

Report on the Examination

of

AMERICAN CONCEPT INSURANCE COMPANY
Warwick, Rhode Island

as of

December 31, 2010



State of Rhode Island and Providence Plantations
Department of Business Regulation
Insurance Division

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March 15, 2012

Honorable Paul McGreevy
Insurance Commissioner
State of Rhode Island and Providence Plantations
Department of Business Regulation
1511 Pontiac Avenue, Bldg. 68-2
Cranston, Rhode Island 02920

Dear Commissioner:

In accordance with your instructions and pursuant to Chapters 13, 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2010 of the financial condition and affairs of

AMERICAN CONCEPT INSURANCE COMPANY

at its home office located at 475 Kilvert Street, Warwick, Rhode Island. The report of such examination is herewith submitted.

American Concept Insurance Company, hereinafter referred to as “ACIC” or the “Company,” was previously examined as of December 31, 2006 by the Insurance Division of the State of Rhode Island and Providence Plantations (“Insurance Division”) representing the Northeastern Zone. The current examination was also conducted by the Insurance Division.

SCOPE OF EXAMINATION

The current examination was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, as amended, and covered the intervening four-year period ended December 31, 2010. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”), 7-Phase Risk-Focused Examination Process. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about corporate governance, identifying and assessing inherent risks, and evaluating the controls and procedures used to mitigate those risks. The examination included 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 the NAIC *Annual Statement Instructions*. The examination process included a business risk assessment to focus examination procedures on those areas considered to have greater risk in order to identify significant operating issues and/or deviations from statutory accounting practices that may affect solvency. All accounts and activities of the Company were considered in accordance with the Risk-Focused Examination Process.

The Company instructed their independent accounting firm to make available for review all work papers concerning procedures followed, tests performed, information obtained, and conclusions reached pertinent to the firm’s audit of the Company’s financial statements for the year ended December 31, 2010. The work papers of the independent accounting firm

were reviewed in order to ascertain the extent to which procedures were employed to determine compliance with statutory requirements and guidelines. The work papers and analyses prepared by the independent accounting firm were utilized to the extent possible. Where applicable, the independent accounting firm's work papers have been incorporated into the examination process.

The examination was performed concurrently with the examination of the Company's parent, Providence Washington Insurance Company ("PWIC") and its affiliate, York Insurance Company ("York").

COMPANY HISTORY

American Consumers Financial, Inc. was organized as a South Dakota corporation on December 13, 1972, with the primary purpose of forming a multi-line fire and casualty insurance company. On August 1, 1974, Concept 76 Insurance Company was formed as a wholly owned subsidiary. On May 20, 1981, the stockholders voted to change the name of American Consumers Financial, Inc. to American Concept Insurance Company.

On December 14, 1984, Security Insurance Company of Hartford, a subsidiary of Orion Capital Corporation, acquired for cash the net assets of American Consumers Financial, Inc., thereby acquiring control of ACIC. On October 1, 1988, Providence Washington Insurance Company of Providence, Rhode Island acquired 100% of the outstanding shares of ACIC from Security Insurance Company of Hartford.

Effective July 31, 1997, the Company redomesticated from South Dakota to Rhode Island. The Petition for Redomestication was formally approved by the appropriate regulatory agencies of both states.

The Company is a wholly owned subsidiary of Providence Washington Insurance Company, that in turn is a wholly owned subsidiary of PW Holdings, Inc. On October 23, 1998 the Baloise Insurance Group sold its 100% interest in Providence Washington Holdings, Inc. (formerly known as Baloise U.S. Holdings, Inc.) to PW Acquisition Company. Providence Washington Holdings, Inc. owns 100% of the outstanding common stock of PW Holdings, Inc.

Providence Washington Holdings, Inc. is a wholly owned subsidiary of PW Acquisition Company, that underwent a change in ownership on September 6, 2006. On that date, the former majority shareholder, PW Acquisition I, LLC, sold all its common stock shares to PW Capital, LLC. Approximately 98% of the outstanding common stock of PW Acquisition Company was then owned by PW Capital LLC, a holding company that was organized to facilitate the purchase of PW Acquisition Company. An interest of approximately 2% was owned by former PW Acquisition Company management. Munich Reinsurance America, Inc. owned 95% of the outstanding redeemable preferred stock of PW Acquisition Company and the remaining 5% was owned by Treiber Agency Group. Ownership of PW Acquisition Company's outstanding convertible preferred stock was allocated among PW Capital, LLC (86%), Munich Reinsurance America, Inc. (10%) and a combination of former management and Treiber Agency Group. Munich Reinsurance Company ("Munich Re") has 100%

ownership of Munich Reinsurance American, Inc. During 2008, PW Capital, LLC purchased 100% of the redeemable preferred stock outstanding and the stock was retired. During 2008, PW Capital, LLC and PW Acquisition Company purchased 100% of the convertible preferred stock outstanding. The shares purchased by PW Acquisition Company from former management and directors were canceled. During 2008, PW Acquisition Company purchased common stock shares that had previously been granted to former management and directors. The repurchased shares were then canceled.

