REPORT ON EXAMINATION

OF THE

CONSUMERS INSURANCE USA, INC.

MURFREESBORO, TENNESSEE

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Dept. of Commerce & Insurance
Company Examinations

AS OF

DECEMBER 31, 2007

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Murfreesboro, Tennessee
June 17, 2009

Honorable Alfred W. Gross
Chair, Financial Condition Committee
NAIC
Commissioner of Insurance
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable Scott Richardson
Secretary, Southeastern Zone
NAIC
Director of Insurance
South Carolina Department of Insurance
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

Honorable Merle Scheiber
Secretary, Midwestern Zone, NAIC
Director of Insurance
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capital Avenue
Pierre, South Dakota 57501

Honorable Leslie Newman
Commissioner
State of Tennessee
Department of Commerce and
Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioners:

Pursuant to your instructions and in accordance with the Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners, (NAIC), a financial examination and market conduct review has been made concerning the condition and affairs of the

CONSUMERS INSURANCE USA, INC.
MURFREESBORO, TENNESSEE

hereinafter generally referred to as the "Company", and a report thereon is submitted as follows:

SCOPE OF EXAMINATION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee through the Examination Tracking System of the NAIC and commenced on June 30, 2008. The examination was conducted under the association plan of the NAIC by examiners from the State of Tennessee.

The examination was conducted at the Company's office in Murfreesboro, Tennessee where all books and records are located. The period covered by this examination is from January 1, 2003, to the close of business on December 31, 2007, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the NAIC Examiners Handbook.

During the course of examination, assets were verified and valued and liabilities were determined or estimated as of December 31, 2007. The Company's financial condition and its degree of solvency were thereby established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with statutes, to the extent hereinafter set forth.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amounts and potential impact on surplus as regards policyholders. Additionally, an examination of the following items was made:

Company History
Charter and Bylaws
Management and Control
Corporate Records
Affiliated Companies
Fidelity Bond & Insurance
Employee Benefits
Territory & Plan of Operation
Market Conduct Activities
Loss Experience
Reinsurance
Actuarial Review
Statutory Deposits
Commitments and Contingencies
Accounts and Records
Subsequent Events

In the interest of making the examination more efficient, certain audit work performed by the Company's independent auditors was relied on.

Previous Examination Comments and Recommendations:

The previous examination of the Company was made as of December 31, 2002, by examiners of the Tennessee Department of Commerce and Insurance (the Department). The adverse findings and their resolutions are as follows:

Comments:

- At December 31, 2002, the Company's in-force database included policies that were written in 2002 but had effective dates in 2003. The computer system was recognizing these policies as active even though they had future effective dates. Additionally, the system was recognizing renewals as active when the renewal down payment was made even though the renewal had a future effective date. Although the amount of the discrepancy was not material to the examination, the issue was brought to the attention of Company management and a programming change was made to alleviate the discrepancy from happening again.

  As noted above, the Company made a programming change to alleviate the discrepancy.

- At December 31, 2002, the Company's unearned premium database was in error. There were nine policies included in the database which had endorsements prior to year end but the effective dates for the endorsements were in 2003. Although the amount of the discrepancy was not material to the examination, the issue was brought to the attention of Company management and a programming change was made to alleviate this discrepancy in the future.

  As noted above, the Company made a programming change to alleviate the discrepancy.

- The Company's federal income tax return is consolidated with its parent; however, there was no tax allocation agreement in effect at December 31, 2002. The Company was advised to draw up an agreement and submit it the Tennessee Department of Commerce and Insurance in accordance with Tenn. Code Ann. § 56-11-206(a)(2)(D). A Tax Sharing Agreement was executed and submitted on October 27, 2003.

  As noted above, the agreement was submitted to the Department and was approved on December 2, 2003.

- At December 31, 2002, the Company was not a named insured on the fidelity bond coverage carried by its parent. This was corrected effective January 1, 2003.

  Although the Company was added as a named insured in 2003, the fidelity bond in effect at the examination date did not include the Company as a named insured. The Company has again been added as a named insured in 2009.

- At December 31, 2002, the Company's Anti-Fraud Plan did not contain procedures for reporting insurance fraud to appropriate law enforcement and regulatory authorities as required by Tenn. Code Ann. § 56-53-111(a)(1)(D). Prior to completion of the examination, the Anti-Fraud Plan was amended to include said procedures.

