Best's Rating Report

Dealers Assurance Company

Columbus, Ohio

Financial Strength
A M BEST
A– Excellent

A-

Ultimate Parent:
Helios Financial Holdings Corp.

DEALERS ASSURANCE COMPANY

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Addison, TX 75001
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AMB#: 001791 **NAIC#: 16705**
Ultimate Parent#: 059642 **FEIN#: 34-6513705**

BEST'S CREDIT RATING

Best's Financial Strength Rating: A- **u** **Implication**: Positive
Best's Financial Size Category: VII

RECENT DEVELOPMENTS

On September 21, 2017, Industrial Alliance Insurance and Financial Services, Inc. (Industrial Alliance), a public Canadian entity, agreed to acquire DAC for $135 million in cash. The deal is set to close in the fourth quarter of 2017 pending regulatory approval.

RATING RATIONALE

Under Review Rating Rationale: The ratings have been placed under review with positive implications due to the recently announced acquisition of Dealers Assurance Company (DAC) by Industrial Alliance Insurance and Financial Services, Inc. (iA), for $135 million in cash. The acquirer is a public Canadian entity with experience in warranty and life & health lines in the Canadian markets. DAC will be added to iA's portfolio of US companies which, prior to DAC's acquisition, has focused primarily on the life & health segment.

Positive rating action could result at the completion of the announced acquisition of the company. The ratings could be considered for positive enhancement with diversification in the risk profile. The ratings could face downward pressure from declines in capital levels, degrading operating performance, a shift to reliance on investment results (which are historically lower than peers), or stockholder dividend activity that is not supported by net income.

Rating Rationale: These ratings are based on Dealers Assurance Company's (DAC) sustained underwriting and operating profitability, adequate risk-adjusted capitalization, and niche expertise in the vehicle service contract industry. These factors are offset by the high unearned premium leverage resulting from growth in contractual liability policies covering underlying vehicle service contracts. The majority of the company's true risk exposure is off balance sheet, so A.M. Best's review relies upon and considers financial and actuarial information provided by DAC regarding administrator obligors' unearned claims reserves. The outlooks are based upon the expectation for continued profitability and the maintenance of capitalization levels that are commensurate with the current ratings.

The favorable rating attributes are supported by the strengthened balance sheet stemming from the retention of enhanced operating earnings over the recent five-year period and strict collateralization requirements of administrator obligors. DAC also benefits from its association with affiliated vehicle service contract administrators, which collectively generate a significant share of DAC's insurance business.

Factors offsetting the favorable attributes include DAC's single line business model and its inherent exposure to economic fluctuations, reliance on trust accounts to support reinsurance recoverable amounts, and a need to continue to enhance enterprise risk management capabilities and processes.

KEY FINANCIAL INDICATORS ($000)

Year	Net Premiums Written	Pre-tax Operating Income	Total Admitted Assets	Policy-holders' Surplus	Comb. Ratio
2012	11,623	7,401	74,080	45,953	42.8
2013	14,153	7,757	80,715	50,778	42.1
2014	12,019	8,343	86,349	54,392	44.7
2015	14,473	5,951	98,184	56,173	42.2
2016	11,350	8,323	106,512	61,217	34.6

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

BUSINESS PROFILE

Dealers Assurance Company (DAC) is domiciled in Ohio and licensed to write property/casualty insurance in 50 states and the District of Columbia. Their primary business strategy is to write both first dollar and aggregate excess-of-loss contractual liability policies for administrator obligors (AO). These companies sell, service, and pay claims for vehicle service contracts and for service contracts on consumer goods sold to individuals. A primary loss under the excess of loss policy will trigger if and when the amount of aggregate claim reserves established by an AO to pay claims on all service contracts sold is completely eroded. As an additional benefit, the policy provides state-mandated guarantees directly to the consumer in the event the insured fails to timely pay a claim for any reason. DAC is indemnified by the AO should DAC ever be required to pay a direct claim to the consumer. On first dollar policies, DAC cedes the premium to a reinsurer owned by the AO or by automobile dealers through whom the administrator conducts business.

DAC's financial statements reflect the unearned premium from service contracts sold on a dollar one basis and the unearned portion of the aggregate excess-of-loss contractual liability premium. DAC is not required to include unearned claims reserves for aggregate excess-of-loss policies on its financial statements. However, these underlying reserves must be analyzed to properly assess the potential risk that underpricing may have occurred. For example, if unearned claims reserves set aside by AO's proved to be insufficient to pay claims, then DAC may be liable to pay claims once the AO's reserves have been fully depleted. To mitigate this risk, DAC conducts an annual loss reserve review, certified by an actuary, of all reserves maintained by administrator obligors. In addition, AO's and reinsurers are required to hold claims reserves in a trust account and post additional collateral, if necessary.

