

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
ACE Insurance Company of the Midwest )  
120 North 9<sup>th</sup> Street )  
Richmond, Indiana 47374 )

Examination of: **ACE Insurance Company of the Midwest**

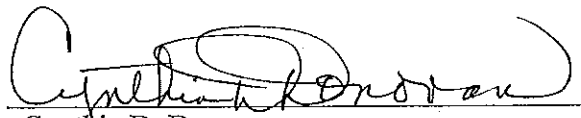
**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of ACE Insurance Company of the Midwest, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of ACE Insurance of the Midwest shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

8/4/2016  
Date

  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0062 2966**

STATE OF INDIANA )  
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COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
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ACE Insurance Company of the Midwest )  
120 North 9<sup>th</sup> Street )  
Richmond, Indiana 47374 )

Examination of: **ACE Insurance Company of the Midwest**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the ACE Insurance Company of the Midwest (hereinafter "Company") for the time period January 1, 2010 through December 31, 2014.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on March 10, 2016.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on June 15, 2016 and was received by the Company on June 17, 2016.

On July 27, 2016, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

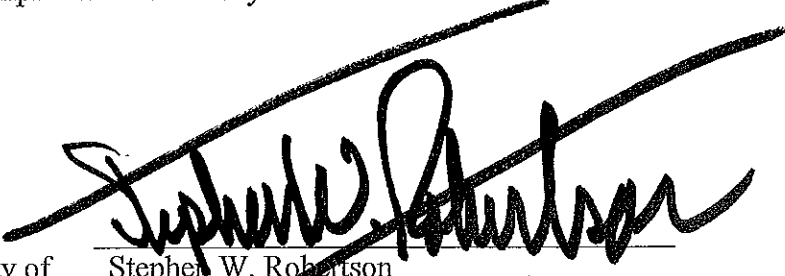
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2014.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 4 day of August, 2016.


  
Stephen W. Robertson  
Insurance Commissioner

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

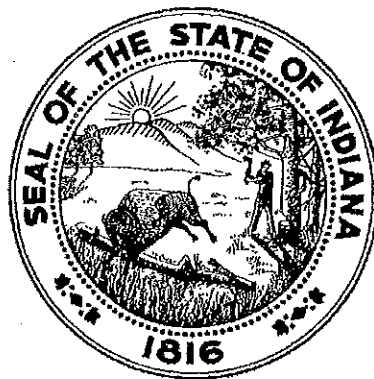
Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A handwritten signature in black ink, appearing to read "Michael D. ...". The signature is written in a cursive style and is located at the bottom of the page.

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**ACE INSURANCE COMPANY OF THE MIDWEST**  
NAIC Co. CODE 26417  
NAIC GROUP CODE 0626

As of  
December 31, 2014



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# STATE OF INDIANA

# IDOI

MICHAEL R. PENCE, Governor

**Indiana Department of Insurance**

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

March 10, 2016

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3811, an examination has been made of the affairs and financial condition of:

**ACE Insurance Company of the Midwest  
120 North 9<sup>th</sup> Street  
Richmond, Indiana 47374**

hereinafter referred to as the "Company", or "ACE", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Philadelphia, Pennsylvania.

The Report of Examination, reflecting the status of the Company as of December 31, 2014, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

CONSUMER SERVICES  
(317) 232-2395  
1-800-622-4461

EXAMINATIONS/FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

COMPANY RECORDS  
(317) 232-5692

STATE HEALTH INSURANCE PROGRAM  
1-800-332-4674

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2009. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2010 through December 31, 2014, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and records of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. There were no examination adjustments identified during the examination.

This examination report includes significant findings of fact, as mentioned in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

The examination of the Pennsylvania domestic insurance companies of ACE Limited (Limited) was called by the Pennsylvania Insurance Department (PID) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The PID served as the lead state on the examination, and the California Department of Insurance, Georgia Office of Insurance and Safety Fire Commissioner, Illinois Department of Insurance, INDOI, Iowa Department of Insurance, and New Jersey Department of Banking and Insurance served as participants.