As noted above, the Anti-Fraud Plan was amended to include appropriate procedures for reporting fraud to law enforcement.

- On December 31, 2001, the Company's charter was amended to change the par value of its common stock from $1,000 to $2,000 per share; however, a new stock certificate was never issued to the Company's sole owner. Prior to completion of the examination, a new stock certificate was issued.

  As noted above, a new stock certificate was issued showing the correct par value of the common stock. No further changes to par value have been made.

Recommendations:

- The following inaccuracies were found in the Company's 2002 annual statement:
  (a) on Schedule D, on a few occasions, the Company is reporting bond acquisitions on the settlement date instead of the trade date
  (b) note 13B, in the Notes to Financial Statements, states that no dividends were paid in 2002; however, a dividend of $100,000 was paid in 2002
  (c) note 15, in the Notes to Financial Statements, describes an equipment lease that is no longer in effect; additionally, the Company has four equipment leases that are not disclosed
  (d) note 23A, in the Notes to Financial Statements, states that there are reinsurance recoverables from two reinsurers that exceed 3% of surplus; however, it should state that only one reinsurer owes an amount in excess of 3% of surplus
  (e) on Schedule F, the Company lists GMAC Re Corporation as a reinsurer when in fact it should be Motors Insurance Corporation
  (f) on Schedules D and DA, the Company is listing their custodian, AmSouth, in the "Vendor" column when they should be disclosing the name of the broker

  Based on the above inaccuracies, it is recommended that the Company comply with Tenn. Code Ann. § 56-1-501(g) when completing its annual statement to alleviate discrepancies.

  It appears that the Company has taken steps to prevent such errors from occurring in the preparation of its Annual Statement.

- During the course of the examination it was discovered that applications for insurance were being maintained by the independent agents. When a sample of applications was selected to be reviewed, approximately eleven percent of the applications could not be found or had been destroyed.

Therefore, it is recommended that the Company keep the original signed applications for insurance at its office to maintain control over said documents. Additionally, applications should be maintained by the Company at its office pursuant to Tenn. Code Ann. 5 56-1-411(b)(1) and Tenn. Code Ann. § 56-2-104(a)(5).

Although the Company implemented procedures requiring the agents to send electronic copies of applications to the Company for storage, nine percent of the policy files reviewed during this examination did not include a copy of the original application. The Company is not in compliance with this recommendation.

COMPANY HISTORY

The Company was incorporated in Tennessee on August 9, 1994, as a wholly-owned subsidiary of Consumers Insurance Group, Inc. (CIG). The Company remained dormant until it was licensed as a Tennessee property and casualty insurance company on April 21, 1995.

The Company was incorporated as a perpetual for-profit corporation under the provisions of the Tennessee General Corporation Act. Authorized capital stock was 1,000 shares of common capital stock with a par value of $1,000 per share. All shares were held by CIG on April 25, 1995, having been acquired at a purchase price of $2,865 per share. Thus, there was $1,000,000 in common capital stock and $1,865,000 in gross paid in and contributed surplus on the same date.

During February, 1999, CIG received net proceeds of approximately $4,194,000 as a result of a private placement offering of its preferred stock. On February 25, 1999, the Company received $3,870,000 of these proceeds from CIG as additional paid-in surplus. A $242,200 surplus note payable to CIG and executed on June 29, 1998, was paid in full on June 10, 1999. The payoff of this surplus note was approved by the Tennessee Department of Commerce and Insurance on June 2, 1999.

Effective December 12, 2001, the Company's charter was amended and the new authorized capital stock became 1,000 shares of common capital stock with a par value of $2,000 per share.

In September, 2003, CIG borrowed $2,000,000 and contributed $1,980,000 of those funds to the Company as paid-in surplus. Additionally, in October, 2003, CIG made a stock offering which raised approximately $2,148,088 and contributed $1,900,000 of those funds to the Company as paid-in surplus.

At December 31, 2007, the Company's authorized capital stock was 1,000 shares of $2,000 par value common capital stock, of which all 1,000 shares were outstanding.

