

REPORT ON EXAMINATION

OF THE

UNITRIN AUTO AND HOME INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

DATE OF REPORT

OCTOBER 3, 2011

EXAMINER

LEON TAMBUE

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2	Description of Company	3
	A. Management	4
	B. Territory and plan of operation	5
	C. Reinsurance	6
	D. Holding company system	7
	E. Significant operating ratios	10
3	Financial statements	11
	A. Balance sheet	11
	B. Statement of income	13
4	Losses and loss adjustment expenses	14
5	Compliance with prior report on examination	14
6	Summary of comments and recommendations	16



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

October 3, 2011

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30593 dated September 3, 2010, attached hereto, I have made an examination into the condition and affairs of Unitrin Auto and Home Insurance Company as of December 31, 2010, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Unitrin Auto and Home Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's administrative offices located at 12926 Gran Bay Parkway West, Jacksonville, Florida 32258.

1. SCOPE OF EXAMINATION

The Department has performed a multi-state examination of Unitrin Home & Auto Insurance Company. The previous examination was conducted as of December 31, 2005. This examination covered the five-year period from January 1, 2006 through December 31, 2010. 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 and an evaluation based upon the Company’s Sarbanes Oxley documentation and testing. 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

The Company was incorporated on October 15, 1996, under the laws of the State of New York as the General Security Insurance Company of New York (“GSICNY”) to serve as the vehicle for the redomestication of General Security Insurance Company (“GSIC”) from Maryland to New York. Effective December 31, 1996, GSIC merged into GSICNY and the surviving entity became known as General Security Insurance Company.

The predecessor Company was incorporated and commenced business on April 22, 1936, under the laws of the State of Maryland as the International Insurance Company of Takoma Park, Maryland (“IIC”). On December 4, 1992, SCOR Reinsurance Company (“SCOR Re”) purchased IIC and changed its name to General Security Insurance Company on January 12, 1993.

Effective December 31, 2002, pursuant to a stock purchase agreement, the Company became a wholly owned subsidiary of Unitrin, Inc (“Unitrin”). On February 18, 2003, the Company’s name was changed to Unitrin Auto & Home Insurance Company. On December 29, 2003, the Company became a wholly owned subsidiary of Trinity Universal Insurance Company (“TUIC”), which is a wholly owned subsidiary of Unitrin.

As of December 31, 2010, capital paid in was \$4,225,000 consisting of 845 shares of \$5,000 par value per share of common stock and Gross paid in and contributed surplus was \$23,201,887. On November 12, 2010, the Department approved a Stock Repurchase Plan, whereby the Company repurchased from its Parent, TUIC, 155 shares of its common stock for consideration in the amount of \$5,030,967. During the examination period, common capital stock decreased in the amount of

\$775,000 and gross paid in and contributed surplus decreased in the amount of \$4,255,887, as follows:

<u>Date</u>	<u>Description</u>	<u>Capital Stock</u>	<u>Gross paid in and Contributed Surplus</u>
12/31/05	Beginning balance	\$5,000,000	\$27,457,854
12/31/10	Stock Repurchase Plan (155 shares)	<u>(775,000)</u>	<u>(4,255,967)</u>
12/31/10	Ending balance	<u>\$4,225,000</u>	<u>\$23,201,887</u>

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 seven or more than thirteen members. The Department approved the Company's amended and reinstated charter and by-laws. At December 31, 2010, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Michael Boschelli Geneva, IL	Treasurer, Unitrin Services Company
Patrick Brian Gillson DeWitt, NY	Regional Claims Manager, Unitrin Auto & Home Insurance Company
Denise Idell Lynch St. Augustine, FL	President, Kemper, A Unitrin Business
Christopher Lamont Moses Chicago, IL	Vice President and Treasurer, Unitrin Inc
Richard Roeske Naperville, IL	Vice President and Chief Accounting Officer, Unitrin Services Company
James Allen Schulte Jacksonville Beach, FL	President, Milwaukee Safeguard Insurance Company
Francis Joseph Sodaro Park Ridge, IL	Vice President, Unitrin Services Company

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 has an acceptable record of attendance.

As of December 31, 2010, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Denise Idell Lynch	President
Dorothy Ann Langley	Secretary
Clark Hubbard Roberts	Treasurer
Keith Darell Sievers	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2010, the Company was licensed to write business in forty-four states and the District of Columbia.

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:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 \$4,300,000.

The Company primarily writes private passenger auto liability, auto physical damage, and homeowners multiple peril business. The business is produced through independent agents and brokers.

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

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a percentage of Total Premium</u>
2006	\$85,940,139	\$390,470,801	22.01%
2007	\$72,992,410	\$425,192,472	17.17%
2008	\$63,010,965	\$416,672,197	15.12%
2009	\$54,785,448	\$387,551,563	14.14%
2010	\$47,705,966	\$340,572,081	14.01%

C. Reinsurance

The Company assumes reinsurance only from mandatory pools and associations. During 2010, assumed reinsurance premium from mandatory pools and associations were less than \$100,000.