Risk and Regulatory Consulting, LLC actuarial staff provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2014. The actuarial review covering ACE was performed by Lisa Chanzit, FCAS, MAAA, ARM, and Anne Kelly, FCAS, MAAA.

## HISTORY

The Company was incorporated as Aetna Insurance Company of the Midwest on June 2, 1972, under the laws of the state of Indiana, and commenced business on July 17, 1972. The Company's name was changed to Cigna Insurance Company of the Midwest on December 31, 1987. The Company's present name was adopted on December 31, 1999. The Company is a member of Limited's domestic property and casualty group. The Company is a wholly-owned subsidiary of ACE Property and Casualty Insurance Company (ACE P&C), which is a wholly-owned subsidiary of INA Holdings Corporation. The Company's ultimate parent is Limited (Switzerland).



Beginning in 1999, the Company participates in an agreement with an affiliated company, ACE American Insurance Company (ACE American), whereby the Company cedes 90% of its underwriting activity, excluding unallocated loss adjustment and other underwriting expense.

### CAPITAL AND SURPLUS

ACE P&C owned 100% of the Company's issued and outstanding stock as of the examination date. There were 500,000 authorized shares of common stock with a par value of \$10 per share and 200,000 shares issued and outstanding throughout the examination period.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in the states of Florida, Indiana, and Louisiana. The Company writes auto physical damage, homeowners, inland marine, other liability, private passenger auto, and lines to individuals through approximately one-hundred fifteen (115) agencies and independent broker-dealers. In 2014, the Company wrote direct premiums totaling \$27,853,726, of which more than 97% was written the state of Florida.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2014	\$ 71,964,873	\$ 8,941,128	\$ 63,023,745	\$ 2,680,101	\$ 2,316,445
2013	69,056,279	8,355,393	60,700,886	2,386,742	2,089,215
2012	65,353,859	6,710,608	58,643,251	1,934,233	2,065,793
2011	62,344,712	5,796,175	56,548,537	1,239,032	1,663,402
2010	58,575,544	3,710,006	54,865,538	545,508	1,637,470

The increasing growth in premiums earned is predominantly homeowners business written in Florida through ACE Private Risk Services, which provides specialty coverage to affluent individuals and families in North America. Invested assets are the largest asset of the Company and have increased 12% throughout the examination period, to \$59.5 million. Surplus increased by 18.8%, primarily as a result of on-going underwriting and investment income. Liabilities have increased 506.1% throughout the examination period to \$8.9 million as of December 31, 2014, primarily as a result of unearned premium reserves and ceded reinsurance premium payable resulting from the Company writing homeowners and auto coverages in Florida and Louisiana, beginning in 2009.

### MANAGEMENT AND CONTROL

#### Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of no less than five (5) and no more than twenty-one (21) directors. At least one (1) of the directors must be a resident of Indiana. The shareholders, at each annual meeting, elect the members of the Board. The following is a listing of persons serving as directors at December 31, 2014, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
John Alfieri Neshanic Station, New Jersey	Division President ACE USA Regional Operations
Mary Boyd Whitehouse Station, New Jersey	Division President ACE Private Risk Services
Caroline Clouser Princeton, New Jersey	Executive Vice President Medical Risk and Life Services
James English Newtown, Pennsylvania	Chief Operations Officer Westchester Fire Insurance Company
Catherine Fabbitti Brooklyn, New York	Executive Vice President and Director Client Services/Operations ACE Risk Management
Joseph Fisher Philadelphia, Pennsylvania	Chief Financial Officer ACE North America
Bruce Kessler Atlanta, Georgia	Senior Vice President, ACE Group Division President, ACE Westchester
David Lupica Alpharetta, Georgia	Division President ACE Commercial Risk Services
John Lupica Newtown, Pennsylvania	Vice Chairman, ACE Limited/ACE Group Chairman, Insurance -North America
Christopher Maleno Manhasset, New York	Senior Vice President, ACE Group Division President, ACE USA
Matthew Merna Mendham, New Jersey	President ACE Capital Title Reinsurance Company
Paul O'Connell Princeton, New Jersey	Executive Vice President, Chief Actuary Global Property and Casualty, ACE Group
Douglas Poetzsch Doylestown, Pennsylvania	Executive Vice President, ACE North American Claims ACE American Insurance Company
Kevin Rampe New Hope, Pennsylvania	Global Corporate Officer and General Counsel ACE American Insurance Company
Carolyn Scheiben Richmond, Indiana	Assistant Vice President, Operations ACE USA
Deborah Stalker Landenberg, Pennsylvania	Deputy General Counsel ACE Group
Edward Zaccaria New Hope, Pennsylvania	President, Global Underwriting Group Insurance Company of North America