The Company's development, as taken from Annual Statement filings since the previous examination, is shown in the following table:

Date	Gross Premiums Written	Net Premiums Written	Net Income	Admitted Assets	Total Liabilities	Capital & Surplus
*12/31/02	$20,148,580	$10,816,289	$1,059,555	$16,254,923	$10,576,333	$5,678,589
12/31/03	27,589,199	18,564,051	1,361,820	26,608,569	15,892,948	10,715,622
12/31/04	33,146,302	24,919,570	2,275,950	34,282,829	20,961,716	13,321,112
12/31/05	38,368,343	29,047,474	3,358,997	43,617,499	26,350,796	17,266,703
12/31/06	42,256,770	35,815,462	3,786,702	49,501,676	29,531,718	19,969,959
12/31/07	43,141,440	41,439,686	4,633,312	57,076,743	33,898,526	23,178,217

*previous exam

CHARTER AND BYLAWS

Charter:

The general provisions and powers enumerated in the Company's charter are usual in nature and consistent with corporations of this type. The Company's charter states the purpose for which the corporation is organized as follows:

> "To engage in the business of insurance, writing and issuing policies of insurance, all as allowed by Title 56 of the Tennessee Code Annotated, as the same may hereafter be amended, from time to time and as allowed in any other state, and to engage in any other lawful act or activity for which a Corporation may be organized under the Tennessee Business Corporation Act."

Bylaws:

The bylaws of the Company, as revised on July 31, 2002, are such as are generally found in corporations of this type. They are consistent with the charter and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the directors and the shareholders. The bylaws may be altered or amended by an affirmative vote of two-thirds of the entire Board of Directors or by the shareholders upon a vote of not less than two-thirds of the shares outstanding.

MANAGEMENT AND CONTROL

Management:

Management of the Company is vested in a Board of Directors which is elected annually by the stockholders. The Board of Directors of the Company will consist of not less than four nor more than seven. The duly elected directors serving at December 31, 2007, were as follows:

Name	Address	Occupation
L. W. Legge, Jr.	Cookeville, Tennessee	President, L.W. Legge Agency, Inc. (Insurance Agency)
William J. Wheeler, III	Brentwood, Tennessee	President, Consumers Insurance USA, Inc.
Amanda Cunningham Farnsworth	Nashville, Tennessee	Sr. VP, J.J. B Hilliard, W.L. Lyons, Inc. (Investment Banking)
David A. Sciortino	Nashville, Tennessee	President & CEO of Lakeshore Estates, Inc. (Retirement Community)

The bylaws provide that the Board of Directors, by resolution adopted by a majority of the whole Board, may appoint an Executive Committee consisting of not less than three directors, one of whom shall be designated as Chairman of the Executive Committee. The Board of Directors, by resolutions adopted by a majority of the whole Board, may appoint such other committee or committees as it shall deem advisable and with such functions and duties as the Board may prescribe. During the period under examination, no committees had been established.

The Board of Directors will elect officers of the Company. The Board may choose (but need not choose, except for the offices of President and Secretary) a Chairman of the Board, a President, a Chief Executive Officer, a Chief Operating Officer, a Vice-President or Vice-Presidents, a Secretary, a Treasurer, a Chief Financial Officer, one or more Assistant Secretaries and/or Treasurers and other officers and agents as it shall deem necessary or appropriate. The duly elected officers of the Company at December 31, 2007, were as follows:

Name	**Office Held**
L. W. Legge, Jr.	Chairman
William J. Wheeler, III	President
David A. Sciortino	Secretary
Amanda Cunningham Farnsworth	Treasurer
Dennis Wayne Kunkel	Chief Financial Officer

The Company has no employees of its own. Personnel and services are provided by the Company's parent, CIG, in accordance with a Service Agreement as described in this report under the heading Holding Company Structure.

Directors and officers of the Company are required annually to complete a "Conflict of Interest Disclosure." The examiners reviewed the disclosures completed by the directors and officers with no exceptions noted.

Pecuniary Interest:

A check for compliance with Tenn. Code Ann. §56-3-103 found that no director or officer of the Company had pecuniary interest in the investment or disposition of Company funds.

