

REPORT ON EXAMINATION AS TO THE CONDITION OF

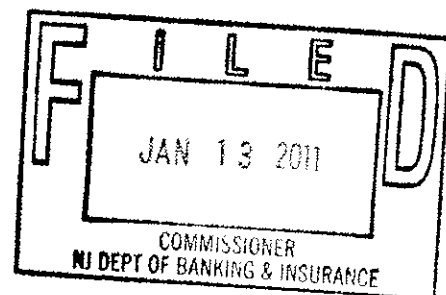
IFA INSURANCE COMPANY OF CLARK

CLARK, NEW JERSEY

AS OF DECEMBER 31, 2009

NAIC GROUP CODE 0000

NAIC COMPANY CODE 31062



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September 17, 2010

Honorable Thomas B. Considine  
Commissioner of  
New Jersey Department of Banking and  
Insurance  
State of New Jersey  
20 West State Street  
Trenton, New Jersey 08625-0325

Commissioner:

In accordance with the plan adopted by the National Association of Insurance Commissioners for association examination of insurance companies, a financial condition examination has been made of:

IFA Insurance Company of Clark  
Clark, New Jersey 07066  
NAIC Group Code 0000 NAIC Company Code 31062

Hereinafter referred to as the "Company".

### **SCOPE OF THE EXAMINATION**

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 17:23-22. The examination covers the period January 1, 2007, through December 31, 2009.

The examination was conducted at the Company's main administrative office located at 14 Walnut Avenue, Clark, New Jersey 07066. The examination was conducted in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners.

The examination was conducted in accordance with the 2008 NAIC Financial Condition Examiners Handbook. 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 the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles 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 accounts and activities of the Company were considered in accordance with the risk-focused examination process as defined in the 2008 NAIC Financial Condition Examiners Handbook.

In addition, a review or audit was also made of the following items:

- History and Kind of Business
- Territory and Plan of Operation
- Reinsurance
- Parent, Subsidiaries and Affiliates
- Inter-company Agreements
- Management and Control
- Corporate Records
- Continuity of Operations
- Information System Review
- Policy on Conflict of Interest
- Fidelity Bond and Other Insurance Coverages
- Accounts and Records
- Treatment of Policyholders

Surplus as regards policyholders determined by the examination, at the examination date, consisted of the following:

Common Capital Stock	\$ 1,834,435
Preferred Capital Stock	159,600
Gross Paid in and Contributed Surplus	1,125,000
Unassigned Funds	<u>20,886,556</u>
<b>Surplus as Regards Policyholders</b>	<b><u>\$ 24,005,591</u></b>

*The change in assets, liabilities and surplus for the period covered by this examination is detailed below:*

	<b>12/31/2009</b>	<b>12/31/2008</b>	<b>12/31/2007</b>	<b>12/31/2006</b>
Assets	\$ 88,453,133	\$ 86,891,323	\$ 88,348,958	\$ 88,714,220
Liabilities	\$ 64,447,542	\$ 63,455,338	\$ 63,158,962	\$ 64,051,113
Surplus	\$ 24,005,591	\$ 23,435,985	\$ 25,189,996	\$ 24,663,107

## **COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS**

### **AFFILIATED COMPANIES**

It was recommended the Company procure a cost sharing agreement between its Parent and affiliates which stipulates the various services and reimbursement of such services as management and administrative, the use of Company employees, its office facilities, data processing and accounting services, the use of its equipment, supplies, communication and other systems and facilities in accordance with N.J.S.A 17:27A-3b(3)(e) and N.J.S.A 17:27A-4a(2)(d).

*The Company currently has an agreement in place with MCS Computer Service which documents the services provided and the expenses to be paid. It was noted the Company has some inactive affiliates for which no agreement is in place. They have indicated the only expense paid on behalf of these affiliates is a minor amount of taxes. It will be mentioned in the SRM that if these companies become active in the future that agreements be put in place detailing the services provided and the expenses paid.*

### **CONTINUITY OF OPERATIONS**

It was recommended that the Company formulate a formal comprehensive business continuity/disaster recovery plan which facilitates the periodic backing up of programs, essential documents, records and files, identifies the use of either a hot or cold site, identifies and document basic and critical systems along with formal instructions and procedures on how to establish a temporary system in the event of a disaster.

It is further recommended the Company perform a disaster recovery test as to further identify and document essential deficiencies that might exist which could potentially impede the process necessary to establish either a basic or critical system.

*The Company has not complied with this recommendation.*

### **BONDS AND STOCKS**

It was again recommended, as in the prior examination, that the Company take the necessary steps as to comply and be in accordance with the requirements set forth in the "NAIC Financial Condition Examiner's Handbook" specifically governing custodial safekeeping agreements dictating the necessary indemnification language regarding its agreement with The Provident Savings Bank.

*The Company has complied with this recommendation.*

## **CASH AND SHORT-TERM INVESTMENTS**

It was noted that the Schedule DA was not prepared by the Company and missing in the Annual Statement. It was recommended that the Company prepare a Schedule DA for short-term securities in the future.

*The Company complied with this recommendation.*

## **PREMIUMS AND CONSIDERATIONS**

It was again recommended, as in the last examination report, that the Company report its non-admitted over-ninety day amounts in the Annual Statement in accordance with NAIC Annual Statement Instructions.