## Officers

The Bylaws state that the elected officers of the Company shall consist of a President and a Secretary, and may include a Chairman of the Board. The Board may also elect one (1) or more Vice Presidents, one (1) or more Assistant Secretaries, a Treasurer, and one (1) or more Assistant Treasurers. In addition, the Board may also choose a second individual to act as Secretary of the Company for a limited purpose. Each officer shall hold office until the first Board meeting after the annual meeting of shareholders next succeeding his election. The following is a list of key officers and their respective titles as of December 31, 2014:

<u>Name</u>	<u>Office</u>
John Lupica	Chairman of the Board and President
Rebecca Collins	Secretary
Joseph Fisher	Treasurer
John Alfieri	Executive Vice President
Ross Bertossi	Executive Vice President
Mary Boyd	Executive Vice President
Caroline Clouser	Executive Vice President
Robert Courtemanche	Executive Vice President
James English	Executive Vice President
Catherine Fabbitti	Executive Vice President
Bruce Kessler	Executive Vice President
David Lupica	Executive Vice President
Christopher Maleno	Executive Vice President
Matthew Merna	Executive Vice President
Douglas Poetzsch	Executive Vice President
Kevin Rampe	Executive Vice President
Henry Schramm II	Executive Vice President
Deborah Stalker	Executive Vice President
Jose Vasquez	Executive Vice President
Edward Zaccaria	Executive Vice President
John Taylor	Senior Vice President
Paul O'Connell	Chief Actuary

## **CONFLICT OF INTEREST**

Directors and officers are required to review and sign Conflict of Interest statements annually. Due to the significant number of directors within Limited, the coordinated examination team reviewed a sample of completed Conflict of Interest Statements for five (5) officers and/or directors as of December 31, 2014. All five (5) statements were reviewed and signed and no conflicts were reported.

## **OATH OF OFFICE**

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2014.

## CORPORATE RECORDS

### Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

### Bylaws

Article VIII of the Bylaws were amended March 23, 2010 to provide, wherever possible, consistent indemnification provisions for the Limited group of companies by adding a provision prohibiting retroactive repeal or modification of indemnification and removing references to indemnification of persons serving subsidiaries or affiliates of Limited or other companies unrelated to Limited.

### Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

The committee meeting minutes of the Company's ultimate parent, Limited, were reviewed for the examination period, and through the fieldwork date, for the following committees: Audit Committee, Compensation Committee, Executive Committee, Investment Committee, Nominating & Governance Committee, and Risk & Finance Committee.

## AFFILIATED COMPANIES

### Organizational Structure

The following abbreviated organizational chart shows the Company's parent and affiliated companies as of December 31, 2014:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
ACE Limited		Switzerland
INA Holdings Corporation		Delaware
ACE Property and Casualty Insurance Company	20699	PA
ACE Fire Underwriters Insurance Company	20702	PA
Atlantic Employers Insurance Company	38938	NJ
<b>ACE Insurance Company of the Midwest</b>	<b>26417</b>	<b>IN</b>

### Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

#### *Lending and Borrowing Agreement*

Effective January 30, 1995, the Company had a Lending and Borrowing Agreement with any affiliated company participating in any intercompany reinsurance agreement, to lend to each other up to an aggregate amount of \$150,000,000 outstanding at any one (1) time and to borrow from each other up to an aggregate amount of \$150,000,000 outstanding at any one (1) time.

*Accounts Receivable Sale Agreement*

Effective May 1, 2008, and as amended January 1, 2015, and March 1, 2015, an Accounts Receivable Sale Agreement was entered into by and among ACE American, the Company, and certain affiliated insurance companies (collectively, the Sellers) and an affiliated service company, Recovery Services International, Inc., (Purchaser). Under the terms of the agreement, the Sellers will sell to Purchaser certain of their premium accounts receivables. In 2014, \$7,135 was recognized as expenses under this agreement.