Control:

At December 31, 2007, 100% of the outstanding shares of the Company were owned by CIG, the Company's parent. The following dividends were paid by the Company during the examination period:

Year	Paid To	Amount
2006	Consumers Insurance Group, Inc.	$1,200,000
2007	Consumers Insurance Group, Inc.	$1,500,000

The above dividends were ordinary dividends that did not require approval.

CORPORATE RECORDS

The minutes of the meetings of the Stockholders and Board of Directors were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that the previous examination report was reviewed by, and all investment transactions were approved by the Board of Directors.

AFFILIATED COMPANIES

An organizational chart of the Company and its parent is attached to this report as Exhibit A. The following agreements between the Company and its parent were in effect at December 31, 2007:

Service Agreement:

The Company entered into a Service Agreement with its parent, CIG, effective January 1, 2002. The agreement automatically renews annually unless terminated by either party. Under the terms of the agreement, CIG will provide to the Company the following services:

- supervise the underwriting, acceptance, and rejection of applications for insurance;
- review qualifications and screen applicants for agents' licenses, appoint and train agents; however, such agents will not be considered agents of CIG;

- prepare and file rates and forms for insurance where such filings are required by law or regulation;
- review, process, adjust claims, arrange for defense when claims cannot be adjusted, and maintain claim files;
- prepare accounting statements in sufficient detail to comply with regulatory and reinsurance contract reporting requirements, and submit invoices to reinsurers;
- prepare quarterly and annual financial and informational statements to be filed with regulators;
- prepare premium tax returns and any regulatory reports as may be necessary;
- arrange for such legal, accounting, actuarial, investment and other professional services as may be reasonably required for the conduct of the business;
- perform such other services as the parties shall from time to time agree upon as being necessary and appropriate supplements to the services, and
- indemnify and defend against any claim, suit or proceeding arising out of any alleged wrong or error to any third party in performing the services required under the agreement.

In consideration of the services provided, the Company compensates CIG quarterly for actual costs incurred in the provision of such services plus a monthly management fee of 0.6% of direct written premium.

Tenn. Code Ann. § 56-11-206(a)(2)(D) states that certain transactions within an insurance holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intent to enter into the transaction at least thirty (30) days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved the transaction within such period. The Service Agreement was filed with the Tennessee Department of Commerce and Insurance on October 1, 2001. It does not appear to have been filed on Form D.

An amendment to the Service Agreement was filed on Form D on December 16, 2003. This amendment changed the fee paid to CIG. It was approved on April 15, 2004. On March 10, 2006 the Company filed another amendment which changed the fee paid to CIG. It was filed on Form D and was approved on June 21, 2006.

Tax Allocation Agreement:

The Company entered into a Tax Sharing Agreement with its parent, CIG, and CIG's subsidiaries, effective October 22, 2003. The agreement specifies that the tax liability of each member shall be allocated in accordance with Section 1.1552-1 (a)(2)(ii) of the Income Tax Regulations. Pursuant to Tenn. Code Ann. § 56-11-206(a)(2)(D), this agreement was filed with the Tennessee Department of Commerce and Insurance on Form D on October 27, 2003, and was approved on December 2, 2003.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2007, the Company was not a named insured under any fidelity bond or other insurance policies or coverages.

Prior to the completion of this examination, the Company was added to the Fidelity Bond carried by CIG as a named insured. This fidelity coverage exceeds the minimum suggested by the NAIC Financial Condition Examiners' Handbook for a Company of its size. It is written by an insurer that is licensed to do business in Tennessee.

EMPLOYEE BENEFITS

The Company has no employees of its own. Personnel and services are provided by the Company's parent, CIG, in accordance with a Service Agreement as described in this report under the heading Affiliated Companies.

TERRITORY

As of December 31, 2007, the Company was licensed to transact business in Alabama, Arkansas, Colorado, Illinois, Indiana, Iowa, Kentucky, Mississippi, Missouri, South Carolina, Tennessee and Virginia. Certificates of authority for the various jurisdictions were reviewed and found to be valid.