On July 20, 2010 PW Capital, LLC sold its 100% interest in PW Acquisition Company to PWAC Holdings, Inc., a holding company that is wholly owned by Enstar Group Limited (Bermuda) and which was established to effect the stock purchase from PW Capital, LLC.

The Company voluntarily entered into runoff on May 28, 2004 and undertook actions to cease writing new and renewal business at the earliest possible date. For the year ending December 31, 2010, the Company had virtually no direct written premium.

In connection with the change in ownership commencing July 20, 2010, the Company is restricted from paying stockholder dividends of any kind for a period of five years, without prior written approval of the Insurance Division.

MANAGEMENT AND CONTROL

Stockholders

The Bylaws provide that the annual meeting shall be held prior to or on April 30th in each and every year, for the purpose of electing directors and transacting such other business as may be properly presented. Special meetings may be called at any time by the President, by order of the Board of Directors or by a stockholder or group of stockholders holding at least ten percent (10%) of the outstanding shares. At all meetings of the stockholders, each share of common stock shall be entitled to one (1) vote.

The Bylaws stipulate that two-thirds (2/3) of the shares of issued and outstanding capital stock entitled, by the Articles of Incorporation and by the applicable Rhode Island statutes, to vote on the business proposed to be transacted at such meeting of stockholders represented by the holders of record thereof, in person or by proxy, shall constitute a quorum for the transaction of business.

Board of Directors

The Bylaws provide that the property, affairs and business of the Company shall be managed by the Board of Directors (“Board”), and the Board shall have, and may exercise, all of the powers of the Company, except such as are conferred by the Bylaws upon the stockholders.

The Board shall have the power by vote to create such committee or committees of directors, officers, employees or other persons designated by it for the purpose of advising with the Board, and the officers and employees of the Company in all such matters as the Board shall deem advisable and with such sanctions and duties as the Board by vote may prescribe.

The Bylaws stipulate that the number of directors shall be such number, not less than five (5), as shall be fixed from time to time by the stockholders at any meeting called for such purpose. Each director shall be elected each year by a majority vote of the stockholders present in person or by proxy at the annual meeting of the stockholders and shall hold office until the next annual meeting of stockholders and until his successor is elected and qualified. Vacancies occurring in the Board of Directors may be filled by a majority of the remaining members of the Board or by the stockholders at any meeting called for such purpose, and any director so elected shall hold office until the next annual meeting of stockholders and until his successor is elected and qualified.

Regular meetings of the Board of Directors shall be held at least four (4) times per year, immediately following the annual meetings of stockholders and at three (3) other dates as may be fixed by the resolution of the Board of Directors. Special meetings of the Board of Directors may be held at any time or place upon the call of the Chairman of the Board of Directors, or of the President, or of any two members of the Board of Directors, or unanimous consent of the Board of Directors. The attendance at a meeting of a majority of the duly elected and qualified directors shall constitute a quorum for the transaction of business at such meeting.

The members of the Board of Directors serving at December 31, 2010 were as follows:

Name	Business Affiliation	Term Expires
Karl J. Wall	Chairman, President and Chief Operating Officer Enstar (US) Inc.	July 1, 2011

Robert B. Carlson	Executive Vice President and Chief Financial Officer, Enstar (US) Inc.	July 1, 2011
Joseph P. Follis	Senior Vice President, Enstar (US) Inc.	July 1, 2011
Donna L. Stolz	Executive Vice President and Chief Administrative Officer, Enstar (US) Inc.	July 1, 2011
Donald E. Woellner	Senior Vice President, Enstar (US) Inc.	July 1, 2011

Executive Committee

The Bylaws stipulate that the Board of Directors may, by resolution adopted by a majority of the whole Board, designate a Chairman of the Board and the President and any one (1) or more other directors to constitute an Executive Committee, which shall have and exercise all of the authority of the Board of Directors in the management of the Company. The Executive Committee shall appoint a secretary who need not be a member of the Executive Committee. As of December 31, 2010 the Company has not established an Executive Committee.