100% Quota Share Reinsurance Agreement

Effective January 1, 2009, the Company entered into a 100% Quota Share Reinsurance Agreement with Trinity Universal Insurance Company ("TUIC"), whereby TUIC assumes 100% of all insurance business written by the Company. Previously, effective January 1, 2003, TUIC assumed a 90% quota share of the business written by the Company. The 100% Quota Share Reinsurance Agreement was filed with and non-disapproved by the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

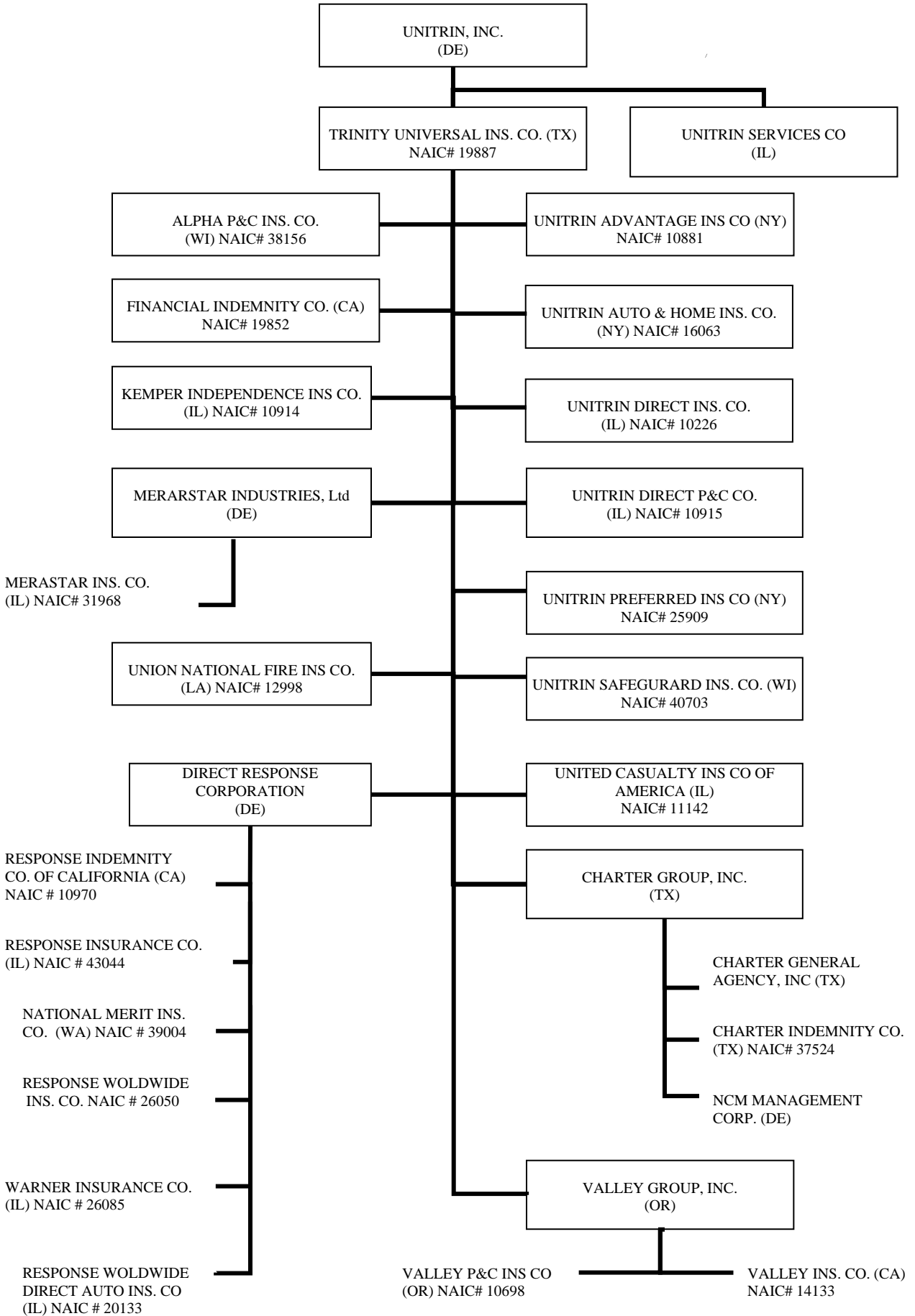
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, managements has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company’s chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements.

D. Holding Company System

The Company is a member of the Unitrin Group. The Company is a wholly-owned subsidiary of Trinity Universal Insurance Company, a Texas corporation, which is ultimately controlled by Unitrin, Inc.