Each member of DAC's senior management team has over 20 years of insurance experience. The extensive knowledge of the service contract business enables management to ensure contracts are being priced adequately both on a direct and excess-of-loss contractual liability basis. Furthermore, adequate premium per exposure unit is sought through reinsurance or profit sharing programs with producers that encourage pricing discipline. These sharing programs partially alleviate the pressure to lower premiums to obtain new business.

Given DAC's aggregate excess-of-loss contractual liability business, examination of information beyond the scope of the financial statement is necessary for a meaningful risk assessment. As a result, A.M. Best's review relies upon and considers information provided by DAC regarding administrator obligors' unearned claims reserves. A.M. Best will continue to monitor future premium growth and operating performance to ensure that the requisite capital is available to support current and future business expansion.

Territory: The company is licensed in the District of Columbia and all states.

2016 BY-LINE BUSINESS ($000)

	—DPW—		Reinsurance —Prem Assumed—	
Product Line	($000)	(%)	($000)	(%)
Warranty	148,114	93.0	-428	100.0
Oth Liab Occur	11,151	7.0	...	...
All Other	10	0.0	...	...
Total	159,275	100.0	-428	100.0

	Reinsurance —Prem Ceded—		—NPW—		Business Retention
Product Line	($000)	(%)	($000)	(%)	(%)
Warranty	138,752	94.1	8,934	78.7	6.0
Oth Liab Occur	8,746	5.9	2,406	21.2	21.6
All Other	...	...	10	0.1	100.0
Total	147,498	100.0	11,350	100.0	7.1

HISTORY

This company was incorporated on August 2, 1935, as Mahoning Insurance Company and began business the same day. In March 1980, Dealers Alliance Corporation, an Ohio corporation (Alliance), acquired 100% control of Mahoning Insurance Company and on April 11, 1980, changed the name to Dealers Assurance Company (DAC). In January 2004, Alliance was purchased by DAC Financial Holdings, Inc., a Delaware holding company (DAC Holdings). Paid in capital of $13,933,800 million consists of $9,732,810 million of contributed surplus and 2,330 shares of common stock at a par value of $1,803 per share. The company has 3,000 authorized shares.

As of May 15, 2014, Helios Financial Holdings Corp. (Helios) reached 84.7% ownership in DAC Holdings. This was the result of the 100% owner of Helios, James B. Smith, having contributed his 59.6% ownership to Helios and Helios having acquired 25.1% ownership from certain minority shareholders.

On August 8, 2014, in a transaction effective as of July 1, 2014, Helios acquired an additional 13.69% ownership interest in DAC Holdings, bringing its total ownership interest in DAC Holdings to 98.43%. As part of the transaction, DAC Holdings entered into Subscription Agreements with each of the minority shareholders whose common stock was acquired. Under the terms of those Subscription Agreements, a total of 3,450 shares of newly authorized non-voting Series B Non-Voting Preferred Stock were issued to the selling minority shareholders.

On October 24, 2016, DAC Holdings acquired the additional 1.57% interest in DAC Holdings, represented by 1859.625 common shares that had been owned by a minority shareholder. As a result, Helios became the 100% owner of DAC Holdings.

MANAGEMENT

Administration of company affairs is under the direction of James B. Smith, Chairman of the Board; Kristen A. Gruber, President; Edmond E. Eckert, Senior Vice President; Kirk Borchardt, Executive Vice President, Secretary and General Counsel; and Linda M. Toy, Vice President and Chief Financial Officer.

Officers: Chairman of the Board, James B. Smith; President, Kristen A. Gruber; Senior Vice President, Edmond M. Eckert; Executive Vice President, Secretary and General Counsel, Kirk Borchardt; Vice President, Treasurer and Chief Financial Officer, Linda M. Toy.

Directors: Robert R. Bowsher, Edmond M. Eckert, Kristen A. Gruber, Michael T. Rogers, James B. Smith (Chairman), Kelly A. Westlake.

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Balance Sheet
Admitted Assets ($000)

	YE 2016	%
Bonds	$ 72,998	68.5
Preferred stock	3,770	3.5
Common stock	11,533	10.8
Cash and short-term invest	11,002	10.3
Other non-affil inv asset	792	0.7
Real estate, offices	1,779	1.7
Total invested assets	$101,874	95.6
Premium balances	2,656	2.5
Accrued interest	538	0.5
All other assets	1,444	1.4
Total assets	$106,512	100.0

Liabilities & Surplus ($000)

Loss & LAE reserves	$ 156	0.1
Unearned premiums	19,411	18.2
All other liabilities	25,728	24.2
Total liabilities	$ 45,295	42.5
Surplus notes	3,000	2.8
Capital & assigned surplus	13,934	13.1
Unassigned surplus	44,283	41.6
Total policyholders' surplus	$ 61,217	57.5
Total liabilities & surplus	$106,512	100.0

Best's Rating Report

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