Other Committees

The Bylaws also provide that the Board of Directors may, by resolution adopted by a majority of the Board, designate such standing and special committees as may be necessary or desirable to manage the affairs of the Company, fix the number of members thereof, and specify the duties thereof. As of December 31, 2010, the Company has not established any standing committees of the Board of Directors.

Officers

The Bylaws provide that the officers of the Company shall consist of the Chairman of the Board of Directors, the President, the Corporate Secretary, the Treasurer, and such Vice

Presidents, Assistant Vice Presidents, Assistant Corporate Secretaries, Assistant Treasurers and other officers as may be elected by the Board of Directors or appointed by the Chairman of the Board. Any two or more offices may be held by the same person, except that the duties of the President and the Corporate Secretary shall not be performed by one person. The Chairman of the Board and the President shall be chosen from the Board of Directors.

The officers of the Company specifically designated above shall be elected annually by the Board of Directors to hold office until the next annual meeting of the stockholders and until other officers are elected.

The officers serving, and their respective titles at December 31, 2010, are as follows:

Karl J. Wall	President and Chairman of the Board
Robert B. Carlson	Executive Vice President, Treasurer and Chief Operating Officer
Joseph P. Follis	Executive Vice President – Claims
Donald E. Woellner	Senior Vice President and Chief Financial Officer
Thomas J. Balkan	Corporate Secretary
John S. Bentz	Assistant Vice President
Nancy R. Resende	Assistant Secretary

Conflict of Interest

The Company has an established policy with regard to the disclosure of conflicts of interest to its Board of Directors. Pursuant to a resolution adopted by the Board of Directors, on an annual basis the Corporate Secretary will circulate a conflict of interest questionnaire to each director and officer of the Company. The questionnaires are to be completed and returned to the Corporate Secretary within fourteen (14) days after they are circulated. Copies of the completed questionnaires are provided to the members of the Board of Directors for their

review, prior to the next scheduled meeting of the Board. At the next meeting of the Board of Directors, the directors discuss any potential conflicts or potential conflicts identified. The results of the Board's review are recorded in the corporate records of the Company.

As part of this examination, a sample of conflict of interest questionnaires was reviewed to verify that they were properly completed in accordance with the conflict of interest policy. Based upon our review, no conflicts of interest or apparent conflicts of interest were reported by any of the Company's directors and officers.

Corporate Records

Records of meetings of the stockholders and Board of Directors held during the period under examination were reviewed. The meetings appeared to be held in accordance with the Company's Bylaws, and did not contain evidence of any actions contrary to the Company's Articles of Incorporation, Bylaws or the Rhode Island General Laws.

FIDELITY BONDS AND OTHER INSURANCE

The Company has no direct employees. Personnel and administrative services required by the Company in the ordinary course of its business are provided by Enstar (US) Inc.

As of December 31, 2010, Enstar (US) Inc. was the named insured under a Fiduciary Liability and Crime Policy ("Policy") that became effective April 1, 2010, by an insurer authorized to transact business in Rhode Island. The following is a summary of the coverages provided under the Policy:

Insuring Agreements	Limit of Insurance	Single Loss Deductible
Form A - Blanket Employee Dishonesty	\$10,000,000	\$25,000
Form B - Forgery or Alteration	10,000,000	25,000
Form C - Theft, Disappearance and Destruction	10,000,000	25,000
Form D - Robbery and Safe Burglary	10,000,000	25,000
Form F - Computer Fraud/Wire transfer	10,000,000	25,000
Form Z - Money Orders and Counterfeit Currency	10,000,000	25,000
- Credit Card Forgery	10,000,000	25,000

The coverage provided under the Policy exceeds the minimum amount suggested by the NAIC for the corresponding level of exposure.

Enstar (US) Inc. is also protected by additional insurance policies providing coverage for errors and omissions insurance and a directors, officers and company liability policy. Management has determined the adequacy of these coverages.

OFFICERS' AND EMPLOYEES' WELFARE AND PENSION PLANS

As noted under the “Fidelity Bonds and Other Insurance” caption, the Company has no direct employees. Concurrent with the most recent change in ownership, Enstar (US) Inc. became the employer.

The former employees of the Company were covered by a non-contributory defined benefit pension plan (“Plan”). The Company’s funding policy is to make periodic contributions to the Plan in amounts computed by the Plan’s actuary using the Projected Unit Credit Actuarial cost method. This method and the actuarial assumptions have been designed to provide sufficient funds to pay benefits as they become payable under the Plan. The Company froze

its pension plan on April 1, 2004 and under the Plan freeze, no new participants are eligible for the Plan and participants no longer accrue benefits. The Plan will remain in existence as long as necessary to pay already-accrued benefits.