*Brand Management Trademark License Agreement*

Effective January 1, 2010, and as amended January 1, 2012, and March 1, 2015, the Company entered into a Brand Management Trademark License Agreement with Limited. A royalty fee will be paid to Limited, as the owner of trademarks and services marks as set forth in Exhibit A to the agreement, which grants the Company non-exclusive right to use the licensed marks in connection with the products and services for which the licensed marks are registered and in all advertising and promotions. The annual license or royalty fee is described in Exhibit B to the agreement. The January 2012 amendment replaced the prior Exhibit B. The March 2015 amendment makes a slight change to Exhibit A, which updates the list of "house marks" to which the royalty applies. For 2014, \$45,125 was paid to Limited under the agreement.

*Acquisition Agreement*

On July 2, 1999, pursuant to the terms of an Acquisition Agreement by and among CIGNA Corporation, CIGNA Holdings, Inc., and Limited dated January 11, 1999, Limited acquired certain assets and companies of the Property and Casualty division of CIGNA Corporation. ACE INA Holdings, Inc. allocated corporate overhead expenses of approximately \$85,576,647 to its affiliated and subsidiary domestic insurance companies for 2014. The allocation to the Company for 2014 was \$3,973,569.

*Intercompany Allocation Agreement*

Effective January 1, 2008, and amended January 1, 2011, January 1, 2012, and December 31, 2012, an Intercompany Allocation Agreement was entered into among ACE American, the Company, and other affiliated companies with respect to participation in shared reinsurance agreements. The agreement provides for a protocol for the allocation of reinsurance premium and in the event of a covered loss, the internal allocation of reinsurance recoveries due under the reinsurance agreements.

*Service Agreement*

Effective December 31, 1995, and as amended January 1, 1999, January 1, 2007, and December 31, 2007, Century Indemnity Company (Century), along with ACE American, the Company, and other affiliates entered into a Service Agreement whereby Century provides all services required to adjust major claims, with respect to the collection of reinsurance recoverable, including without limitation, accounting, management, statistical, and other administrative services including actuarial, auditing, data processing, litigation, and personnel services. In 2014, \$2,002 was allocated to the Company for these services.

Effective December 31, 1995, and as amended January 1, 1999, December 31, 2007, December 1, 2011, and December 31, 2012, ACE American along with the Company and other affiliates entered into a Service Agreement whereby ACE American provides all services as are necessary for the continuing insurance and reinsurance operations of the Company and the other affiliates, including, without limitation, accounting, management, statistical, underwriting and other administrative services, including actuarial, auditing, data processing, litigation, and personnel services. In 2014, \$7,855,927 was allocated for these services.

#### *Investment Advisory Agreement*

Effective January 1, 2001, and as amended January 1, 2011, December 1, 2011, and December 31, 2012, an Investment Advisory Agreement was entered into by and among the Company and certain of its affiliated insurers (collectively, the Client) with ACE Asset Management Inc., (ACE Asset). ACE Asset assists with the evaluation and selection of Client's investment advisors and monitors the performance, compliance, and risk profile of Client's portfolio. In 2014, \$10,660 was paid for these services.

#### *Settlement of Intercompany Obligations Agreement*

Effective September 1, 2007, and executed on April 8, 2009, and amended on January 1, 2010, January 1, 2011, December 1, 2011, and December 31, 2012, a Settlement of Intercompany Obligations Agreement was entered into by and among the Company and other affiliated companies as outlined in the Schedule of Parties (the Participants) attached to the agreement. The agreement provides for the periodic settlement of certain intercompany obligations of each party to the agreement to certain other affiliated parties thereto on a net basis by setting off the amounts of such obligations owed by Participants against the amount of such obligations receivable by other Participants and paying in cash the remaining outstanding such obligations of the Participants which are net debtors in respect to such obligations, to the Participants which are net creditors in respect of such obligations, with the result that each such participant shall have received or paid the amount of cash which would have been received or paid by it, if each such obligation had been paid in cash by the obligor thereof to the obligee.