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 an unabridged chart of the holding company system at December 31, 2010:



At December 31, 2010, the Company was party to the following agreements with other members of its holding company system:

General Services - Policy Administration

Effective January 1, 2009, the Company and Merastar Insurance Company (“MIC”), a wholly owned subsidiary of TUIC, entered into a general service agreement whereby MIC shall administer the new and renewal property and casualty lines insurance business of the Company, including marketing; underwriting, subject to the Company’s written guidelines; and claims administration.

General Services

Effective July 1, 2010, USC provides the following services to the Company: trade execution and investment analysis; financial accounting and reporting; purchasing and accounts payable; investment accounting; tax return preparation; tax accounting and tax advice; maintenance and benefits plans; administration of post-retirement medical benefits; benefit plan regulatory reporting and support; risk management; automobile fleet management; internal audit; cash management and bank relations; financial planning and analysis of results of operations; capital project review and evaluation; real estate management; corporate secretarial functions; and legal support and advice.

Information Technology Services Agreement

Effective January 1, 2009, the Company and Unitrin Direct Property & Casualty Company (“UDPC”) entered into an information technology services agreement whereby UDPC shall provide information technology applications and consulting services on technology that is shared among Unitrin, Inc. property and casualty affiliates.

Computer Service Agreement

Effective July 1, 2010, the Company and USC entered into a computer service agreement whereby USC shall provide computer data processing services to the Company using computer systems maintained by USC including: mainframe, midrange and minicomputer and other central processors and controllers; data storage devices, cartridges and tape drives; MVS, UNIX and other operating system software; database management software; CICS and other transaction processing software; groupware, middleware and network software; routers and other network and

telecommunications equipment and lines located at its data center facilities; and internet and intranet access software and systems.

All of the above agreements were submitted to and non-disapproved by the Department.

Tax Allocation Agreement

The Company is included in a consolidated federal income tax return with Unitrin. The tax allocation agreement states that each participant in the agreement shall be allocated tax as if they filed a separate company return.

In 2009 Unitrin amended the agreement to include additional new affiliates. The amendment was filed with the Department and approved by the Company's board of directors pursuant to Department Circular Letter No.33 (1979).

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2010, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	67%
Premiums in course of collection to surplus as regards policyholders	40%

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 four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 83,600,044	72.85%
Other underwriting expenses incurred	35,457,738	30.90
Net underwriting loss	<u>(4,300,766)</u>	<u>(3.75)</u>
Premiums earned	<u>\$114,757,016</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2010 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$43,487,745	\$ 0	\$43,487,745
Cash, cash equivalents and short-term investments	1,669,767	0	1,669,767
Investment income due and accrued	592,005	0	592,005
Uncollected premiums and agents' balances in the course of collection	11,158,332	12,323	11,146,009
Deferred premiums, agents' balances and installments booked but deferred and not yet due	68,477,086	0	68,477,086
Amounts recoverable from reinsurers	447,941	0	447,941
Other amounts receivable under reinsurance contracts	39,818	0	39,818
Net deferred tax asset	3,725,011	2,990,011	735,000
Guaranty funds receivable or on deposit	2,360	0	2,360
Aggregate write-ins for other than invested assets	<u>952,127</u>	<u>126,838</u>	<u>825,289</u>
Total assets	<u>\$130,552,192</u>	<u>\$3,129,172</u>	<u>\$127,423,020</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$	0
Reinsurance payable on paid losses and loss adjustment expenses		0
Commissions payable, contingent commissions and other similar charges		6,969,112
Other expenses (excluding taxes, licenses and fees)		665,485
Taxes, licenses and fees (excluding federal and foreign income taxes)		2,596,449
Advance premium		3,901,622
Ceded reinsurance premiums payable (net of ceding commissions)		79,742,431
Payable to parent, subsidiaries and affiliates		4,930,417
Aggregate write-ins for liabilities		<u>527,354</u>
Total liabilities		\$99,332,871

Surplus and Other Funds

Aggregate write-ins for special surplus funds	\$	490,000
Common capital stock		4,225,000
Gross paid in and contributed surplus		23,201,887
Unassigned funds (surplus)		173,263
Surplus as regards policyholders		<u>0</u> <u>28,090,150</u>
Total liabilities, surplus and funds		<u>\$127,423,020</u>

NOTE: The Internal Revenue Service has examined Company's consolidated Federal Income Tax returns through tax year 2002. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 through 2010. 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. Statement of Income

Surplus as regards policyholders increased \$8,230,519 during the five-year examination period January 1, 2006 through December 31, 2010, detailed as follows:

Premiums earned		\$114,757,016
Deductions:		
Losses and loss adjustment expenses incurred	\$83,600,044	
Other underwriting expenses incurred	<u>35,457,738</u>	
Total underwriting deductions		<u>119,057,782</u>
Net underwriting gain or (loss)		\$ (4,300,766)
 <u>Investment Income</u>		
Net investment income earned	\$12,156,794	
Net realized capital gain	<u>1,123,687</u>	
Net investment gain or (loss)		13,280,481
 <u>Other Income</u>		
Net gain or (loss) from agents' or premium balances charged off	\$ (624,083)	
Finance and service charges not included in premiums	<u>1,969,468</u>	
Total other income		<u>\$ 1,345,385</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 10,325,100
Federal and foreign income taxes incurred		<u>361,730</u>
Net income		<u>\$ 9,963,370</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2005			\$19,859,631
	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	
Net income	\$ 9,963,371		
Change in net deferred income tax		\$ 805,702	
Change in nonadmitted assets	2,435,191		
Change in provision for reinsurance	2,050,969		
Cumulative effect of changes in accounting principles		872,343	
Capital changes paid in		775,000	
Stock repurchase plan		4,255,967	
Aggregate write-ins for gains and losses in surplus	<u>490,000</u>	<u>0</u>	
Total gains and losses	<u>\$14,939,531</u>	<u>\$6,709,012</u>	
Net increase in surplus			<u>8,230,519</u>
Surplus as regards policyholders per report on examination as of December 31, 2010			<u>\$28,090,150</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2010. Effective January 1, 2009, 100% of the Company's insurance liabilities are ceded to Trinity Universal Insurance Company.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM

PAGE NO.

A. Management

It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its charter and/or by-laws and maintain complete minutes of such proceedings.

5

The Company has complied with this recommendation.

<u>ITEM</u>		<u>PAGE NO.</u>
B.	<u>Reinsurance</u>	
i.	It was recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and submit all reinsurance agreements between related parties to this Department 30 days prior to entering into the agreement.	8
	The Company has complied with this recommendation.	
ii.	It is recommended that all reinsurance agreements entered into by the Company include an entire contract clause.	8
	The Company has complied with this recommendation.	
iii.	It is recommended that all reinsurance agreements where business is ceded to unauthorized reinsurers, through an intermediary, include a provision requiring the appointment by the reinsurer or reinsurers, of an attorney in this State upon whom all lawful process may be served, pursuant to the provisions of Department Regulation 98, Part 32.1(e).	9
	The Company has complied with this recommendation.	
iv.	It was recommended that the Company comply with SSAP No. 62 and report ceded premiums payable on a gross basis.	9
	The Company has complied with this recommendation.	
C.	<u>Holding Company System</u>	
i.	It was recommended that the Company provide notification to the Department of any amendment to the tax allocation agreement pursuant to Circular Letter No. 33 (1979).	13
	The Company has complied with this recommendation.	
ii.	It was further recommended that the Company's board of directors approve any amendment to the inter-company tax allocation agreement.	13
	The Company has complied with this recommendation.	
iii.	It is recommended that the Company maintain the required documentation for the allocation of inter-company expenses, pursuant to Parts 106.2 and 109.4 of Department Regulation 30.	13
	The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Account and Records</u>	
i. <u>CPA Engagement Letter</u>	
It was recommended that the Company revise its future contracts with its independent certified public accountant to include such wording as required by Part 89.2 of Department Regulation No. 118.	15
The Company has complied with this recommendation.	
ii. <u>Advance Premiums</u>	
It is recommended that the Company report advance premiums as a separate liability rather than as an offset to “Receivable from parent, subsidiaries and affiliates” pursuant to the provisions of SSAP No. 64.	15
The Company has complied with this recommendation.	
iii. <u>Commissions Payable</u>	
It is recommended that the Company report commissions payable as a separate liability rather than as an offset to “Receivable from parent, subsidiaries and affiliates” pursuant to the provisions of SSAP No. 64.	15
The Company has complied with this recommendation.	
iv. <u>Deferred Premiums, Agents Balances and Installments Booked But Not Yet Due</u>	
It is recommended that the Company comply with SSAP No. 6 in the calculation of not-admitted agents’ balances and installment premiums.	16
The Company has complied with this recommendation.	
v. <u>Remittances and Items Not Allocated</u>	
It is recommended that the Company record suspense items as a liability under the caption “Remittance and items not allocated” pursuant to the provisions of paragraph 9 of SSAP No. 67.	16
The Company has complied with this recommendation.	
6. <u>SUMMARY OF COMMENTS AND RECOMMENDATIONS</u>	

This report contains no comments or recommendations.

Respectfully submitted,

_____/s/
Leon Tambue,
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

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

_____/s/
Leon Tambue

Subscribed and sworn to before me

this _____ day of _____, 2012.

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Leon Tambue

as proper person to examine into the affairs of the

UNITRIN AUTO AND HOME 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 September, 2010



James J. Wrynn

JAMES J. WRONN
Superintendent of Insurance