The figures below show the premiums by state in which the Company operated for the year ending December 31, 2007, as reported in Schedule T of the Company's Annual Statement:

State	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid	Finance and Service Charges not Included in Premiums
Alabama	$ 1,204,543	$ 900,511	$ 346,464	$ 572,047	$ 228,305	$ 87,889
Arkansas	1,742,069	1,276,525	222,726	316,348	112,220	76,451
Colorado	-	-	-	-	-	-
Illinois	3,294,621	3,189,862	1,985,300	2,354,078	927,110	329,089
Indiana	-	-	-	-	-	-
Iowa	-	-	-	-	-	-
Kentucky	-	-	-	-	-	-
Mississippi	-	-	-	-	-	-
Missouri	10,818,814	11,197,904	5,235,990	5,340,975	2,717,289	796,174
South Carolina	-	-	-	-	-	-
Tennessee	23,083,384	23,622,068	12,262,614	12,737,955	7,224,460	2,550,100
Virginia	2,998,012	2,805,113	1,416,550	1,932,418	877,342	390,858
Totals	$ 43,141,443	$ 42,991,983	$ 21,469,644	$ 23,253,821	$ 12,086,726	$ 4,230,561

PLAN OF OPERATION

The Company operates principally in the commercial and private passenger automobile markets. The Company's products are sold by a force of approximately 600 independent agencies. The Company does not have any Managing General Agents or Third Party Administrators.

The Company offers three tiers of private passenger automobile coverage; Standard, Preferred, and Elite. These tiers offer different maximum limits and rates based on the insured's driving record, type of automobile, etc. All private passenger policies are written for a six-month term.

The Company's commercial program includes Business Automobile, Auto Dealer, Garage Repair, Property, and Towing coverages. All commercial policies are written for a twelve-month term.

MARKET CONDUCT ACTIVITIES

A market conduct review of the Company was made concurrently with the financial condition examination. The following areas were covered by this review:

Advertising:

The Company maintains a website where one can find general information about the Company; find agents; request quotes and find links to various resources. The Company's printed advertising consists of brochures and pamphlets used for marketing by the independent agencies.

Underwriting:

Principal underwriting functions are performed by the contracted independent agencies. These functions include risk selection and modification, risk classification, and rate determination based on the Company's written underwriting guidelines. The Company's Web-based system allows the agencies to issue policy declaration pages and identification cards directly to the insured.

Rates and Policy Forms:

The Company uses ISO policy forms and endorsements. It appears that the Company's policy forms and rates are properly filed.

Complaints:

The Company has written procedures on how complaints are to be handled. A review of complaints made to regulatory authorities regarding the Company indicates a conscientious effort by the Company to equitably fulfill its obligations and to resolve policyholder complaints in a timely manner.

Claims:

All claims are handled by the Company's parent, CIG, pursuant to a Service Agreement described in this report under the heading Affiliated Companies. CIG maintains a comprehensive claims procedure manual. This manual was reviewed and no exceptions were noted. A sample of open and closed claims reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were promptly made upon receipt of proper evidence of the Company's liability.

Privacy Policy:

The Company has a written "Notice of Privacy policy" which complies with Tenn. Comp. R. & Regs. § 0780-1-72.

LOSS EXPERIENCE

The Company's loss experience for the period under examination, as reported in its Annual Statements, is as follows:

Year	Losses Incurred	Loss Expenses Incurred	Premiums Earned	Loss Ratio
2003	$ 10,539,841	$1,450,152	$ 16,562,995	72.4%
2004	12,108,183	2,032,838	21,942,240	64.4%
2005	14,750,617	2,372,669	27,302,724	62.7%
2006	18,305,192	2,845,161	32,861,110	64.4%
2007	21,879,690	3,759,972	39,690,369	64.6%
Total	$ 77,583,523	$12,460,792	$138,359,438	65.1%

REINSURANCE

The Company routinely cedes reinsurance with other insurance companies. All material reinsurance agreements were reviewed and found to contain all of the standard clauses. There were no treaties with any unusual provisions and all treaties provide for transfer of risk. The following is a summary of the current reinsurance agreements at December 31, 2007:

(1)
Type: Multi-Line Excess of Loss
Reinsurer: Motors Insurance Corp.

