc.
Otto Tillman Wright Knoxville, TN	President and Chief Executive Officer, East Tennessee Automobile Club, Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2008, the principal officers of the Company were as follows:

Name	Title
Jamie Tamayo	President and Chief Executive Officer
Daniel Patrick Olohan	Secretary, Senior Vice President and General Counsel
Robert Edward McKenna	Treasurer and Vice President
Randall Vaughn Becker	Executive Vice President and Chief Financial Officer

B. Territory and Plan of Operation

As of December 31, 2008, the Company was licensed to write business in the states of New York and New Jersey. During the period under examination the Company wrote business only in the state of New York.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $850,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total United States	Premiums Written in New York State as a Percentage of United States Premium
2004	$42,951,931	$42,951,931	100.00%
2005	$41,207,916	$41,207,916	100.00%
2006	$37,896,693	$37,896,693	100.00%
2007	$35,035,371	$35,035,371	100.00%
2008	$36,128,556	$36,128,556	100.00%

As stated above, the Company is licensed to write business in the states of New York and New Jersey, but writes business only in the state of New York. It writes primarily automobile liability and physical damage coverage with a small percentage allocated to homeowners' coverage. Its main source of premium income is derived from its private passenger business, with such risks being concentrated in the New York metropolitan area. Most of the Company's business is produced through a network of independent brokers, with only a small percent of the business produced directly by the Company.

C. Reinsurance

Assumed Reinsurance

Assumed reinsurance accounted for 56.6% of the Company's gross premium written at December 31, 2008. During the period covered by this examination, the Company's assumed reinsurance business has increased since the last examination. The assumed reinsurance represents business obtained through a pooling agreement with four affiliates. The Company utilizes reinsurance accounting as defined in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

Effective April 2, 2007, the Company became a member of an inter-company pooling agreement with the Commerce Group affiliated insurance entities. Under the agreement the companies share underwriting profits and losses in proportion to specified pool participation percentages. Commerce Insurance Company ("Commerce"), as the lead company, assumes the direct business of its affiliates. All external reinsurance business is ceded to external reinsurers by Commerce under the terms of various reinsurance contracts; Commerce then cedes net business after external reinsurance back to its affiliates according to the stated pool participation percentages.

The pool participation percentage of each insurance affiliate reflects the ratio of that affiliate's policyholders' surplus, at initiation of the pooling agreement, to the consolidated policyholders' surplus. Through the pooling agreement, Commerce assumes from the other insurance affiliates all of their combined premiums, losses, loss expenses and underwriting expenses. In addition, Commerce combines this business with its own direct and assumed business, and then cedes back to the other insurance affiliates, net of applicable reinsurance, each affiliate's respective percentage of the combined premiums, losses, loss expenses and underwriting expenses of all of insurance affiliates, including Commerce. Accounts are rendered quarterly with intercompany balances settled within the subsequent quarter. The pooling arrangement may be terminated in the event of an uncured breach or by mutual agreement of all of the parties.

Pool participation percentages during the examination period were as follows:

Affiliated Entity	Participation Ratio
Commerce Insurance Company	76.2%
Citation Insurance Company	8.9%
American Commerce Insurance Company	8.3%
Commerce West Insurance Company	3.8%
State-Wide Insurance Company	2.8%

The agreement has been approved pursuant to Section 1505 of the New York State Insurance Law.