*The Company has complied with this recommendation.*

It is recommended, as in the last examination, that in the future the Company should more accurately determine the actual over-ninety day amount instead of estimating.

*The Company has complied with this recommendation.*

## **RECEIVABLES FROM PARENT, SUBSIDIARIES AND AFFILIATES**

It was recommended that the Services Agreement with Management Computer System be amended to include instructions for method and timeliness of payment of the service charge.

*The Company has complied with this recommendation.*

## **LOSSES AND LOSS ADJUSTMENT EXPENSES**

It was recommended that the Company review their reserving methodology and establish reserves to their ultimate values in future annual statements.

*The Company has not complied with this recommendation.*

## **SUMMARY OF SIGNIFICANT SUBSEQUENT EVENTS**

It was recommended that the Company document the formation and activities of the Audit Committee.

*The Company has complied with this recommendation.*

## **HISTORY AND KIND OF BUSINESS**

The IFA insurance Company was incorporated as a stock company by means of a Certificate of Incorporation dated October 30, 1972. The Certificate was approved by the Attorney General on November 17, 1972, recorded in the office of the Union County Clerk on December 5, 1972 and filed with the Department of Insurance on December 11, 1972.

Through an amended Certificate of Authority dated January 25, 1980 the Company is authorized to transact the business of insurance as specified in N.J.S.A. 17:17-1 sections "a", "b" and "e".

At a meeting of the Board of Directors on December 18, 1996 it was resolved to amend the Certificate of Incorporation. This amendment changed the outstanding common capital stock of the Company from 366,877 shares at \$1.00 per share to 366,887 at \$4.00 per share thus increasing the common capital stock of the Company from \$366,877 to \$1,467,548.

At a meeting of the Board of Directors on January 3, 2007 it was resolved to amend the Certificate of Incorporation. This amendment changed the outstanding common capital stock of the Company from 366,877 shares at \$4.00 per share to 366,887 at \$5.00 per share thus increasing the common capital stock of the Company from \$1,467,548 to \$1,834,435.

As of December 31, 2009 the authorized capital stock of the Company consisted of 79,800 shares of preferred stock having a par value of \$2.00 per share and 366,887 shares of common stock having a par value of \$5.00 per share. At December 31, 2009 they were issued and outstanding 79,800 shares of preferred stock having a value of \$159,600 and 366,887 shares of common stock with a value of \$1,834,435 in accordance with N.J.S.A. 17:17-8 which requires that all authorized shares of stock of a stock company are to be issued.

All of the outstanding and issued shares of the Company are controlled by Independent Financial Agents, Inc., the Parent Corporation. The Company has approximately 160 stockholders. The Walsh family owns approximately 80% of the stock. David Walsh, President, owns approximately 21% of the stock. Shares are not actively traded.

The Company did not report any dividends paid to stockholders for the examination period under review.

The registered agent of the Company on whom process may be served is David Donlan Walsh, President

The business and affairs of IFA Insurance Company are managed and directed by its Board of Directors, which consist of David Walsh, President, Robert Brien Walsh, Michael F. Ford and Marylou Iannone and subject to the by-laws thereof.

## **TERRITORY AND PLAN OF OPERATIONS**

The IFA Insurance Company (the Company) is a domestic for-profit stock property-casualty insurance company. Organized on October 1972, it is authorized to write private passenger auto liability and auto physical damage (sections "a", "b" and "e" of N.J.S.A. 17:17-1) as provided for in its Certificate of Authority as amended on January 25, 1980. It is licensed in the states of New Jersey and Pennsylvania.

The Company operates only out of its home office located at 14 Walnut Street, Clark New Jersey. It does not use any regional offices, branches or service offices.

The Company does not use MGAs in the production of any business. The Company issues policies through independent brokers and agents to write its private passenger auto liability and auto physical damage business in New Jersey. The limited writings have been the company focus since its inception and it is the Company's intention to remain only in these two lines of business. It is their plan to continue steady growth while bringing down expenses by bringing processes in-house and the implementation of technology. The Company also has been writing Internet Direct (ID) business. In addition to premium and investment income the Company also charges for installment and late fees.

During the period under examination, the Company had the following gross premium written income:

2007	\$34,519,898
2008	34,940,329
2009	40,421,315

## **REINSURANCE**

At December 31, 2009 IFA's reinsurance program consisted of two treaties which were in effect and maintained with Munich Re Insurance Company.

The first treaty is a basic "Casualty Excess of Loss Reinsurance Agreement" which stipulates that the reinsurer shall not be liable until the Company's ultimate net loss in each occurrence exceeds \$100,000 and then the reinsurer shall be liable for the ultimate net loss in each occurrence in excess of \$100,000 but the liability shall not exceed \$400,000 in any one occurrence. The agreement provides private passenger automobile liability covering property damage, bodily injury, medical payments, uninsured motorists coverage, automobile death and specific disability benefits.

