

BEST'S RATING REPORT



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AMB #: 001791

NAIC #: 16705

FEIN#: 34-6513705

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Best's Credit Rating Effective Date

March 04, 2020

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Information

- [Best's Credit Rating Methodology](#)
- [Understanding Best's Credit Ratings](#)
- [Market Segment Outlooks](#)

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Dealers Assurance Company

AMB #: 001791 | **NAIC #:** 16705 | **FEIN#:** 34-6513705
Ultimate Parent: AMB # 044206 - iA Financial Corporation Inc.

Best's Credit Ratings

Financial Strength Rating (FSR)

A
Excellent
Outlook: Stable Action: Upgraded

Issuer Credit Rating (ICR)

a
Excellent
Outlook: Stable Action: Upgraded

Assessment Descriptors

Balance Sheet Strength	Very Strong
Operating Performance	Strong
Business Profile	Neutral
Enterprise Risk Management	Appropriate

Rating Rationale

Balance Sheet Strength: **Very Strong**

- Very strong level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) scores at the 99.6% confidence interval.
- Consistent surplus growth through sustainable sources in each of the prior five years.
- Favorable underwriting leverage and cash flow metrics.
- Shift towards a more conservative investment allocation following the acquisition by Industrial Alliance (iA) Financial Group.
- Significant exposure to non-rated producer-owned reinsurance companies (PORCs).

Operating Performance: **Strong**

- Consistently favorable combined and operating ratios that outperform peers.
- Relatively consistent net underwriting income and net investment income yielding favorable pre-tax operating income.
- Total return on equity compares favorably to the industry and peers.

Business Profile: **Neutral**

- The company is a nationally focused insurer with extensive geographic diversification, offset by significant concentration in vehicle service contracts (VSCs) and other warranty products.
- Seasoned leadership has demonstrated a successful business model.
- Dealers Assurance Company (DAC) was successfully acquired by iA Financial Group in January 2018, and is undergoing operational changes to meet performance milestones established by the parent company.

Enterprise Risk Management: **Appropriate**

- Appropriate risk management practices given the relative size and risk profile of the company.
- A more documented risk management framework is strongly enhanced by the parent company.
- High reinsurance risk from non-rated PORCs, offset by required and regularly monitored collateral.
- Access to iA Financial Group's data warehousing and risk management expertise in the Canadian warranty line supports stronger risk management.

Outlook

- The stable outlooks reflect AM Best's expectation that the company will maintain its very strong risk-adjusted capitalization and strong operating performance over the near to medium term.

Rating Drivers

- Positive rating action could result from operational efficiencies and cost savings due to integration into the iA Financial Group family.
- The ratings could face downward pressure from a trend of deteriorating levels of capital, diminishing operating performance, or unsustainable and unprofitable expansion following implementation of growth initiatives.

Credit Analysis

Balance Sheet Strength

Based on Best's Capital Adequacy Ratio (BCAR), DAC's risk-adjusted capital supports its underwriting, investment and credit risks. This level of risk-adjusted capitalization is reflective of the company's sound balance sheet, manageable underwriting leverage, and equity within its unearned premium reserves.

Capitalization

Policyholders' surplus has exceeded \$50.0 million since September, 2013, and exceeds \$82.0 million as of year-end 2019.

Balance Sheet Strength (Continued...)

DAC issued a surplus note in 2004 in the amount of \$3.0 million. Each payment of interest and principal of the surplus note may be made only with the prior approval of the director of insurance of the State of Ohio. The maturity date is May 2034; the surplus note is redeemable in whole or in part beginning May 24, 2009.

Following the acquisition by Industrial Alliance (iA) Financial Group, the company has ceased to routinely issue dividends.

iA has no future plans to reinstate enhanced earnings dividends.

Liquidity

DAC maintains favorable balance sheet liquidity as evidenced by liquidity ratios which exceed those of the composite. Over the last five years, the liquidity position has been enhanced by positive underwriting cash flow driven by stable collection of premium and decreasing commission and expenses paid.

