DEALERS ASSURANCE COMPANY

Domiciliary Address: 41 South High Street, Suite 1700, Columbus, Ohio 43215 United States
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AMB #: 001791 **NAIC #:** 16705 **FEIN #:** 34-6513705

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AM BEST
A
EXCELLENT
Financial Strength Rating

Best's Credit Rating Effective Date
June 23, 2023

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Information

Best's Credit Rating Methodology

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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)	Issuer Credit Rating (ICR)
A	**a**
Excellent	**Excellent**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

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

Rating Rationale

Balance Sheet Strength: Strong

- 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 levels of operating performance.
- Favorable underwriting leverage and cash flow metrics.
- 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

- Strong earnings performance is derived primarily from annual underwriting gains generated by aggregate excess-of-loss contractual liability policy premium with few corresponding losses.
- Consistently favorable combined and operating ratios that outperform peers.
- Overall muted volatility in comparison to the composite shows the relative consistency of the operating performance of Dealers Assurance Company (DAC).

Business Profile: Neutral

- DAC is a nationally focused insurer with geographic diversification, offset by significant concentration in vehicle service contracts (VSCs) and other warranty products.
- The company operates in the highly competitive U.S. auto warranty market with a modest overall market share.
- Seasoned leadership has demonstrated a successful business model.

Enterprise Risk Management: Appropriate

- Appropriate risk management practices given the relative size and risk profile of the company.
- Integrated into parent company for ERM, strategy, data capabilities, and investment management.
- 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.

Rating Lift/Drag

- DAC provides a diversification benefit, being iA Financial Group's only US P&C company. iA Financial Group intends to expand its US footprint, and DAC is key to that objective.
- Strong level of integration; for example, integration of key functions with its parent that include accounting and finance, legal, information technology and human resources.
- Enhanced risk-taking capabilities due to integration into iA Financial Group's framework.
- iA Financial Group has historically demonstrated an ability to provide capital support to its subsidiaries.

Outlook

- The stable outlooks reflect AM Best's expectation that DAC will maintain its strong balance sheet strength and strong operating performance over the near to medium term.

Rating Drivers

- A sustained increase in risk-adjusted capital as measured by BCAR could result in a favorable rating action.
- The ratings could face downward pressure from a trend of deteriorating levels of capital or unsustainable and unprofitable expansion following implementation of growth initiatives.
- The ratings could face downward pressure if the company experienced sustained losses in operating performance.
- Deterioration of the parent company's credit profile could negatively impact Dealers Assurance Company's ratings.

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 exceeds $116 million as of year-end 2022. DAC has paid no dividends since the sale of the company in 2017 to Industrial Alliance (iA) with no plan to pay dividends in the future. Surplus growth is due largely to consistent underwriting income supplemented by investment income. The investment yield has improved since the acquisition by iA.

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. Financial leverage is minimal at the operating company level.

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. Nearly all 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 toward investment grade fixed income securities and a reduction of 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 claim 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 over the last ten years, excluding outliers in 2013, 2014 and 2019 on a calendar-year basis, and 2014, 2018 and 2019 on an accident-year basis. Management has taken action to ensure future incidents are not repeated and reserve developments have since reverted to the mean.

Operating Performance

The company's underwriting performance continues to perform favorably compared to its peers and industry. On a five-year basis, loss ratios are well below peers, though underwriting expense ratios are more in line with peers, both results are driven by the company's niche market business model. The company's results generally compare favorably to the warranty composite on the underwriting and operating results, but lag on the investment performance.

The combined ratio has trended favorably over the five-year period. iA Financial Group's expertise and data warehouse may lead to improved operating performance through more complex underwriting and pricing initiatives.

Investment income generation continues to supplement earnings and this contribution has been increasing in recent years. Strong underwriting cash flow has led to an increased invested asset base. The allocation of the investment portfolio has changed remarkably since the acquisition by iA whereby the composition of debt increased while total stocks and R/E and other ST investments decreased in 2018. The bond portfolio continues to consist mostly of investment grade securities. This conservative allocation has led to DAC under-performing compared to the composite on investment yield over the most recent five-year period, despite improvement to the investment yield.

Operating Performance (Continued...)

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.

DAC continues to grow as evidenced by the strong increase of net premiums written year over year (up 11.2% in 2022). Significant premium growth over the most recent five-year period is largely due to acquisition of IAS in 2020.

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.

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 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.