The Casualty Excess of Loss Reinsurance Agreement includes Personal Injury Protection (PIP) for losses occurring on and after January 1, 2005, as respects the Company's policies in force as of January 1, 2005, and new and renewal policies becoming on and after said date. The reinsurer shall not be liable until the Company's ultimate net loss in any one occurrence exceeds \$250,000 and then the reinsurer shall be liable for the amount of the Company's ultimate net loss and



proportionate share of loss adjustment expenses in any one occurrence in excess of \$250,000 but the reinsurer's ultimate net loss shall not exceed \$250,000 in any one occurrence.

The Company's "Automobile Physical Damage Catastrophe Excess of Loss Reinsurance Agreement" and second treaty stipulates the reinsurer shall be liable for 100% of the amount of ultimate net loss occurrence in excess of the Company's retention of \$300,000 ultimate net loss each occurrence. However, the Reinsurer's liability shall never exceed \$300,000 Ultimate Net Loss, each loss occurrence, nor \$600,000 in respect of all loss occurrences under this agreement.

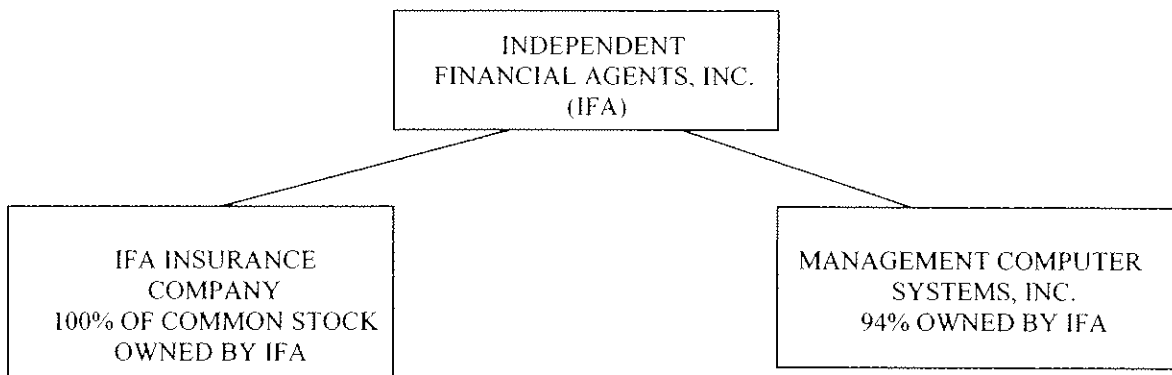
The Company's "Automobile Physical Damage Catastrophe Excess of Loss Reinsurance Agreement" maintains a reinstatement provision. Each claim reduces the amount of indemnity under this agreement provision from the time of occurrence of the loss but such amount is reinstated from the time of occurrence of the loss in consideration of payment by the Company of an additional premium calculated by applying to the premium earned the percentage of the face amount of the agreement. The reinsurers liability shall never exceed \$300,000 for any one loss occurrence and \$600,000 for all loss occurrences under the reinstatement provision.

It was noted that the reinsurance program was subsequently transferred to Maiden Re Insurance Company effective January 1, 2010.

The Company does not assume any reinsurance.

### **PARENT, SUBSIDIARIES AND AFFILIATES**

The Company's organizational structure makes it a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1, and as such it has filed a holding company registration statement with the New Jersey Commissioner of Banking and Insurance in compliance with N.J.S.A. 17:27A-3. An organization chart follows which illustrates the interrelationships of the particular companies within the holding company system as of December 31, 2009:



Independent Financial Agent's, Inc. is the parent company and owns 100% of IFA Insurance Company. Management Computer Systems, Inc. is also owned by IFA Computer Services Inc., who is owned by Independent Financial Agent's, Inc. (94%).

## **INTER-COMPANY AGREEMENTS**

At December 31, 2009, the Company maintained two inter-company agreements with related parties. These agreements have been summarized as follows:

### **Network Service Agreement**

Under a Service Agreement dated January 1, 2007, Management Computer Systems, Inc., (MCS) in general and in part, provides the Company with various on site support, services, repairs and management of the day to day operations of a computer network implemented by the Company. These services specifically include network management, hardware maintenance, on site support and management of IFA's software system. IFA Insurance Company will pay a quarterly fee of \$65,000 for these services.

Also as part of this agreement MCS will be responsible for prorated amounts of the following expenses IFA incurs:

- 1.) Healthcare – MCS will incur all healthcare costs for its employees.
- 2.) Postage – MCS will be responsible for postage.
- 3.) Audit Fees – Percentage of total consolidated revenue will be used to allocate the audit fee expense each year.
- 4.) Rent – MCS will incur 20% of the rent expense being paid based on the assumption MCS occupies 20% of the total office space.
- 5.) Insurance – Percentage of total consolidated revenue will be used to allocate the insurance expense each year.
- 6.) Accounting – It is estimated that the Controller for IFA spends 10% of his time on the accounting for MCS; therefore 10% of the Controller's Salary will be incurred by MCS.

### **Tax Sharing Agreement**

Under a Tax Sharing Agreement dated January 1, 1993 and amended November 1, 2000, IFA Insurance Company, Independent Financial Agents, Inc. and Management Computer Systems, Inc. file a Consolidated Federal Income Tax Return. Under this agreement the amount of tax of each of the entities shall be calculated individually. In the event that all companies are profitable, the amount of tax shall be paid immediately. In the event that a company is in a loss position it shall be due a credit from the company that is paying the tax. "Due to" means the amount of tax that is calculated individually that is to be paid to the company that is paying the tax. The agreement is not assignable and shall be terminated by any Company that is no longer able to participate in the consolidation and will be terminated upon thirty days prior written notice.