The former employees of the Company maintained their opportunity to participate in an employee savings plan sponsored by Providence Washington Insurance Solutions, LLC (“PWIS”), under Section 401(k) of the Internal Revenue Code. For the year 2010, participants may contribute from 1.0% to 50% of their gross pay in order to participate in this Plan and Enstar (US) Inc. matches a portion of the employee’s contribution.

Enstar (US) Inc. also provides its employees with various insurance coverages including life, medical, dental and disability.

STATUTORY DEPOSITS

At December 31, 2010, various United States Government issued fixed income securities, with a total book value of \$2,074,702 are on deposit with various states for the protection of policyholders within those particular states.

TERRITORY AND PLAN OF OPERATION

On May 28, 2004 the Company announced to the public and its agency force its intentions to enter into a self-administered runoff. A runoff plan was prepared by management and reviewed with representatives of the Rhode Island Insurance Division. Withdrawal plans were approved by each state in which the Company is licensed to operate, and an orderly

process of non-renewal commenced shortly thereafter. New business ceased immediately upon the announcement of the rating downgrade to B- by A.M. Best on May 30, 2004. The Company worked aggressively with agents, policyholders, and mortgagors to remarket virtually all of the in-force business subsequent to the runoff announcement.

A new management team was identified to prepare for and manage the runoff. It continues to be the intent of the Company to abide by all state rules and regulations as they pertain to this self-administered managed runoff. The Company intends to maintain sufficient staffing to perform all required functions related to policyholder services, billing and collections, claims administration and financial reporting. Runoff activities are anticipated to continue for many years, specifically in claims administration and financial reporting.

At December 31, 2010, the Company continues to be licensed to transact business in eight (8) jurisdictions. Certain jurisdictions have requested Stipulation and Consent Orders not to engage in new business without specific authorization; however; there are no plans to write new business in the future.

GROWTH OF COMPANY

The following table shows the business trend (in dollars) of the Company for the most recent five years, as reported in its filed Annual Statements (\$000's):

	2010	2009	2008	2007	2006
Premiums Earned	14	(12)	(15)	0	40
Net Underwriting Gain/(Loss)	(165)	3	820	(239)	(367)
Net Income (Loss)	(52)	307	1,124	128	(17)
Total Assets	6,764	7,085	7,340	7,705	8,406

Total Liabilities	2,574	2,824	3,438	4,757	5,564
Policyholders' Surplus	4,191	4,262	3,902	2,948	2,842

LOSS EXPERIENCE

The Company's Losses and Loss Adjustment Expenses ("LAE") incurred as a percentage of Premiums Earned for the most recent five years, as reported in its filed Annual Statements is as follows:

	2010	2009	2008	2007	2006
Losses Incurred	469.3	2,524.4	5,746.3	68,743.7	85.1
LAE Incurred	25.6	(921.0)	774.1	10,987.9	798.0

REINSURANCE

The Company protects itself from excessive losses through reinsurance on both a treaty and facultative bases. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. Although the reinsurer is liable to the Company to the extent of the reinsurance ceded, the Company remains primarily liable to the policyholders as the direct insurer on all risks reinsured. The Company evaluates the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies.

The Company's reinsurance program included coverage for losses incurred on years 1997 and prior for \$26,000,000 in excess of aggregate losses exceeding \$226,100,000. In addition, the Company was reinsured up to \$20,000,000 in excess of \$115,700,000 for accident years 1992 and prior. The Company ceded amounts up to treaty limits on both reinsurance treaties, and during 2005 received payment for the final paid recovery on the latter treaty and received payment for the final paid recovery on the former treaty in 2010.

As a result of the Company's announcement to enter into a self-administered managed runoff, the Company's lead reinsurer provided notification of cancellation of reinsurance effective July 31, 2004 for the Property Per Risk Treaty and Casualty Excess of Loss Treaty. Effective September 1, 2004, the Umbrella Treaty was canceled on a runoff basis. The Company replaced the canceled reinsurance with no lapse in coverage. Effective August 1, 2004, the Company's Property Per Risk Treaty covers in force, new and renewal policies with total limits of \$5,500,000 excess of \$500,000 per risk. The Casualty Per Occurrence Treaty provides clash protection of \$9,000,000 excess of \$1,000,000 and an additional \$10,000,000 excess \$10,000,000 for workers' compensation. There is a two policy warranty, which applies to all casualty business other than workers' compensation.