Management feels that DAC’s competitive position has shown continued improvement through the acquisition of IAS, creating scale, synergies, and accelerated growth for the combined organization. The company made a big effort to further integrate Southwest Re and IAS into operations which is now complete. The competitive environment present in this hyper-fragmented market has led to several mergers and acquisitions, which has affected DAC's retention of AO's. Demand remains from new AO's which DAC believes will replace previously lost AO programs. These market trends impacted the company’s preference for affiliated business. DAC notes CLIP pricing is competitive in the marketplace and in some cases, DAC has reduced fees for historically solid programs.

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 DAC on behalf of the 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 claim 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, including ERM, ORM, and Decision frameworks, has been implemented and is strongly backed by the 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.

Enterprise Risk Management (Continued...)

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.

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

Environmental, Social & Governance

DAC has not highlighted any ESG initiatives at this time. Exposure to climate risk is expected to be modest and impacted by catastrophic weather events that result in claims on vehicles or consumer products.

Rating Lift/Drag

DAC provides a diversification benefit, being iA's only US P&C company. iA intends to expand its US footprint and DAC is key to that objective.

DAC benefits from iA's years of experience in the Canadian VSC market, extensive database and managerial expertise. In addition, back-office functionality (specifically investments) has been moved to Quebec, reducing redundancies, and streamlining costs. The support of iA's balance sheet (CAD87.4 billion of assets as of year-end 2022) and ERM structure have further amplified DACs ability to take and understand risks. Overall, DAC is well integrated into iA.

iA has a history of supporting its subsidiaries. This is evidenced by their support of DAC's sister company, IAPG, in order to support their balance sheet during a period of growth. Management has made it clear that iA stands ready to provide capital to DAC if needed.

Financial Statements

	3-Months		Year End - December 31			
	2023		2022		2021	
Balance Sheet	**USD (000)**	**%**	**USD (000)**	**%**	**USD (000)**	**%**
Cash and Short Term Investments	85,709	24.5	86,661	25.1	54,446	18.6
Bonds	222,806	63.8	220,546	63.9	206,684	70.6
Preferred and Common Stock	20,485	5.9	19,648	5.7	14,894	5.1
Other Invested Assets	3,535	1.0	3,677	1.1	3,869	1.3
Total Cash and Invested Assets	332,534	95.2	330,533	95.7	279,893	95.6
Premium Balances	10,748	3.1	9,489	2.7	8,398	2.9
Net Deferred Tax Asset	2,623	0.8	2,545	0.7	1,915	0.7
Other Assets	3,543	1.0	2,812	0.8	2,503	0.9
Total Assets	349,448	100.0	345,379	100.0	292,709	100.0
Loss and Loss Adjustment Expense Reserves:						
Net IBNR Loss Reserves*	996	0.3	996	0.3	940	0.3
Total Net Loss and LAE Reserves	996	0.3	996	0.3	940	0.3
Net Unearned Premiums	96,763	27.7	94,111	27.2	75,439	25.8
Other Liabilities	135,923	38.9	133,976	38.8	110,215	37.7
Total Liabilities	233,682	66.9	229,084	66.3	186,594	63.7
Capital Stock	4,201	1.2	4,201	1.2	4,201	1.4
Paid-In and Contributed Surplus	9,733	2.8	9,733	2.8	9,733	3.3
Unassigned Surplus	98,832	28.3	99,361	28.8	89,181	30.5
Other Surplus	3,000	0.9	3,000	0.9	3,000	1.0
Total Policyholders' Surplus	115,766	33.1	116,295	33.7	106,115	36.3
Total Liabilities and Surplus	349,448	100.0	345,379	100.0	292,709	100.0

Source: BestLink® - Best's Financial Suite

Last Update
June 23, 2023

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:	VIII ($100 Million to $250 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:

	Best's Financial Strength Ratings			Best's Long-Term Issuer Credit Ratings		
Effective Date	**Rating**	**Outlook**	**Action**	**Rating**	**Outlook**	**Action**
Current - Jun 23, 2023	**A**	**Stable**	**Affirmed**	**a**	**Stable**	**Affirmed**
May 5, 2022	A	Stable	Affirmed	a	Stable	Affirmed
Apr 16, 2021	A	Stable	Affirmed	a	Stable	Affirmed
Mar 4, 2020	A	Stable	Upgraded	a	Stable	Upgraded
Feb 21, 2019	A-	Positive	Affirmed	a-	Positive	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 and Chief Legal Counsel; Joshua R. Pedelty, Vice President, Chief U.S. Counsel, and Corporate 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 Chief Legal Officer: Joshua R. Pedelty
Vice President, Treasurer and CFO: Linda M. Toy
Managing Director: Michael L. Stickney

Directors

Douglas Carrothers
Yvon Charest
Marilyn Froelich
Douglas Oksendahl
Shelby L. Peavy
Normand Pépin
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, Helios 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, Industrial Alliance Insurance and Financial Services Inc. (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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