Asset Liability Management - Investments

The company maintains a highly liquid investment portfolio of fixed income securities, comprised of corporate bonds and, to a lesser extent, U.S. government obligations. All of the securities in the company's bond portfolio are investment grade quality.

Following the acquisition by iA Financial Group, the investment portfolio allocation drastically changed with a greater, more conservative allocation towards investment grade fixed income securities and a reduction of the equity securities.

Reserve Adequacy

Consistent with other warranty writers, loss reserve development is not material as the bulk of liabilities and risk is in the unearned premium reserves held by auto warranty administrators to fund latent warranty claims as they develop.

An independent actuary's review indicates a suitable level of equity embedded within these reserves. While the company's exposure to third-party administrators is significant, an actuary conducts unearned claims reserves review for each administrator. All claims reserves are required to be fully collateralized through a trust account or letter of credit and shortfalls are required to be funded.

Reserve development has been relatively favorable on a calendar-year and accident-year basis over the last 10 years, excluding an outlier in 2014 performance. Management has taken action to ensure future incidents are not repeated and reserve developments have since reverted back to the mean.

Operating Performance

DAC continues to generate solid operating results, as evident by the five-year operating ratio and pre-tax return on revenue that exceed those of the warranty composite. Strong earnings performance is derived primarily from annual underwriting gains generated by aggregate excess-of-loss contractual liability policy premium with few corresponding losses.

Investment income generation continues to supplement earnings, though this contribution has moderated in recent years. While strong underwriting cash flow has led to an increased invested asset base, net investment income has previously declined as a result of the reduction in net investment yield driven by the prevailing low interest rate environment.

In 2015 through 2016, the trend in investment income reversed as the company increased its allocation of common and preferred stock. Trends continued to improve even as the company shifted away from equities in 2017 and towards fixed income. Investment income reached \$2.4 million as of 3Q19. Invested assets have increased to \$144M, up from \$130M in 2018.

Looking forward, the company's favorable underwriting and operating performance should continue given the expectation that automobile sales will remain strong over the near-term while the claims associated with the policies the company writes, if any, will be minimal. In addition, management believes that their business is resistant to recession given dealerships' dependence on Finance and Insurance (F&I) sales for profit and the prevalence of used car contracts. Nonetheless, the nature of DAC's business profile leaves the company vulnerable to the effects of downturns in the economy.

iA Financial Group's expertise and data warehouse may lead to improved operating performance through more complex underwriting and pricing initiatives. In addition, DAC may benefit from the use of iA Financial Group's more experienced asset management team.

Business Profile

Dealers Assurance Company (DAC) is domiciled in Ohio and licensed to write property/casualty insurance in all 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.

Ultimate ownership is iA Financial Group, a public Canadian entity, which closed on the acquisition of DAC in January 2018. As part of a larger public organization, DAC may have opportunities to leverage iA Financial Group's available vehicle service contract data, industry experience in the Canadian markets, and added financial flexibility.

Enterprise Risk Management

A formalized ERM program has been formulated and is strongly backed by parent company iA Financial Group. Risk management decision-making, governance, and controls are centralized with the management team. Underwriting and claims functions are delegated to administrators and verified by the company's audit teams. Management is investing in improved technology and tools to enhance oversight of the administrators, including advanced monthly financial reporting, a new data warehouse, and the ability to conduct more in depth analyses. These mechanisms are expected to be fully implemented within a near term period.

The company also has an external party conduct an in-depth actuarial review of the underlying AO reserves.

Reinsurance Summary

The company maintains quota share reinsurance treaties with multiple producer-owned reinsurance companies (PORCs) to cede 100% of warranty premiums. Each PORC has either established a Letter of Credit (LOC) or trust agreement with DAC to collateralize unearned premium; otherwise, DAC holds funds to support unearned premium reserves. The trust/LOC balances are continually monitored by DAC to ensure that available assets are adequate for the runoff of the unearned claims reserves.