The Umbrella Treaty was not replaced and no new exposures have been written since September 1, 2004. Effective August 1, 2005, the Company's Property Per Risk Treaty covers new and renewal policies with limits of \$750,000 excess of \$500,000. The clash protection provided by the Casualty Per Occurrence Treaty remains in effect for policies written with effective dates prior to August 1, 2005. The aforementioned termination of reinsurance has no impact on reinsurance recoverables as of December 31, 2010.

Effective January 1, 1995 and amended on August 25, 1997, April 1, 1999, April 13, 2005 and June 1, 2006, the Company and its affiliates entered into a Quota Share Reinsurance Treaty ("Pooling Agreement") whereby the lead company, Providence Washington Insurance Company, assumes all business from York Insurance Company and American Concept

Insurance Company. In accordance with the Pooling Agreement, all accident year premiums, losses and expenses, and all other reinsurance activity including any involving the coverages noted in the preceding paragraphs, are pooled and the business is retroceded back to the pool members in the following quota share percentages:

Providence Washington Insurance Company	Eighty-five percent (85%)
York Insurance Company	Twelve percent (12%)
American Concept Insurance Company	Three percent (3%)

Effective January 1, 2006, the Company entered into a 100% quota share agreement with Narragansett Bay Insurance Company (“NBIC”). The treaty terms call for the Company to cede its inforce and unearned premium for the Homeowners/Dwelling Fire business produced by the Treiber Agency in the State of New York. In addition, renewals and new business written by the Treiber Agency for these lines of business in 2006 were also subject to the 100% quota share. This treaty was terminated upon NBIC obtaining approval of its rates and forms under its newly acquired license to issue policies in the State of New York.

ACCOUNTS AND RECORDS

The accounts and records of the Company are maintained by Enstar (US) Inc. (“Enstar”) personnel located primarily at the Company’s home office in Warwick, Rhode Island. The Company’s primary claim information technology and claim data processing functions are also maintained by Enstar at its St. Petersburg, Florida office. Enstar employees located in Warwick, Rhode Island are remotely connected to the St. Petersburg data processing center.

Information Systems

A review of the Company's general information technology controls was performed to identify risks within this area, evaluate how these risks are mitigated, and determine the extent to which the Company's automated processing functions could be relied upon in other key areas of the examination. Based upon the review performed, the examiners noted one significant weakness with regard to the information technology control environment. An outline of the Enstar disaster recovery plan ("DRP") was provided in response to our request. However, it was determined that the provided DRP was not available to personnel in the Company's Warwick, Rhode Island home office until after it was requested by the examiners. It was also determined that the DRP has not been updated to include the Providence Washington Insurance Group, subsequent to its acquisition by Enstar. Due to these findings, the DRP does not appear to provide the necessary safeguards to the Company.

Recommendation No. 1 - It is recommended that the Company revise, update, and incorporate the Providence Washington Insurance Group into the Enstar disaster recovery plan. While the items listed below are not all inclusive, the Company should also ensure that the following sections are adequately incorporated into the plan:

- a business impact analysis;
- a prioritized recovery strategy;
- necessary operational support;
- responsibilities of individuals;
- regulatory considerations;
- alternative processing facilities;
- alternative suppliers for critical resources;
- roles, tasks and responsibilities for internal and external service providers;
- copies of the IT continuity / disaster recovery plan are stored on and offsite and are readily available to Company staff when needed;
- IT continuity tests are scheduled and completed on a regular basis and after significant changes to the IT infrastructure or business applications;
- test results are reported and necessary changes to the plan are made;
- required updating and revisions on both a regular and as needed basis.

Independent Audit

The Company is audited annually by an independent accounting firm and audited financial reports were filed with the Insurance Division for all years under examination, as required pursuant to Rhode Island Insurance Regulation 87 (*Annual Financial Reporting*). The accounting firm's work papers from its 2010 audit were reviewed and utilized to supplement the examination process and to avoid duplication of work where deemed appropriate. There were no material internal control weaknesses noted or financial statement adjustments made as a result of the independent audits conducted during the period under review.

Subsequent to the period covered by this examination, management requested an exemption from the requirement to have an annual audit performed by an independent certified public accountant, pursuant to Rhode Island Insurance Regulation 87, Section 4. Based on the facts presented by management, the Insurance Division granted the Company's request for an exemption from the annual audit requirement beginning with the year ending December 31, 2011.

Internal Audit

The Internal Audit function consists of one Senior Internal Auditor. Historically, the Internal Audit function had been responsible for the review of internal controls surrounding various functions and making recommendations for improvement by way of internal audit reports prepared for management and the affected function. Internal Audit prepared an annual Internal Audit Plan that was approved by the Audit Committee of the Board of Directors. Internal Audit performed an annual risk assessment and used the results, along with input

from management and the Audit Committee, to compose the Internal Audit Plan. Internal Audit also assists in any special projects as requested by management.