## **MANAGEMENT AND CONTROL**

The corporate powers of the Company is managed by a Board of Directors consisting of four members, three being outside Directors. The Directors are elected from among the

bona fide stockholders of record, by the stockholders at the annual meeting for a term of one year and until their successors are chosen and qualified in their stead. Special meetings of the Board of Directors may be called by the President at any time and shall be called by the President or Secretary upon the written request of not less than half of the Directors. Any Director that ceases to be a bona fide stockholder ceases to be a Director.

The Company is part of a holding company system and at least one-third of their Board of Directors are required to be outside directors according to statute. The Company meets this requirement through three outside Directors.

Regular meetings of the Board of Directors are held at the principal office of the Company and at such times and other places as the Board of Directors shall determine. Board meetings are regularly held annually at year end. A review of the minutes to the meetings determined that there was adequate approval of Company transactions and events. The previous examination report was received and reviewed by the Board of Directors. Attendance of Directors at meetings of the Board during the three years under examination was adequate.

A list of Directors elected and serving at December 31, 2009 follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
David D. Walsh 51 Spruce Street Cranford, NJ. 07016	President/Treasurer IFA Insurance Company of Clark
Robert Brien Walsh 26 Emily Road Far Hills, N.J. 07931	Chief Financial Officer Evercore Partners, Inc.
Michael F. Ford 155 Westfield Avenue Clark, New Jersey 07066	Owner of Ford Real Estate
Marylou Iannone 41 Moosehorn Road Thomaston, CT. 06787	Teacher - St. John's School

Robert Brien Walsh, Michael F. Ford and Marylou Iannone are not employees of the Company or stock owners. They are outside directors. The Company meets the 1/3 outside director requirement in accordance with N.J.S.A. 17:27A-4d(5).

## COMMITTEES

The Company is part of a holding company system and is required to maintain an independent committee that consists solely of outside directors to be in compliance with N.J.S.A. 17:27A-4d(4). Starting in 2007 the Company formed an outside Audit Committee. The following are members of this committee: Michael Ford and Robert Walsh. None are stockholders or employees of the Company and all are outside directors.

## OFFICERS

The by-laws provide that at the first meeting after their election the Board of Directors shall elect the following officers, a President being chosen from among the Directors, a Vice President, A Treasurer and a Secretary. The Board of Directors may also appoint any other officers they deem necessary to properly administer the affairs of the Company.

The President shall have general control of the corporation and perform such duties as are commonly incident to his office; and shall have such other powers and duties as the Board may prescribe.

The Vice President shall perform the powers and duties of the president in his absence and shall have such other powers and be subject to all the responsibilities given to or imposed upon the President by the Board.

The Treasurer shall have care and custody of and be responsible for all funds, securities, investments and maintain books of account of all the business and transaction of the Company and perform such duties incident to said office.

The Secretary shall attend all meetings of the Board of Directors and Stockholders and shall record them in the appropriate books. He shall attend to and perform all the duties incident to said office or as may be required by the Board of Directors.

The officers elected by the Board of Directors and serving at December 31, 2009 were as follows:

David D. Walsh  
Claire M. Silber

President/Treasurer  
Secretary

## STOCKHOLDERS

The annual stockholders meetings, as provided in the by-laws, are held on the 3rd Tuesday of March of each year. If the day so designated falls on a legal holiday, the meeting will be held on the first business day thereafter.

Written notice of such meeting shall be served by the Secretary, personally or by mail, not less than 10 days or more than 60 days prior to.

The presence in person, or by proxy in writing, of the holders of fifty percent of the outstanding Capital Stock entitled to vote, shall be necessary to constitute a quorum for the transaction of business, a lesser number may be adjourned to a future date.

Special meetings of stockholders may be called at any time by a majority of the Board of Directors. Written notice of such a meeting, stating the purpose for which it is called, shall be served by the secretary, personally or by mail, not less than ten days prior to.

### CORPORATE RECORDS

A review of the minutes of the Board of Directors indicates that transactions and events of the Company are adequately approved and supported. It was also noted that the previous examination report and salaries were addressed/reviewed by the Board of Directors, and investments are approved by the Board of Directors.

It was noted that the By-Laws still indicate the old address of 111 North Avenue West, Cranford, New Jersey. The Company's By-Laws did not reflect the correct address of its current home office located at 14 Walnut Ave, Clark, NJ 07066. It is recommended the Company amend its Corporate records in accordance with N.J.S.A. 17:26-1 so as to update and reflect the Company's proper business address.

It was also noted that the Company's By-Laws did not reflect the correct number of Directors on the Board. It is recommended that the Company amend its corporate records in accordance with N.J.S.A. 17:26-1 so as to update and reflect the Company's proper number of Board members.

### CONTINUITY OF OPERATIONS

The Company indicated that they have systems stored at an off-site premises that provides for computer system redundancy.