Business Covered:	Commercial and Private Passenger Automobile Bodily Injury and Property Damage Liability (including Personal Injury Protection, Medical Payments and Uninsured/Underinsured Motorists). Commercial and Private Passenger Automobile Physical Damage, Dealer Open Lot Coverage, Garage Coverage (including Garage Liability, Garage Keepers Coverage and Garage Physical Damage Coverage) and Commercial Property including Fire and Allied Lines.
Retention and Limit:	<u>First Excess Layer:</u> Coverage A - Casualty: \$200,000 excess of \$100,000 retention, plus an annual aggregate deductible equal to 0.5% of subject premium Coverage B - Property: \$200,000 excess of \$100,000 retention, plus an annual aggregate deductible equal to 0.5% of subject premium net loss each risk. Limit of \$400,000 all risks in any one occurrence. Coverage C - Combined Casualty and Property: \$100,000 excess of \$100,000 retention, plus an annual aggregate deductible equal to 0.5% of subject premium ultimate net loss each occurrence. Coverages A and B inure to the benefit of Coverage C. <u>Second Excess Layer:</u> Coverage A - Casualty: \$700,000 excess of \$300,000 ultimate net loss each occurrence Coverage B - Property: \$700,000 excess of \$300,000 ultimate net loss each risk. Limit of \$1,400,000 all risks in any one occurrence.
Premium:	First Layer – 1.65% of Gross Earned Premium Income Second Layer – 1.65% of Gross Earned Premium Income Annual minimum deposit premium of \$792,345 for each layer.
Term:	Continuous effective January 1, 2000. May be terminated at the end of any calendar year with 90 days prior notice.

(2)

Type:	Catastrophe Excess of Loss
Reinsurer:	Various Lloyds Syndicates
Business Covered:	Commercial and Private Passenger Automobile Physical Damage and Commercial Multiple Peril.

Retention and Limit:

Layer	Company Retention Ultimate net loss in respect of each loss	Reinsurers' Limit Ultimate net loss in respect of each loss
First Excess	$300,000	97.5% of $500,000
Second Excess	$800,000	97.5% of $1,200,000
Third Excess	$2,000,000	97.5% of $4,000,000

Premium: First Layer: 1.297% of net written premium income subject to a deposit premium of $124,313. Minimum premium of $99,450.
Second Layer: 1.221% of net written premium income subject to a deposit premium of $117,000. Minimum premium of $93,600.
Third Layer: 1.221% of net written premium income subject to a deposit premium of $117,000. Minimum premium of $93,600.

Term: Effective January 1, 2007 to January 1, 2008

Reinsurers/Participation:

Reinsurer	**Layer 1st Excess**	**Layer 2nd Excess**	**1st Cat.**	**2nd Cat.**	**3rd Cat.**
Motors Insurance Corp.	100.0%	100.0%			
Arch Reinsurance Co.			25.0%	25.0%	25.0%
Lloyd's of London Syndicate 2001			25.0%	20.0%	20.0%
Lloyd's of London Syndicate 0958			20.0%	13.0%	13.0%
Lloyd's of London Syndicate 0780			10.0%	6.0%	6.0%
Lloyd's of London Syndicate 1301			10.0%	6.0%	6.0%
Lloyd's of London Syndicate 4444				20.0%	20.0%
Amlin Underwriting, Ltd.			10.0%	10.0%	10.0%

As of December 31, 2007, all companies, with the exception of Amlin Underwriting, Ltd. are authorized. There is no commission equity because all agreements are written on an excess of loss basis.

INDEPENDENT ACTUARIAL REVIEW

An independent actuarial review was performed by Lewis & Ellis, Inc. This included a review of the actuarial reports prepared by the Company's actuarial consultants and an assessment of the reasonableness of the methodologies and assumptions used in the projection of ultimate loss and loss adjustment expenses. Based on the results of the review and an evaluation of key ratios, a range of loss and loss adjustment expense reserve estimates was prepared and compared to the Company's recorded loss and loss adjustment expense reserves at December 31, 2007 with no material differences noted.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2007:

Deposits Which Are Not for the Benefit of all Policyholders:

State Where Deposit is Held	Description	Par Value	Statement Value	Market Value
Missouri	Sikeston, MO Elec. Rev. Bond, 5.0%, Due 6/1/11	$600,000	$615,010	$603,420
South Carolina	Tenn. State Series A Gen. Oblig., 5%, Due 5/1/09	135,000	137,081	137,254
Virginia	Collierville, TN Gen. Impt. Bond, 3.6%, Due 3/1/11	215,000	215,000	217,062
Total deposits which are not for the benefit of all policyholders:		$950,000	$967,091	$957,736