#### *Master Claims Service Agreement*

Effective November 1, 2009, amended September 20, 2010, January 1, 2011, January 1, 2013, August 13, 2013, and November 1, 2014, a Master Claims Service Agreement was entered into by and among the Company and various ACE P&C Group companies (ACE companies), and ESIS, Inc., (ESIS). ESIS is a licensed third party claims administrator retained by the ACE companies to provide claims adjusting services in accordance with policies issued by one (1) or more of the ACE companies to those consumers. The September 2013 amendment applied only to those insurer parties licensed to write workers' compensation insurance in Oregon and the Company was not a party to the amendment. The November 2014 amendment, approved by the INDOI on December 30, 2014, amends the agreement to add language necessary to comply with Pennsylvania's new regulations concerning service agreements, and to add Agri General Insurance Company (Agri), an affiliate, as party to the agreement. In 2014, \$3,459,575 was allocated to the Company for these services.

#### *SIU Service and Support Agreement*

Effective August 12, 2010, amended January 1, 2011, and March 19, 2015, a SIU Service and Support Agreement was entered into by and between the Company, various of its affiliated insurers (ACE companies) identified in Exhibit A of the agreement and ESIS. Where ESIS is the third-party claims administrator handling claims under policies issued by the ACE companies or where there is no third-party claims administrator involved on policies issued by the ACE companies, the ACE companies have delegated to ESIS their obligations to investigate potentially fraudulent claim activity and to report potentially fraudulent claim activity to governmental authorities as required by law or required fraud plan. In consideration for the provision of the above services by ESIS, the Company agrees to pay a yearly service fee ranging between \$750,000 to \$1,000,000 based on the Company's utilization of the above services. Amendment 2, which added Agri as a party to the agreement and language necessary to comply with the new Pennsylvania regulations, was approved by the INDOI on March 11, 2015. In 2014, \$812,684 was allocated for these services.

#### *Agency Agreement*

Effective May 16, 2013, and amended August 16, 2013, the Company and certain of its affiliated property and casualty insurance companies (the Insurers) entered into an agreement with NewMarkets Insurance Agency, Inc., (NewMarkets), an affiliated insurance agency. Pursuant to the agreement, NewMarkets acts as a wholesale agent for the Insurers, in accordance with the authority granted to NewMarkets from time to time. NewMarkets charges commission to the Insurers and also allocates costs to each of the Insurers for certain segments of business, pursuant to the agreement. In 2014, \$89,345 was paid under the Agreement.

*Amended and Restated Tax Allocation Agreement*

Effective January 1, 2012, and amended December 31, 2012, January 1, 2014, and February 18, 2015, ACE Group Holdings (Parent), ACE INA, ACE US Holdings, and certain of their affiliates (the ACE Subsidiaries) entered into an Amended and Restated Tax Allocation Agreement (the Tax Allocation Agreement). ACE INA, ACE US, and the ACE Subsidiaries are hereinafter collectively referred to as (the Members). Under the Tax Allocation Agreement, each party contributes its fair and equitable share to the federal income taxes payable by the Members and pays federal income taxes on a consolidated basis. Effective, January 1, 2014, Combined Insurance Company of America, Combined Life Insurance Company of New York (CLICNY), VOL Properties Corporation, and Employee Benefits Communications, Inc., were added as parties through Adoption Agreements. Amendment 2, approved by the INDOI on September 9, 2014, applies only to CLICNY and the Parent and was added effective January 1, 2014, to include provisions in compliance with New York law. Amendment 3, approved by the INDOI on December 29, 2014, was added effective February 8, 2015 to include provisions in compliance with Pennsylvania law.

**FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Federal Insurance Company. The bond has an aggregate coverage limit of \$10,000,000 and a single loss coverage limit of \$10,000,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

**PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

There were no pension, stock ownership, or insurance plans reported by the Company as of December 31, 2014.