The Company currently doesn't have a formal Disaster Recovery/Business Interruption Plan in place that details and facilitates the periodic backing up of programs, essential documents, records and files. The Company indicates that they are in the process of developing a formal disaster recovery plan. The Company hasn't negotiated the use of either a hot site or a cold site in the event of a disaster. In addition, the Company has not tested and or wasn't able to provide any evidence of such results for any test conducted in restoring its computer system during the examination period under review.

It is again recommended that the Company formulate a formal comprehensive business continuity/disaster recovery plan which facilitates the periodic backing up of programs, essential documents, records and files, identifies the use of either a hot or cold site, identifies and document basic and critical systems along with formal instructions and procedures on how to establish a temporary system in the event of a disaster.

It is further again recommended the Company perform a disaster recovery test as to further identify and document essential deficiencies that might exist which could potentially impede the process necessary to establish either a basic or critical system.

**POLICY ON CONFLICTS OF INTEREST**

Conflict of interest questionnaires are required to be signed by directors, officers and employees on an annual basis. A review of the conflict of interest questionnaires for the examination period did not disclose the existence of any conflicts or irregularities.

**FIDELITY BOND AND OTHER INSURANCE COVERAGES**

IFA Insurance Company maintains a financial institution bond coverage with a single loss limit of insurance of \$500,000. This fidelity coverage is deemed adequate to satisfy the minimum amounts of fidelity insurance coverage as suggested by the National Association of Insurance Commissioners (NAIC) exposure index.

Independent Financial Agents, Inc., the Company’s parent, also maintains insurance coverage for the protection of its assets and those of its subsidiaries as named insureds on the various policies in effect at December 31, 2009. The insured's include active and non-active affiliates of the Company. The following outline shows the types and amounts of coverage that were in force at December 31, 2009:

<u>Type of Coverage</u>	<u>Amount of Limits</u>
Financial Institution Bond	\$ 500,000 (employee dishonesty) \$ 500,000 (forgery or alteration) \$ 500,000 (extended forgery) \$ 10,000 (counterfeit money) \$ 500,000 (computer system) \$ 500,000 (aggregate)
Workers’ Compensation and Employers’ Liability Insurance	\$1,000,000 (each accident) \$1,000,000 (disease - policy limit) \$1,000,000 (disease – each employee)
Commercial General Liability	\$2,000,000 (general aggregate) \$2,000,000 (products & completed operations - aggregate) \$2,000,000 (personal & advertising injury)
Automobile Liability	\$1,000,000 (each accident)
Employee Benefits Liability	\$1,000,000 (each claim) \$1,000,000 (aggregate)

Employed Lawyers Professional Liability	\$1,000,000 (inclusive of defense expenses)
	\$ 500,000 (defense sub limit)
	\$ 25,000 (retention)

Directors and Officers Liability	\$1,000,000 (each policy year)
	\$1,000,000 (each loss)

Umbrella and Excess Liability	\$2,000,000 (aggregate)
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Premises Coverages

Premises # 1	14 Walnut Ave Clark, New Jersey 07066 County of Union
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Building	
Limit of Insurance	\$1,440,900

Personal Property	
Limit of Insurance	\$ 100,000

Business Income With Extra Expense	
Limit of Insurance	\$ 500,000
Waiting Period	48 Hours

Extended Period	
Number of Days	365

EDP Property	
Limit of Insurance	\$ 100,000

Premises # 2	35 Walnut Ave Clark, New Jersey 07066 County of Union	BLDG # 1
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Personal Property	
Limit of Insurance	\$ 100,000

35 Walnut Ave Clark, New Jersey 07066 County of Union	BLDG # 2
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Personal Property	
Limit of Insurance	\$ 75,000

EDP Property	
Limit of Insurance	\$ 25,000

## ACCOUNTS AND RECORDS

Records of the Company are maintained at its Home Office in Clark, New Jersey and further individually discussed below:

### General Ledger System:

As of December 31, 2009, IFA's General Ledger is maintained in Microsoft Small Business Manager. IFA implemented Small Business Manager to start the 2005 year. Journal entries are prepared and posted to the ledger. The Excel ledger is used as a cross check to the SBM ledger.

There are thirty standard journal entries that are to be posted. Each journal entry has a schedule that is prepared to calculate the monthly number or has a report as a source document. Twenty four entries are posted monthly, three are posted quarterly, and three are posted annually.

### Premium System:

On a daily basis, IFA receives applications in the mail from the insurance broker. Applications can also be received through the IFA website from the insured.. Upon receipt of the insurance application, a member of the Underwriting Department will enter the quote into the system. The Company maintains a manual log that lists out each policy number. A motor vehicle report (MVR) and CLUE report is run to check the driving, claims, and credit history of the insured. For those with no credit hits, a proof of residency is requested. Policy premiums are calculated based on the established calculation tables in effect at the date the application is received.

Once the policy is entered into the system, a declaration sheet and ID cards are printed and mailed to the insured. The declaration sheet is also maintained in the system.

For renewal policies, an underwriting questionnaire is mailed out to the insured usually a month before the end of the current policy period. Once received, this questionnaire is used to make changes to the policy as needed. A new declaration sheet is mailed to the insured, as well as a new payment booklet.