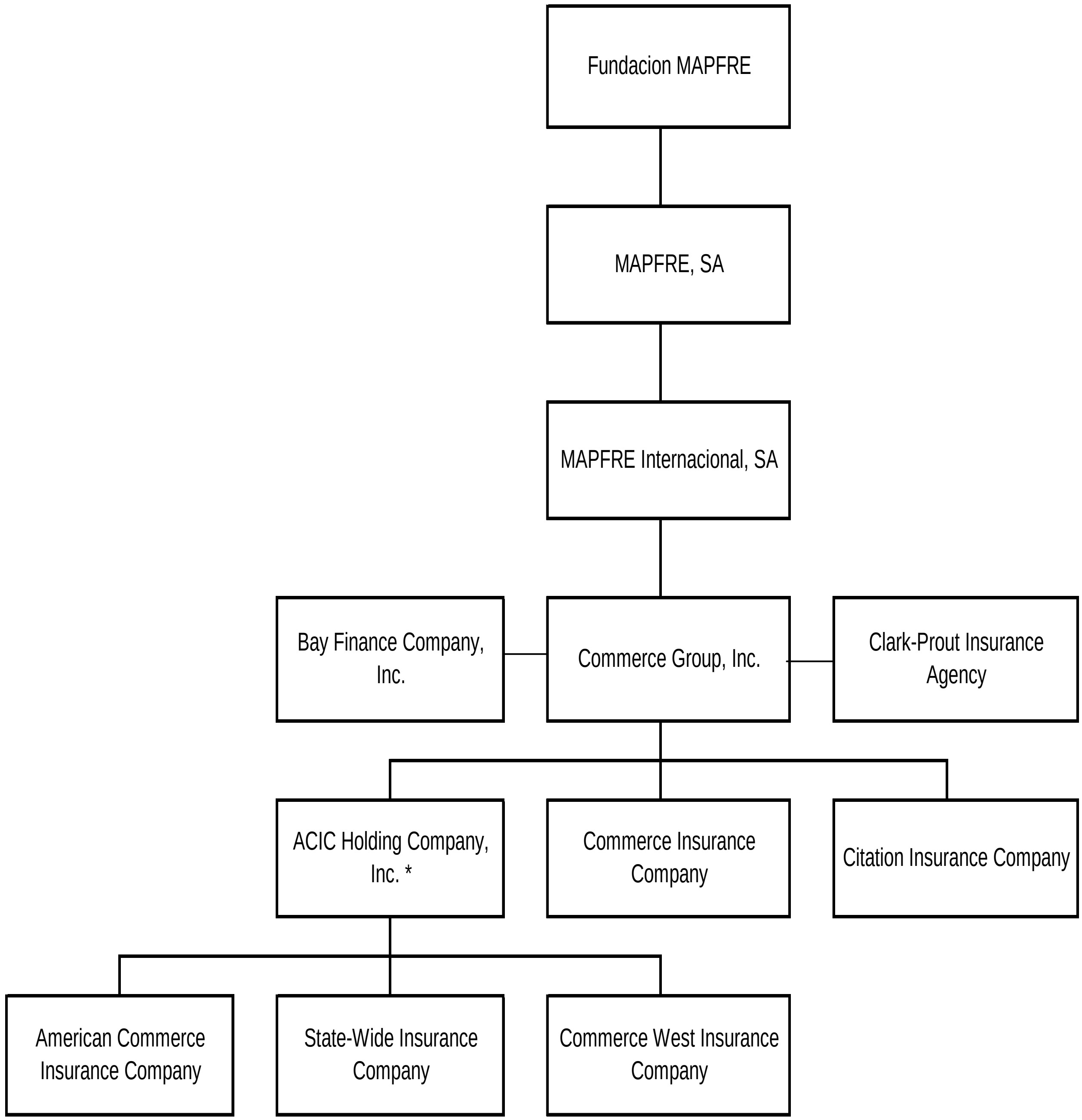
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer and chief financial officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 17 through 24 of SSAP No. 62.

D. Holding Company System

The Company is a member of the Commerce Group, Inc. The Company is a wholly-owned subsidiary of ACIC Holding, Inc, a Rhode Island domiciled corporation. ACIC is 95% owned by Commerce Group, Inc. and 5% owned by AAA Southern New England. Commerce Group, in turn, is a wholly-owned subsidiary of MAPFRE Internacional, S.A., which is a holding company for MAPFRE, S.A.'s international operations.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2008:



* Note: 5% of ACIC Holding Company, Inc. is owned by AAA Southern New England.

At December 31, 2008, the Company was party to the following agreements with other members of its holding company system:

Management Services Agreement

Effective April 1, 2007, the Company and various affiliates ("the Companies") entered into a management cost allocation agreement pursuant to which, any of the Companies may provide certain management services to the other parties for a fee. Compensation for non-investment related services is based on the actual costs and expenses borne by the party providing such services. Compensation for investment related services is based on a percentage of the quarter-end balance of investments and cash, not to exceed the actual costs and expenses incurred by the party providing such services. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

Effective April 2, 2007, the Company became a party to an amended and restated tax allocation agreement with its affiliated companies. Pursuant to the agreement each affiliate is jointly and severally liable for the federal income taxes of the other members of the affiliated group, and is subject to a written tax-sharing agreement. Under the tax-sharing agreement, allocation is made primarily on a separate return basis, with current payment for losses and other tax items utilized in the consolidated return. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2008, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	82%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	60%
Premiums in course of collection to surplus as regards policyholders	1%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$162,432,777	74.04%
Other underwriting expenses incurred	52,559,696	23.96%
Net underwriting loss	4,391,446	2.00%
Premiums earned	$219,383,919	100.00%

F. Accounts and Records

A review of the 2008 engagement letter between Ernst & Young and the Company revealed that the contract does not include any of the language as required by Department Regulation 118, Part 89.2.