**STATUTORY AND SPECIAL DEPOSITS**

The Company reported the following statutory and special deposits at December 31, 2014:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Deposits for the Benefit of All Policyholders:		
Indiana	\$ 115,779	\$ 113,532
All Other Special Deposits:		
Florida	210,274	213,203
Louisiana	105,137	106,602
Total Deposits	<u>\$ 431,190</u>	<u>\$ 433,337</u>

**REINSURANCE**

Reinsurance Intermediaries

Reinsurance intermediaries utilized by various ACE companies include: Aon Re, Inc., Guy Carpenter and Company, Inc., Willis, Benfield, Inc., and JLT Re Solutions, Inc. All are licensed by the INDOI as required by IC 27-6-9-18 and ACE companies have written authorizations in place as required by IC 27-6-9-18. However IC 27-6-9-18 requires that these written authorizations between the reinsurance intermediary and the insurer they represent contain certain provisions as specified in the statute. The written authorizations that ACE companies have in place with their reinsurance intermediaries is not in compliance with all of the specified provisions required by IC 27-6-9-18.

It is recommended that the Company amend or replace the written authorizations with their reinsurance intermediaries to be compliant with the requirements of IC 27-6-9-18. See the **Other Significant Issues** section of this Report of Examination.

#### Ceded Reinsurance

Effective January 1, 1999, the Company and ACE American (the Reinsurer) entered into a Quota Share Agreement. Pursuant to the agreement, the Reinsurer obligates itself to accept as reinsurance of the Company and the Company obligates itself to cede to the Reinsurer 90% of the Company's Net Liability under all policies issued by the Company and 100% of that portion of the risk under any single policy, after giving effect to the reinsurance under subparagraph above, which exceeds 10% of the Company's policyholder surplus as of December 31 immediately preceding the effective date of such policy. In addition, if at any time, the Company's capital and surplus would be less than the greater of 200% of the authorized control level of risk based capital or the minimum capital and surplus required by statute, the Company obligates itself to cede to the Reinsurer such additional Net Liability of the Company, as would restore the Company's capital and surplus above such level, but not in excess of 100% of the Company's Net Liability.

Effective December 31, 1995, and as amended January 1, 2011, the Company along with certain other companies (collectively referred to as the Reinsured Companies) entered into a reinsurance agreement with Century whereby Century desires to provide reinsurance to the Reinsured Companies for all general liability policies issued by the Reinsured Companies with the inception dates prior to January 1, 1987. As of December 31, 2014, the total amount of liabilities ceded by the Company under this agreement was \$6,231.

#### Assumed Reinsurance

The Company assumes no reinsurance.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2013 and December 31, 2014, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2010 through December 31, 2014, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.



ACE INSURANCE COMPANY OF THE MIDWEST

Assets

As of December 31, 2014

	Per Examination*
Bonds	\$ 57,915,882
Cash, cash equivalents and short-term investments	1,575,564
Subtotals, cash and invested assets	59,491,446
Investment income due and accrued	385,449
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	1,455,249
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,383,299
Reinsurance:	
Amounts recoverable from reinsurers	2,192,525
Net deferred tax asset	96,601
Receivables from parent, subsidiaries and affiliates	3,960,304
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	71,964,873
<b>TOTALS</b>	<b>\$ 71,964,873</b>

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\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

ACE INSURANCE COMPANY OF THE MIDWEST  
Liabilities, Surplus and Other Funds  
As of December 31, 2014

	Per Examination *
Losses	\$ 806,221
Loss adjustment expenses	727,110
Taxes, licenses and fees	100,907
Current federal and foreign income taxes	290,899
Unearned premiums	1,255,241
Ceded reinsurance premiums payable (net of ceding commissions)	5,758,425
Payable to parent, subsidiaries and affiliates	2,325
Total liabilities	8,941,128
Common capital stock	2,000,000
Gross paid in and contributed surplus	10,000,000
Unassigned funds (surplus)	51,023,745
Surplus as regards policyholders	63,023,745
TOTALS	\$ 71,964,873

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\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

ACE INSURANCE COMPANY OF THE MIDWEST  
Statement of Income  
For the Year Ended December 31, 2014