A deposit of 16.67% plus a \$5.00 fee is also required for new policies. The insured is given the option to pay the balance in full. If they do so, there is a 4% credit issued to their account. If the insured chooses to pay in installments, payment booklets are mailed out for 5 payments with a \$5.00 installment fee to be charged for each.

### Loss System:

Claims can be received in various ways, including in the mail, internet, or via phone call from the insured, faxes, etc. The insured's broker can also send in an automobile loss notice to notify IFA. These claims are entered into the IFA maintenance site and the Cobol system. Reserves are made based on the current information and can be updated daily in the Cobol system.



The Claims Department obtains the declaration sheet that was in effect at the time of the claim., as well as the insured's payment ledger. Acknowledgement of the claim is also sent to the insured, as well as the lien holder, if applicable.

The Claims Department reviews to ensure all of the proper information has been obtained including police reports, type of claim, coverage and damage assessments. IFA uses the Metropolitan system to obtain police reports for out-of-state and New York.

Tara Eger approves all claims related to automobile damage. Claire Silber approves all payments for bodily injury. Any member of the Claims department can process PIP claims. Claire also does a random review of all claims that come into the office to ensure that all the appropriate procedures were being followed.

Once processed, the turnaround for payment of a claim is usually 7 to 10 days. Checks that are over \$10,000 need to be signed by two of the authorized check signers of the Company. Bodily injury payments can take an extended amount of time and tend to be for larger amounts.

Once a week, Claire performs a check run that is listed by claim number to compare to the Cobol system and to update the reserves for what has already been paid out.

#### Audited Financials

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed by the CPA firm of Amper, Politziner & Mattia, PC and an audited financial/CPA report was filed with the Commissioner of the Department of Banking Insurance. The report contains a synopsis of the major audit activities and results in the corporate area.

#### **TREATMENT OF POLICYHOLDERS**

A review of the Company's complaint log indicated that the Company, in general, maintains its complaint log in accordance with N.J.S.A. 17:29B-4(10), therefore the Company is in compliance with the New Jersey Statute.

#### **STATUTORY DEPOSITS**

The following is a list of deposits as of December 31, 2009 for the states that require the Company to maintain a deposit for the benefit of all policyholders or the policyholders of the particular state.

The securities held are the following and for the indicated states:

<u>State</u>	<u>Type of Security</u>	<u>Statement Value</u>
New Jersey	U.S. Treasury Note	<u>\$120,000</u>
	Total	<u>\$120,000</u>

### **SUBSEQUENT EVENTS**

The following subsequent events were noted:

- 1.) The Company's reinsurance program was transferred from Munich Re to Maiden Re effective January 1, 2010.
- 2.) The Maryland license was put into active status in July of 2010.

**EXHIBIT A****STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AT  
DECEMBER 31, 2009**

	Balance Per Examination <u>12/31/09</u>	Balance Per Company <u>12/31/09</u>	Examination <u>Change</u>	Note <u>Number</u>
<b><u>ASSETS</u></b>				
Bonds	\$42,772,927	\$42,772,927	\$0	1
Common Stocks	18,063,382	18,063,382	0	1
Cash and Short Term Investments	14,016,388	14,016,388	0	
Investment Income Due and Accrued	391,904	391,904	0	
Premiums and Considerations:				
In Course of Collection	3,044,338	3,044,338	0	2
Booked But Deferred & Not Yet Due	7,496,706	7,496,706	0	2
Reinsurance Amounts Recoverable From				
Reinsurers	188,350	188,350	0	
Net Deferred Tax Asset	1,718,587	1,718,587	0	
Guaranty Funds Receivable	293,658	293,658	0	
Electronic Data Processing Equipment	21,211	21,211	0	
Receivables from Parent, Subsidiaries and Affiliates	<u>445,682</u>	<u>445,682</u>	<u>0</u>	
Total Admitted Assets	<u>\$88,453,133</u>	<u>\$88,453,133</u>	<u>\$0</u>	
<b><u>LIABILITIES</u></b>				
Losses	\$35,895,257	\$35,895,257	\$0	3
Loss Adjustment Expenses	7,406,000	7,406,000	0	3
Commissions Payable, Contingent				
Commissions and Other Similar Charges	814,097	814,097	0	
Other Expenses	556,787	556,787	0	
Taxes, Licenses and Fees	144,000	144,000	0	
Unearned Premiums	19,618,417	19,618,417	0	
Ceded Reinsurance Premiums Payable	12,984	12,984	0	
Amounts Withheld or Retained by Company for Account Of Others	<u>0</u>	<u>0</u>	<u>0</u>	
Total Liabilities	<u>\$64,447,542</u>	<u>\$64,447,542</u>	<u>\$0</u>	
<b><u>SURPLUS AND OTHER FUNDS</u></b>				
Common Capital Stock	\$1,834,435	\$1,834,435	\$0	4
Preferred Capital Stock	159,600	159,600	0	4
Gross Paid in and Contributed Surplus	1,125,000	1,125,000	0	4
Unassigned Funds	<u>20,886,556</u>	<u>20,886,556</u>	<u>0</u>	4
Surplus as Regards Policyholders	<u>\$24,005,591</u>	<u>\$24,005,591</u>	<u>\$0</u>	
Total Liabilities and Surplus	<u>\$88,453,133</u>	<u>\$88,453,133</u>	<u>\$0</u>	