Financial Statements

Year End - December 31

Balance Sheet	2019		2018	
	USD (000)	%	USD (000)	%
Cash and Short Term Investments	6,857	4.6	4,761	3.6
Bonds	128,679	87.0	119,124	89.1
Preferred and Common Stock	2,989	2.0	1,840	1.4
Other Invested Assets	4,011	2.7	3,947	3.0
Total Cash and Invested Assets	142,537	96.4	129,672	97.0
Premium Balances	2,690	1.8	1,752	1.3
Net Deferred Tax Asset	318	0.2	433	0.3
Other Assets	2,310	1.6	1,810	1.4
Total Assets	147,856	100.0	133,667	100.0
Loss and Loss Adjustment Expense Reserves:				
Net IBNR Loss Reserves	277	0.2	183	0.1
Total Net Loss and LAE Reserves	277	0.2	183	0.1
Net Unearned Premiums	33,458	22.6	28,002	20.9
Other Liabilities	31,918	21.6	30,758	23.0
Total Liabilities	65,653	44.4	58,944	44.1
Capital Stock	4,201	2.8	4,201	3.1
Paid-In and Contributed Surplus	9,733	6.6	9,733	7.3
Unassigned Surplus	65,269	44.1	57,790	43.2
Other Surplus	3,000	2.0	3,000	2.2
Total Policyholders' Surplus	82,203	55.6	74,723	55.9
Total Liabilities and Surplus	147,856	100.0	133,667	100.0

Source: BestLink® - Best's Financial Suite

Last Update

April 03, 2020

Identifiers

AMB #: 001791

NAIC #: 16705

FEIN #: 34-6513705

Contact Information

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Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Dealers Assurance Company

Operations

Date Incorporated: August 02, 1935 | **Date Commenced:** August 02, 1935

Domiciled: Ohio, United States

Licensed: (Current since 12/22/2015). The company is licensed in the District of Columbia and all states.

Business Type: Property/Casualty
Organization Type: Stock
Marketing Type: Exclusive/Captive Agent
Financial Size: VII (\$50 Million to \$100 Million)

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: 001791 - Dealers Assurance Company

Refer to the [Best's Credit Report for AMB# 001791 - Dealers Assurance Company](#) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

Best's Credit Rating History

AM Best has assigned ratings on this company since 1986. In our opinion, the company has an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

Effective Date	Best's Financial Strength Ratings			Best's Long-Term Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
Current -						
Mar 4, 2020	A	Stable	Upgraded	a	Stable	Upgraded
Feb 21, 2019	A-	Positive	Affirmed	a-	Positive	Affirmed
Feb 16, 2018	A-	Positive	Affirmed	a-	Positive	Affirmed
Oct 6, 2017	A- u	Positive	Under Review	a- u	Positive	Under Review
Nov 30, 2016	A-	Stable	Affirmed	a-	Stable	Affirmed

Management

Administration of company affairs is under the direction of Michael L. Stickney, Managing Director; Kristen A. Gruber, President; Kirk Borchardt, Executive Vice President; Joshua R. Pedelty, Vice President, Chief U.S. Counsel, and Secretary; and Linda M. Toy, Vice President, Treasurer and Chief Financial Officer.

Officers

President: Kristen A. Gruber

EVP and General Counsel: Kirk Borchardt

Vice President, Secretary and General Counsel: Joshua R. Pedelty (U.S)

Vice President, Treasurer and CFO: Linda M. Toy

Managing Director: Michael L. Stickney

Directors

Douglas Carrothers

Marilyn Froelich

Douglas Oksendahl

Shelby L. Peavy

Norman Pepin

Denis Ricard

Michael L. Stickney

Warren Van Genderen

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.

In September 2017, iA Insurance announced its intention to acquire 100% of Helios for \$135 million in cash. The acquisition was completed in January 2018 and the group subsequently became a subsidiary of the iA organization.

On January 23, 2018, Dealers Assurance Company was acquired by iA Insurance.

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, AM Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, AM Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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