	Per Examination*
<b>UNDERWRITING INCOME</b>	
Premiums earned	\$ 2,680,101
<b>DEDUCTIONS</b>	
Losses incurred	828,850
Loss adjustment expenses incurred	983,813
Other underwriting expenses incurred	(902,565)
Total underwriting deductions	910,098
Net underwriting gain (loss)	1,770,003
<b>INVESTMENT INCOME</b>	
Net investment income earned	1,714,356
Net realized capital gains (losses) less capital gains tax	(20,914)
Net investment gain (loss)	1,693,442
<b>OTHER INCOME</b>	
Aggregate write-ins for miscellaneous income	(43,000)
Total other income	(43,000)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,420,445
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,420,445
Federal and foreign income taxes incurred	1,104,000
Net income	\$ 2,316,445

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

ACE INSURANCE COMPANY OF THE MIDWEST  
Capital and Surplus Account Reconciliation

	2014	2013	2012	2011	2010
Surplus as regards policyholders, December 31 prior year	\$ 60,700,886	\$ 58,643,251	\$ 56,548,537	\$ 54,865,538	\$ 53,040,126
Net income	2,316,445	2,089,215	2,065,793	1,663,402	1,637,470
Change in net unrealized capital gains or (losses) less capital gains tax	-	(24,618)	1,956	1,259	4,035
Change in net deferred income tax	6,965	(16,909)	11,078	29,232	24,156
Change in nonadmitted assets	(551)	12,547	15,887	(15,176)	159,334
Cumulative effect of changes in accounting principles	-	(2,600)	6,586	-	-
Aggregate write-ins for gains and losses in surplus	-	-	(6,586)	4,282	417
Change in surplus as regards policyholders for the year	2,322,859	2,057,635	2,094,714	1,682,999	1,825,412
Surplus as regards policyholders, December 31 current year	<u>\$ 63,023,745</u>	<u>\$ 60,700,886</u>	<u>\$ 58,643,251</u>	<u>\$ 56,548,537</u>	<u>\$ 54,865,538</u>

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2011, based on the results of this examination.

## OTHER SIGNIFICANT ISSUES

Reinsurance intermediaries utilized by ACE companies include: Aon Re, Inc., Guy Carpenter and Company, Inc., Willis, Benfield, Inc., and JLT Re Solutions, Inc. All are licensed by the INDOI and ACE companies have written authorizations in place as required by IC 27-6-9-18. However, IC 27-6-9-18 requires that the written authorization between the reinsurance intermediary and the insurer they represent contain certain provisions as specified in the statute. The written authorizations that ACE companies have in place with their reinsurance intermediaries are not in compliance with all of the specified provisions required by IC 27-6-9-18.

It is recommended that the Company amend or replace the written authorizations with their reinsurance intermediaries to be compliant with the requirements of IC 27-6-9-18.

## SUBSEQUENT EVENTS

The following is a summary of the significant subsequent events that occurred after the examination date of December 31, 2014:

ACE acquired The Chubb Corporation (Chubb) for approximately \$28 billion on July 1, 2015. Chubb will continue to operate under its name while the combined company transitions to operate under the Chubb name globally. The combined company will remain a growth company with complementary products, distribution, and customer segments, a shared commitment to underwriting discipline and outstanding claims service, and substantially increased data to drive new, profitable growth opportunities in both developed and developing markets around the world. As of December 31, 2014, on an aggregate basis, the combined company had total shareholders' equity of nearly \$46 billion and cash, investments, and other assets of \$150 billion. This acquisition was finalized on January 14, 2016.



AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Risk and Regulatory Consulting, LLC actuarial specialists, Lisa Chanzit, Mike Dubin, Patricia Matson, Stephan Donk, and Dave Wolfe working closely with Melissa Greiner, P&C Actuary, Pennsylvania Insurance Department, performed an examination of ACE Insurance Company of the Midwest as of December 31, 2014.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of ACE Insurance Company of the Midwest as of December 31, 2014, as determined by the undersigned.

Paul Ellis  
Paul Ellis, CPA, CFE, AIB, FLMI  
Noble Consulting Services, Inc.

State of: Indiana  
County of: Marion

On this 2nd day of August, 2016, before me personally appeared, Paul Ellis, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: 9/8/2017 Darcy L. Shawver  
Notary Public  
Darcy L. Shawver