**EXHIBIT B**UNDERWRITING AND INVESTMENT EXHIBIT FOR THE THREE-YEAR EXAMINATION PERIOD  
ENDED DECEMBER 31, 2009

	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>UNDERWRITING INCOME</u>			
Premiums Earned	<u>\$34,656,231</u>	<u>\$32,980,638</u>	<u>\$37,056,591</u>
Deductions:			
Losses Incurred	<u>\$24,680,720</u>	<u>\$22,169,652</u>	<u>\$23,663,744</u>
Loss Expenses Incurred	<u>6,197,121</u>	<u>7,142,641</u>	<u>6,157,057</u>
Other Underwriting Expenses Incurred	<u>7,594,756</u>	<u>8,106,034</u>	<u>10,412,143</u>
Total Underwriting Deductions	<u>\$38,472,597</u>	<u>\$37,418,327</u>	<u>\$40,232,944</u>
Net Underwriting Gain or (-) Loss	<u>(\$3,816,366)</u>	<u>(\$4,437,689)</u>	<u>(\$3,176,353)</u>
<u>INVESTMENT INCOME</u>			
Net Investment Income Earned	<u>\$3,474,130</u>	<u>\$2,389,629</u>	<u>\$2,178,123</u>
Net Realized Capital Gain or (Loss)	<u>\$126,818</u>	<u>\$126,671</u>	<u>\$165,396</u>
Net Investment Gain or (Loss)	<u>\$3,600,948</u>	<u>\$2,516,300</u>	<u>\$2,343,519</u>
<u>OTHER INCOME</u>			
Finance and Service Charges Not Included In Premiums	<u>\$756,916</u>	<u>\$650,226</u>	<u>\$811,978</u>
Total Other Income	<u>\$756,916</u>	<u>\$650,226</u>	<u>\$811,978</u>
Dividend to Policyholders	<u>\$0</u>	<u>(\$1,271,163)</u>	<u>(\$20,856)</u>
Net Income Before Federal Income Incurred	<u>\$541,498</u>	<u>(\$1,271,163)</u>	<u>(\$20,856)</u>
Federal Income Taxes Incurred	<u>(\$79,728)</u>	<u>(\$65,254)</u>	<u>\$100,325</u>
Net Income	<u>\$621,226</u>	<u>(\$1,205,909)</u>	<u>(\$121,181)</u>

**EXHIBIT C****CAPITAL AND SURPLUS ACCOUNT FOR PERIOD ENDED  
DECEMBER 31, 2009**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Surplus As Regards Policyholders December 31, Prior Year	<u>\$ 24,663,109</u>	<u>\$ 25,189,996</u>	<u>\$ 23,435,985</u>
Net Income	621,226	(1,205,909)	(121,181)
Change in Net Unrealized Capital Gains or (Losses)	(98,851)	(367,692)	466,276
Change in Net Deferred Income Tax	(76,453)	40,250	113,560
Change in Non-admitted Assets	80,965	(220,660)	110,951
Capital Changes:			
Transferred from Surplus (Stock Dividend)	366,887	0	0
Surplus Adjustments:			
Transfer to Capital (Stock Dividend)	<u>(366,887)</u>	<u>0</u>	<u>0</u>
Change In Surplus as Regards Policyholders For The Year	<u>\$ 526,887</u>	<u>\$ (1,754,011)</u>	<u>\$ 569,606</u>
Surplus As Regards Policyholders December 31, Current Year	<u>\$ 25,189,996</u>	<u>\$ 23,435,985</u>	<u>\$ 24,005,591</u>

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1: Bonds and Stocks**

There are no formal written investment policy guidelines, however the Company's investments are in bonds, stocks and money market accounts. In the prior year, there were significant investments in money market accounts. The Company has established an investment strategy in the current year; the Company reallocated those funds to corporate fixed bonds, Vanguard Funds, Morgan Stanley, and Evercore equities. By moving funds from money market accounts, bonds and stocks will help to improve the interest rate risk. By allocating these funds according to where management believes the greatest rate of return will be. Therefore it is recommended that the Company establish formal Investment Guidelines in the future to be in accordance with N.J.S.A. 17:24-1.1.

It was noted that the Company doesn't have a signed valid custodial agreement with Morgan Stanley. It is recommended that the Company have a signed custodial agreement with Morgan Stanley in the future.

### **Note 2: Premiums and Considerations**

If a premium payment is received before the effective date of the policy the Company debits Cash and credits Accounts Receivable as a contra liability account. IFA does not book an advance premium account. It is recommended that the company should establish an advance premium account for money received before the effective date of the policy.

### **Note 3: Losses and Loss Adjustment Expenses**

The Company reported estimated liabilities as at December 31, 2009 for unpaid losses, net of reinsurance, and unpaid loss adjustment expenses amounting to \$35,895,257 and \$7,406,000 respectively. The unpaid loss reserve included \$11,951,257 for reported losses and a provision for incurred but not reported losses of \$23,944,000.

Based on the analysis performed by the Actuarial Unit of the New Jersey Department of Banking and Insurance Office of Solvency Regulation it was determined that the Company's net reserve was adequate but at the low end of the reasonable limit. The Company's gross reserves were understated by approximately \$4,967,000.