It is recommended that the Company include such wording in its engagement letters with independent certified public accountant as required by Part 89.2 of Department Regulation No. 118.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2008 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Admitted Net Assets
Bonds	$ 72,386,808	$ 0	$ 72,386,808
Preferred stocks	6,533,814	0	6,533,814
Properties occupied by the company	734,300	0	734,300
Cash, cash equivalents and short-term investments	13,901,669	0	13,901,669
Investment income due and accrued	990,627		990,627
Uncollected premiums and agents' balances in the course of collection	617,466	300,091	317,375
Deferred premiums, agents' balances and installments booked but deferred and not yet due	7,641,264	0	7,641,264
Amounts recoverable from reinsurers	9,343,617	0	9,343,617
Other amounts receivable under reinsurance contracts	6,916,198	0	6,916,198
Net deferred tax asset	5,426,089	2,593,415	2,832,674
Electronic data processing equipment and software	21,699	12,160	9,539
Furniture and equipment, including health care delivery assets	80,894	80,894	0
Equities and deposits in pools and associations	13,387	0	13,387
Prepaid expenses	19,891	19,891	0
Miscellaneous receivable	84,160	0	84,160
Total assets	$124,711,883	$3,006,451	$121,705,432

Liabilities, Surplus and Other Funds

Liabilities

Losses		$ 18,939,623
Reinsurance payable on paid losses and loss adjustment expenses		8,126,003
Loss adjustment expenses		4,222,286
Other expenses (excluding taxes, licenses and fees)		122,782
Current federal and foreign income taxes		1,818,335
Unearned premiums		22,339,213
Ceded reinsurance premiums payable (net of ceding commissions)		7,218,755
Amounts withheld or retained by company for account of others		13,975
Payable to parent, subsidiaries and affiliates		1,294,179
Payable for unclaimed checks		226,479
Total liabilities		$64,321,630
Surplus and Other Funds		
Common capital stock	$ 850,000	
Gross paid in and contributed surplus	924,800	
Unassigned funds (surplus)	55,609,002	
Surplus as regards policyholders		57,383,802
Total liabilities, surplus and other funds		$121,705,432

NOTE: The Internal Revenue Service has completed its audits of the Company’s consolidated Federal Income Tax returns through tax year 2006. No material adjustments were made subsequent to the date of examination and arising from said audits. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $23,681,087 during the five-year examination period January 1, 2004 through December 31, 2008, detailed as follows:

Underwriting Income		
Premiums earned		$219,383,919
Deductions:		
Losses incurred	$120,424,856	
Loss adjustment expenses incurred	42,007,921	
Other underwriting expenses incurred	52,545,474	
Aggregate write-ins for underwriting deductions	14,222	
Total underwriting deductions		214,992,473
Net underwriting gain or (loss)		$ 4,391,446
Investment Income		
Net investment income earned	$ 24,322,424	
Net realized capital gain	(653,525)	
Net investment gain or (loss)		23,668,899
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (158,313)	
Finance and service charges not included in premiums	6,896,945	
Aggregate write-ins for miscellaneous income	1,441,811	
Total other income		8,180,443
Net income before dividends to policyholders and before federal and foreign income taxes		$ 36,240,788
Federal and foreign income taxes incurred		6,056,061
Net income		$ 30,184,727

Surplus as regards policyholders per report on examination as of December 31, 2003			$33,702,715
	Gains in Surplus	Losses in Surplus	
Net income	$30,184,727	$ 0	
Net unrealized capital gains or (losses)	0	3,039,961	
Change in net deferred income tax	1,847,719	0	
Change in nonadmitted assets	0	1,792,752	
Dividends to stockholders	0	9,520,000	
Aggregate write-ins for gains and losses in surplus	3,366,992	0	
Cumulative effect of changes in accounting principles	2,634,362	0	
Total gains and losses	$38,033,800	$14,352,713	
Net increase (decrease) in surplus			23,681,087
Surplus as regards policyholders per report on examination as of December 31, 2008			$57,383,802

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $23,161,909 is the same as reported by the Company as of December 31, 2008. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Schedule P – Cumulative Number of Claims Reported	
	It was recommended in the future that the Company properly report the cumulative number of claims reported in Schedule P, Part 1, Column 12 and Part 5, Section 3 as required by the Brooke Property and Casualty Annual Statement Handbook.	10
	The Company has complied with this recommendation.	
	Regulation 30 – Classification of expenses	
	It is recommended that the Company comply with Department Regulation 30, Part 105.18 and classify its banking charges for insufficient funds to postage, telephone and telegraph, exchange and express expenses.	10
	The Company has complied with this recommendation.	
B.	Net Deferred Tax Asset	
	It is recommended that, in the future, the Company comply with the Department Regulation 172, Part 83.4 as amended on March 6, 2003 for financial statements required to be filed on or after December 31, 2002 as well as SSAP No. 10 in reporting its net deferred tax asset.	15
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Account and Records	
	It is recommended that the Company include such wording in its engagement letters with independent certified public accountant as required by Part 89.2 of Department Regulation No. 118.	11

Respectfully submitted,

/s/

Lamin Jammeh
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

LAMIN JAMMEH, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/

Lamin Jammeh

Subscribed and sworn to before me

this__________ day of ___________________, 2010.

Appointment No. 30307

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Lamin Jammeh

as proper person to examine into the affairs of the

STATE-WIDE INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 3rd *day of* March, *2009*

ERIC R. DINALLO
Superintendent of Insurance