Since 2006, management has utilized the Internal Audit function for various assignments including licensing projects, regulatory compliance and more recently, due diligence in preparation for the sale of the Providence Washington Insurance Group. Consequently, there have been no internal audits performed since 2006.

Prior to the change in ownership of the Providence Washington Insurance Group, Internal Audit reported directly to the Audit Committee and administratively to the CEO. As of December 31, 2010, Internal Audit reports directly to Robert Carlson, Executive Vice President, Treasurer and Chief Operating Officer.

INSURANCE HOLDING COMPANY SYSTEM

The Company, as required under Title 27, Chapter 35 of the Rhode Island General Laws entitled “Insurance Holding Company Systems,” filed registration statements “Form B” and “Form C” with the Rhode Island Insurance Division, for all years under examination. A review of the Company’s records indicated that the required information had been included in the registration statements filed with the Insurance Division for the period under examination.

Organizational Structure

At December 31, 2010, 100% of the issued and outstanding common capital stock of the Company and its affiliate, York Insurance Company (“York”), is owned by Providence Washington Insurance Company (“PWIC”), a Rhode Island insurer. PWIC is a wholly owned subsidiary of PW Holdings, Inc., a Delaware holding company, which in turn, is wholly owned by Providence Washington Holdings, Inc., a Rhode Island holding company. Providence Washington Holdings, Inc. in turn, is wholly owned by PW Acquisition Company, a Delaware holding company. PW Acquisition Company is wholly owned by PWAC Holdings, Inc., a Delaware holding company. PWAC Holdings, Inc. is ultimately owned by Enstar Group Ltd., a Bermuda corporation, the ultimate controlling entity in the holding company system.

The following represents an abbreviated organizational chart as of December 31, 2010, which illustrates the identities and interrelationships between the Company, its parent, affiliated insurers and other members of the holding company system:

<u>Company</u>	<u>Domicile</u>	<u>% Owned</u>
Enstar Group Limited	Bermuda	
Kenmare Holdings Ltd.	Bermuda	100%
Harper Holding SARL	Luxembourg	100%
Enstar Holdings (US) Inc.	Delaware	100%
Enstar Investments Inc.	Delaware	100%
PWAC Holdings, Inc.	Delaware	100%
PW Acquisition Company	Delaware	100%
Providence Washington Holdings, Inc.	Rhode Island	100%
PW Holdings, Inc.	Delaware	100%
Providence Washington Insurance Company	Rhode Island	100%
York Insurance Company	Rhode Island	100%
American Concept Insurance Company	Rhode Island	100%
Providence Washington Insurance Solutions, LLC	Rhode Island	100%

Inter-Company Agreements

Insurance Services Management Agreement

Effective September 1, 2006, the Company, PWIC and York (the “Companies”) entered into an Insurance Services Management Agreement (“Services Agreement”) with Providence Washington Insurance Solutions, LLC (“PWIS”). Under the terms of the Services Agreement, PWIS provides comprehensive runoff management services to the Companies, including claims adjustment, regulatory compliance, policyholder administration and financial reporting. In consideration for providing the services under the Services Agreement, the Companies paid a management fee as calculated in accordance with Schedule C of the Services Agreement. PWIS is entitled to earn additional incentive fees for attaining certain performance objectives related to operating expense management, premium and reinsurance collections, and commutation savings.

Tax Sharing Agreement

Effective July 21, 2010, the Company, PWIC and York became parties to the existing Tax Sharing Agreement (“Tax Agreement”) between Enstar Holdings (US) Inc. and various affiliates (individually, the “Members,” collectively, the “Consolidated Group”). Under the terms of the Tax Agreement, the allocation to the Members is based on the separate tax return calculations except the benefits related to utilization of losses and credits, that are allocated to the Member generating such attributes to the extent the losses and credits are utilized in the consolidated federal income tax return for the applicable tax year.

Under the terms of the Tax Agreement, any obligation of a Member owed to another Member of the Consolidated Group shall be paid within thirty (30) days of the payment of any tax due, including estimated taxes or taxes owed in the event of a redetermination of taxes, or within thirty (30) days of any tax refund actually received.

Prior to July 21, 2010, the Company, PWIC and York were parties to a Tax Allocation Agreement previously entered into on October 23, 1998 and amended on September 22, 2005, between PW Acquisition Company and its affiliates. The Tax Allocation Agreement was terminated effective July 21, 2010.