Deposits Which are for the Benefit of All Policyholders:

State Where Deposit is Held	Description	Par Value	Statement Value	Market Value
Tennessee	Tenn. Energy Acq. Corp. Bond, 4.5%, Due 9/1/08	$ 205,000	$ 207,030	$ 206,913
	Chattanooga, TN Gen. Oblig. Bond, 5%, Due 3/1/11	550,000	566,672	567,743
	Hamilton County, TN, Series A Bond, 4.5%, Due 8/1/08	150,000	150,882	151,349
	Knox County, TN, Health, Ed. & Hsg. Bond, 3.5%, Due 10/1/08	185,000	185,757	185,361
	Metro Gov't, Nashville, TN Bond, 4.625%, Due 11/1/11	200,000	207,164	210,418
	Shelby County, TN Series A Bond, 5%, Due 4/1/11	110,000	116,134	116,200
	Williamson County, TN, Rural Sch. Bond, 4.7%, Due 5/1/10	105,000	105,647	105,595
Total deposits which are for the benefit of all policyholders:		$1,505,000	$1,539,286	$1,543,579
Total Deposits		$2,455,000	$2,491,367	$2,510,415

COMMITMENTS AND CONTINGENCIES

The Company leases office equipment under various noncancelable operating lease agreements that expire at various times through January, 2009. Lease expense for this equipment in 2007 was $79,512. A five year lease for office space was entered into on

March 1, 2005. Rent expense for 2007 was $21,875 per month. The Company has the option to extend for an additional term at a rate to be negotiated at the time of renewal.

The future minimum aggregate rental commitments are as follows:

Year	Office Space	Equipment	Total
2008	$ 273,750	$ 92,587	$ 336,337
2009	273,750	87,333	361,083
2010	286,500	87,333	373,833
2011	286,500	-	286,500
Total	$ 1,120,500	$ 267,253	$ 1,387,753

From the examination data made available, it appears that the only legal proceedings in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

ACCOUNTS AND RECORDS

During the course of the examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings. General ledger trial balances were reconciled with copies of annual statements for the years 2003, 2004, 2005, 2006 and 2007.

The Company is in compliance with Tenn. Comp. R. & Regs. § 0780-1-46 with respect to the custody of its securities. Additionally, the Company is in compliance with Risk-Based Capital requirements.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company is audited annually by Crowe Chizek and Company, LLC., Brentwood, Tennessee. This firm has been performing the annual audit of the Company since 2000 and appears to meet the requirements of Tenn. Comp. R. & Reg. § 0780-1-65.-07.

SUBSEQUENT EVENTS

Subsequent to year-end, the Company declared a dividend in the amount of $1,500,000 to be paid in 2008.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income as of December 31, 2007, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 30,704,704	$137,077	$ 30,567,627
Cash and short-term investments	11,769,065		11,769,065
Subtotal cash and invested assets	42,473,769	137,077	42,336,692
Investment income due and accrued	575,839		575,839
Uncollected premiums and agents balances in the course of collection	369,093		369,093
Deferred premiums, agents balances and installments not yet due	12,114,795		12,114,795
Amounts recoverable from reinsurers	202,563		202,563
Other amounts receivable under reinsurance contracts	225,404		225,404
Net deferred tax asset	1,228,175		1,228,175
Receivable from parent, subsidiaries and affiliates	152,303	152,303	-
Totals	$57,368,941	$292,198	$57,076,743

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$ 11,215,671
Loss adjustment expenses		1,020,924
Commissions payable, contingent commissions and other similar charges		3,575,301
Other expenses		887,865
Taxes, licenses and fees (excluding federal and foreign taxes)		184,138
Current federal and foreign income taxes		604,496
Unearned premiums		16,125,471
Advance premiums		271,639
Amounts withheld or retained by company for account of others		13,021
Total liabilities		$33,898,526
Common capital stock	2,000,000	
Gross paid in and contributed surplus	8,615,000	
Unassigned funds (surplus)	12,563,217	
Surplus as regards policyholders		$ 23,178,217
Totals		$57,076,743