It is again recommended the Company review their reserving methodology and establish reserves to their ultimate values in future annual statements.

#### **Note 4: Capital and Surplus**

##### Common Capital Stock

The outstanding common capital stock of the Company at December 31, 2009 amounted to \$1,834,435 and consisted of 366,887 shares having a par value of \$5.00 per share.

##### Preferred Capital Stock

The Company, as at December 31, 2009, reported an amount of \$159,600 for Preferred Capital Stock which is comprised of 79,800 shares issued and outstanding of 8% preferred stock, Series A, having a par value of \$2.00 per share.

A review of the Company's preferred stock register indicated all 79,800 shares were issued in 1973 to various individuals. The Company stated that the 79,800 shares held by these various individuals were surrendered and reissued to the Company's ultimate parent, Independent Financial Agents.

A review was made of the various documents which the Company utilized to report the preferred capital stock position of the Company. The Company's records indicated that of the 79,800 shares only 69,800 shares were surrendered and reissued to IFA Insurance Services Inc. which is a non-active affiliate entity as stated by the Company's President. The 5,000 shares originally issued to Messrs. Joseph Maresca and another 5,000 shares issued to A.G. Edwards & Sons apparently continue to be held by these two individuals.

##### Gross Paid In and Contributed Surplus

Gross paid in and contributed surplus at December 31, 2009 amounted to \$1,125,000.

##### Unassigned Funds (Surplus)

At December 31, 2009 the Company reported an amount of \$20,886,556 unassigned funds.

## **EXAMINATION RECOMMENDATIONS**

### **Corporate Records**

**Page 13** - It was noted that the By-Laws still indicate the old address of 111 North Avenue West, Cranford, New Jersey. The Company's By-Laws did not reflect the correct address of its current home office located at 14 Walnut Ave, Clark, NJ 07066. It is recommended the Company amend its Corporate records in accordance with N.J.S.A. 17:26-1 so as to update and reflect the Company's proper business address.

**Page 13** - It was also noted that the Company's By-Laws did not reflect the correct number of Directors on the Board. It is recommended that the Company amend its corporate records in accordance with N.J.S.A. 17:26-1 so as to update and reflect the Company's proper number of Board members.

### **Continuity of Operations**

**Page 13** - It is again recommended that the Company formulate a formal comprehensive business continuity/disaster recovery plan which facilitates the periodic backing up of programs, essential documents, records and files, identifies the use of either a hot or cold site, identifies and document basic and critical systems along with formal instructions and procedures on how to establish a temporary system in the event of a disaster.

**Page 13** - It is further again recommended the Company perform a disaster recovery test as to further identify and document essential deficiencies that might exist which could potentially impede the process necessary to establish either a basic or critical system.

### **Bonds and Stocks**

**Page 22** - There are no formal written investment policy guidelines, however the Company's investments are in bonds, stocks and money market accounts. Therefore it is recommended that the Company establish formal Investment Guidelines in the future to be in accordance with N.J.S.A. 17:24-1.1.

**Page 22** - It was noted that the Company doesn't have a signed valid custodial agreement with Morgan Stanley. It is recommended that the Company have a signed custodial agreement with Morgan Stanley in the future.

### **Premiums and Considerations**

**Page 22** - If a premium payment is received before the effective date of the policy the Company debits Cash and credits Accounts Receivable as a contra liability account. IFA does not book an advance premium account. It is recommended that the company should establish an advance premium account for money received before the effective date of the policy.



## **Losses and Loss Adjustment Expenses**

**Page 22** - It is again recommended the Company review their reserving methodology and establish reserves to their ultimate values in future annual statements.

**Loss and Loss Adjustment Expense Reserves-Statement by New Jersey Department of Banking and Insurance Actuary**

I, Boris Privman, FCAS, MAAA, Managing Property and Casualty Actuary for the New Jersey Department of Banking and Insurance, have reviewed the reported loss and loss adjustment expense reserves for the IFA Insurance Company of Clark as of December 31, 2009. Based upon this review the Company's booked gross and net loss reserves should be accepted without adjustments.

Actuarial findings as stated above and in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation.

/S/

Boris Privman-Managing Actuary

**CONCLUSION**

The examination of IFA Insurance Company of Clark, New Jersey was conducted by the undersigned with the assistance of field and office staff and the Actuarial Unit of the New Jersey Department of Banking and Insurance Office of Solvency Regulation.

I would like to take this opportunity to acknowledge the courtesy and assistance extended to the examiners by officers and personnel of the Company throughout the course of this examination.

Respectfully Submitted,

/S/

Daniel J. Fialkowski  
Supervising Insurance Examiner

**IFA Insurance Company**

I, Daniel J. Fialkowski, do solemnly swear that the foregoing report of examination is hereby presented to be a full and true statement of the condition and affairs of the IFA Insurance Company as of December 31, 2009, to the best of my knowledge and belief.

Respectfully submitted,

/S/

Daniel J. Fialkowski, CFE, AIE, FLMI, CPM  
Examiner-In-Charge

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State of New Jersey  
County of Mercer

Subscribed and sworn to before me.  
On this 26<sup>th</sup> day of October 2010.

Thomas B. Walker

/S/

Notary Public of New Jersey