Minimum Surplus Guarantee

Pursuant to a resolution adopted by PWIC's Board of Directors, at December 31, 2010, PWIC has a guarantee in place whereby it will maintain the minimum combined capital and surplus of York Insurance Company and American Concept Insurance Company in the amount of \$4,000,000 and \$2,000,000, respectively.

FINANCIAL STATEMENTS

The results of the examination are set forth in the following exhibits and schedules:

Comparative Statement of Assets
December 31, 2010 and December 31, 2006

Comparative Statement of Liabilities and Surplus and Other Funds
December 31, 2010 and December 31, 2006

Statement of Income
Year ended December 31, 2010

Capital and Surplus Account
December 31, 2009 to December 31, 2010

Reconciliation of Surplus
December 31, 2006 to December 31, 2010

Analysis of Examination Adjustments
December 31, 2010

AMERICAN CONCEPT INSURANCE COMPANY
Comparative Statement of Assets
December 31, 2010 and 2006

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2006</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$5,820,855	\$5,561,110	\$259,745
Cash equivalents	724,903	2,696,800	(1,971,897)
Short-term investments	99,420	46,355	53,065
Investment income due and accrued	32,440	25,732	6,708
Uncollected premiums and agents' balances in the course of collection	36,912	68,158	(31,246)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	0	7,927	(7,927)
Current federal and foreign income tax recoverable	49,883	0	49,883
Total Assets	<u><u>\$6,764,413</u></u>	<u><u>\$8,406,082</u></u>	<u><u>(\$1,641,669)</u></u>

AMERICAN CONCEPT INSURANCE COMPANY
Comparative Statement of Liabilities and Surplus and Other Funds
December 31, 2010 and 2006

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2006</u>	<u>Increase</u> <u>(Decrease)</u>
Losses	\$1,752,354	\$3,881,987	(\$2,129,633)
Loss adjustment expenses	425,939	1,167,414	(741,475)
Commissions payable, contingent commissions and other similar charges	(345)	5,395	(5,740)
Other expenses	275,475	148,313	127,162
Taxes, licenses and fees	44,345	95,609	(51,264)
Unearned premiums	0	8,308	(8,308)
Payable to parent, subsidiaries and affiliates	75,921	251,490	(175,569)
Aggregate write-ins for liabilities	<u>0</u>	<u>5,462</u>	<u>(5,462)</u>
Total Liabilities	<u>2,573,689</u>	<u>5,563,978</u>	<u>(2,990,289)</u>
Common capital stock	1,000,000	1,000,000	0
Gross paid in and contributed surplus	2,809,484	2,809,484	0
Unassigned funds (surplus)	<u>381,240</u>	<u>(967,380)</u>	<u>1,348,620</u>
Surplus as regards policyholders	<u>4,190,724</u>	<u>2,842,104</u>	<u>1,348,620</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$6,764,413</u></u>	<u><u>\$8,406,082</u></u>	<u><u>(\$1,641,669)</u></u>

AMERICAN CONCEPT INSURANCE COMPANY
Statement of Income
Year Ended December 31, 2010

UNDERWRITING INCOME

Premiums earned		\$13,602
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DEDUCTIONS

Losses incurred	63,830	
Loss adjustment expenses incurred	3,487	
Other underwriting expenses incurred	111,304	

Total underwriting deductions		178,621
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Net underwriting gain or (loss)		(165,019)
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INVESTMENT INCOME

Net investment income earned	62,529	
Net realized capital gains or (losses) less capital gains tax	52	

Net investment gain or (loss)		62,581
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OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	17	
Aggregate write-ins for miscellaneous income	42	

Total other income		59
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Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		(102,379)
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Less: Federal and foreign income taxes incurred		(49,883)
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Net Income		(\$52,496)
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AMERICAN CONCEPT INSURANCE COMPANY
Capital and Surplus Account
December 31, 2009 to December 31, 2010

Surplus as regards policyholders, December 31, 2009	\$4,261,614
Net income	(52,496)
Change in net unrealized capital gains or (losses)	2,265
Change in net deferred income tax	190,196
Change in nonadmitted assets	(196,450)
Aggregate write-ins for gains and losses in surplus	<u>(14,405)</u>
Change in surplus as regards policyholders for the year	<u>(70,890)</u>
Surplus as regards policyholders, December 31, 2010	<u><u>\$4,190,724</u></u>

AMERICAN CONCEPT INSURANCE COMPANY
Reconciliation of Surplus
December 31, 2006 to December 31, 2010