STATEMENT OF INCOME

UNDERWRITING INCOME		
Premiums earned		$39,690,369
Deductions		
Losses incurred	21,879,690	
Loss expenses incurred	3,759,972	
Other underwriting expenses incurred	12,915,721	
Total underwriting deductions		$38,555,384
Net underwriting gain		$ 1,134,985
INVESTMENT INCOME		
Net investment income earned	1,663,5470	
Net realized capital gains or (losses)	19,065	
Net investment gain or (loss)		$ 1,682,612
OTHER INCOME		
Net gain (loss) from agents' balances charged off	(36,810)	
Finance and service charges not included with premiums	4,230,561	
Total other income		$ 4,193,750
Net income before federal and foreign income taxes		7,011,348
Federal and foreign income taxes incurred		2,378,036
Net income		$ 4,663,312

CAPITAL AND SURPLUS ACCOUNT

GAINS AND LOSSES IN SURPLUS

Surplus as regards policyholders, December 31 previous year		$19,969,958
Net income	4,663,312	
Change in net deferred income tax	150,268	
Change in non-admitted assets	(75,321)	
Dividends to stockholders	(1,500,000)	
Net change in surplus for the year		3,208,259
Surplus as regards policyholders, December 31 current year		$23,178,217

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

	2003	2004	2005	2006	2007
Surplus as regards policyholders, December 31 previous year	$5,678,590	$10,715,623	$13,321,112	$17,266,703	$19,969,958
Net income	1,361,820	2,275,950	3,358,997	3,786,702	4,663,312
Change in net deferred income tax	76,872	221,406	147,762	191,281	150,268
Change in non-admitted assets	4,712	(357)	(141,791)	(74,728)	(75,321)
Change in paid-in capital	3,880,000	-	-	-	-
Dividends to stockholders	-	-	-	(1,200,000)	(1,500,000)
Aggregate write-ins for gains and losses in surplus	(286,371)	108,491	580,623	-	-
Net change for the year	5,037,033	2,605,490	3,945,591	2,703,255	3,208,259
Surplus as regards policyholders, December 31 current year	$10,715,623	$13,321,113	$17,266,703	$19,969,958	$23,178,217

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on surplus funds as regards policyholders, either singly or in the aggregate.

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

No schedule or comment is applicable. All noted differences were below the threshold established for examination purposes.

COMMENTS AND RECOMMENDATIONS

Comments:

- At December 31, 2007, the Company had no Fidelity Bond or any other insurance coverage of its own and was not a named insured on any of the policies issued to its parent, CIG.

  Prior to the completion of this examination, the Company was added to the Fidelity Bond carried by CIG as a named insured. This fidelity coverage exceeds the minimum suggested by the NAIC Financial Condition Examiners' Handbook for a Company of its size.

Recommendations:

- During the course of the examination it was discovered that applications for insurance were being maintained by the independent agents. When a sample of applications was selected to be reviewed, approximately 9% of the applications could not be found or had been destroyed. This issue was also noted during the prior examination.

  It is noted that effective May 1, 2007, the Company implemented a policy to send three separate notifications to the agent when a new policy is written and a copy of the application has not been forwarded to the Company. If a copy of the application is not received by the Company following the third notification, the policy is canceled.

  Pursuant to Tenn. Code Ann. 56-1-411(b)(1) and Tenn. Code Ann. 56-2-104(a)(5), books and records should be maintained by the Company in this state in a manner accessible for the purpose of examination. It is recommended that the Company abide by its own internal policy by maintaining copies of all signed applications for insurance at its office to maintain control over said documents.

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that as of December 31, 2007, the Company had net admitted assets of $57,076,743 and liabilities, exclusive of capital, of $33,898,526. Thus, there existed for the additional protection of the policyholders, the amount of $23,178,217 in the form of paid-up capital, gross paid-in and contributed surplus and unassigned funds (surplus).

The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged. In addition to the undersigned, Mr. Gregory Wilson, FCAS, MAAA of Lewis & Ellis, Inc. participated in the work of this examination.

Respectfully submitted,

Rhonda Bowling-Black
Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Mike Bacon
Mike Bacon
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

David N. Bobo
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Consumers Insurance USA, Inc. dated June 17, 2009, and made as of December 31, 2007, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

17th day of June, 2009

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 05/22/2010

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

ORGANIZATIONAL CHART