Surplus as regards policyholders, December 31, 2006			\$2,842,104
	<u>Gains</u>	<u>Losses</u>	
Net income	1,507,236		
Change in net unrealized capital gains or (losses) less capital gains tax		957	
Change in net deferred income tax		381,166	
Change in nonadmitted assets	330,402		
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>106,895</u>	
Total gains and losses	<u>\$1,837,638</u>	<u>\$489,018</u>	
Net increase (decrease) in surplus as regards policyholders			<u>1,348,620</u>
Surplus as regards policyholders, December 31, 2010			<u><u>\$4,190,724</u></u>

AMERICAN CONCEPT INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2010

The examination of the Company, performed as of December 31, 2010, did not disclose any material misstatements to the financial statements contained in its 2010 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Bonds **\$5,820,855**

The above amount is the net admitted value of bonds held by the Company at December 31, 2010 and is the same as that reported in its 2010 Annual Statement. The majority of the bonds are held by State Street Bank and Trust Company under the terms of a custodial agreement. Approximately 35.6% of the Company's bond portfolio, which amounts to \$2,074,702, is held in the form of special deposits (See "Statutory Deposits" section for details).

The quality ratings of all securities included in the Company's bond portfolio were reviewed based upon criteria established by the National Association of Insurance Commissioners. It was noted that 100% of the bond portfolio represents class 1 securities that are bonds of the "highest" quality.

The book/adjusted carrying value, par value, fair value and actual cost of the bond portfolio as of December 31, 2010, are as follows:

<u>Book/Adjusted</u> <u>Carrying</u> <u>Value</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>
<u>\$5,820,855</u>	<u>\$5,682,470</u>	<u>\$5,932,909</u>	<u>\$5,881,349</u>

LIABILITIES

<u>Losses and Loss Adjustment Expenses</u>	<u>\$2,178,293</u>
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Losses	\$1,752,354
Loss Adjustment Expenses	<u>425,939</u>
Total	<u>\$2,178,293</u>

The reserves for losses and loss adjustment expenses reflected above are the same as those reported by the Company in its 2010 Annual Statement. The reserve calculation prepared by the Company was reviewed by Merlinos & Associates, Inc. (“Merlinos”), consulting actuaries for the Rhode Island Insurance Division. Merlinos relied upon the underlying data reported by the Company, and their analyses included a review of the actuarial assumptions and methods used by the Company in determining the reserves, and such tests of actuarial calculations as deemed necessary.

In assisting Merlinos with the reserve analysis, the examiners either independently performed or relied upon the procedures performed by the Company’s independent accounting firm to verify the integrity of the underlying claims data, including completeness testing. A combination of subjective and statistical sampling techniques was utilized in testing the claims data, as deemed appropriate.

POLICYHOLDERS’ SURPLUS

<u>Policyholders’ Surplus</u>	<u>\$4,190,724</u>
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The above amount is same as that reported by the Company in its 2010 Annual Statement, and consists of the following:

Common capital stock	1,000,000
Gross paid in and contributed surplus	2,809,484
Unassigned funds (surplus)	<u>381,240</u>

Surplus as Regards Policyholders

\$4,190,724

SUBSEQUENT EVENTS

A review of the minutes of the Board of Directors' meetings for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, the following significant events occurred subsequent to the period covered by this examination:

Changes in Management

Effective August 16, 2011, the number of members of the Board of Directors was increased from five (5) to six (6), and John A. Dore was elected to the Board of Directors.

Annual Independent Audit Exemption

Subsequent to the period covered by this examination, management requested an exemption from the requirement to have an annual audit performed by an independent certified public accountant, pursuant to Rhode Island Insurance Regulation 87, Section 4. Based on the facts presented by management, the Insurance Division granted the Company's request for an exemption from the annual audit requirement beginning with the year ending December 31, 2011.

SUMMARY OF RECOMMENDATIONS

No.	Recommendation	Page No.
1	It is recommended that the Company revise, update, and incorporate the Providence Washington Insurance Group into the Enstar disaster recovery plan and ensure that all necessary sections are included in the plan.	17

CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Acknowledgment is made of the services rendered by Merlinos & Associates, Inc.; the Rhode Island Insurance Division's consulting actuaries for this examination.

Assisting in the examination with the undersigned were David Paolantonio, CFE, CFSA, CISA, AES, Insurance Examiner-In-Charge; and Emilia Giorno, Insurance Examiner, representatives of the Rhode Island Insurance Division.

Respectfully submitted,

John Tudino Jr.

John Tudino Jr., CFE, CIE, CFSA
Insurance Examiner-In-Charge
State of Rhode Island
Northeastern Zone, NAIC