

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

IN THE MATTER OF:)
)
American Inter-Fidelity Exchange)
9223 Broadway, Suite A)
Merrillville, IN 46410)

Examination of American Inter-Fidelity Exchange

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 American Inter-Fidelity Exchange, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 1, 2015, 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 American Inter-Fidelity Exchange 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.

11/16/15
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0046 8823

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Merrillville, IN 46410)

Examination of American Inter-Fidelity Exchange

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the American Inter-Fidelity Exchange (hereinafter "Company") for the time period January 1, 2009 through December 31, 2013.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on May 29, 2015.

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 1, 2015 and was received by the Company on June 4, 2015.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the American Inter-Fidelity Exchange as of December 31, 2013.
2. That the Examiner's Recommendations are reasonable and necessary in order for the American Inter-Fidelity Exchange to comply with the laws of the State of Indiana.

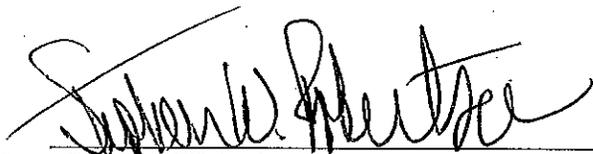
Based on the FINDINGS, the Commissioner does hereby ORDER:

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, 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. 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 16th day of
November, 2015.



Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

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.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

AMERICAN INTER-FIDELITY EXCHANGE
NAIC COMPANY CODE 40088

As of

December 31, 2013

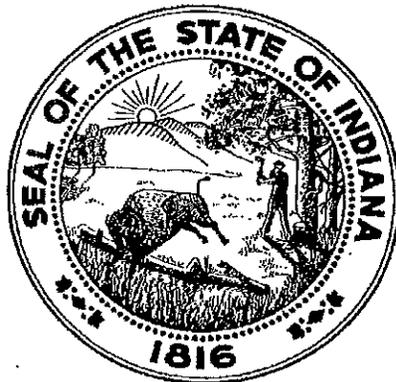


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May 29, 2015

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 3838, an examination has been made of the affairs and financial condition of:

American Inter-Fidelity Exchange
9223 Broadway, Suite A
Merrillville, Indiana, 46410

an Indiana domestic reciprocal inter-insurance exchange hereinafter referred to as the "Company." The examination was conducted at the offices of the Company's Attorney-In-Fact American Inter-Fidelity Corporation (AIFC) located at 9223 Broadway, Suite A, Merrillville, Indiana 46410.

The Report of Examination, showing the status of the Company as of December 31, 2013, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2008. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2009 through December 31, 2013, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by BDO USA, LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The actuarial firm of Merlinos & Associates, Inc. was appointed by the INDOI to conduct a review of the Company's Loss Reserves and Loss Adjustment Expenses as of December 31, 2013.

In accordance with the 2013 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was incorporated on September 10, 1981 under the laws of the State of Indiana as a reciprocal insurer providing coverage to its founding subscribers, a select group of commercial auto carriers. In 1988, the Company became registered as a risk retention group (RRG) in Indiana pursuant to Indiana Code (IC) 27-7-10-13 and shortly thereafter began writing liability insurance coverage throughout the country to unaffiliated motor carriers. Upon its conversion to an RRG, the property lines of business were picked up by the Company's wholly-owned subsidiary, Indiana Truckers Exchange (ITE).

On March 23, 1994, the Company was placed into rehabilitation by the INDOI. The INDOI issued an order terminating rehabilitation effective March 5, 2002. The Company entered into a Consent Order of Supervision with the INDOI, effective for a period of three (3) years from January 1, 2001 through December 31, 2004. Subsequent to the expiration of the Consent Order on December 31, 2004, the Company entered into a Post-Consent Order Agreement whereby the INDOI agreed to amend the Company's Certificate of Authority changing the Company's status from an RRG to a reciprocal. The Company is no longer operating under any regulatory restrictions.

CAPITAL AND SURPLUS

The Company is owned by its subscribers and as such, has no authorized, issued, or outstanding common stock.

As of December 31, 2013, the Company had \$17,371,422 in surplus. Of this amount, \$7,890,031 was reported in Unassigned Funds in the Annual Statement. The balance identified as Gross Paid in and Contributed Surplus accounts was \$9,481,391.

The Company has not allocated surplus to individual subscribers as stipulated under the Attorney-in-Fact Agreement. The Company should determine the appropriate methodology for allocation of the surplus of the Company among its members. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

TERRITORY AND PLAN OF OPERATION

The Company is a licensed reciprocal insurer domiciled in Indiana. Historically, the Company limited business to a small group of long-term subscribers that it had experience with, as well as companies affiliated with this select group. During 2012, the Company expanded its business to outside subscribers, and that trend has increased. The Company plans on continuing its expansion into select target market states in the Midwest, South, and Southeast and is uncertain what level of underwriting activity, if any, will take place in those states.

The Company writes commercial auto liability, commercial auto physical damage, non-trucking liability, excess auto liability cargo (inland marine), and general liability insurance coverages in the interstate trucking industry and its products are distributed by independent agents. In 2013, the Company started writing general liability insurance and surety coverage for brokers. The 2013 Annual Statement shows the Company is licensed to write business in Georgia, Illinois, Indiana, Missouri, North Carolina, Oregon, Pennsylvania, South Carolina, Tennessee, and Texas. In 2013, the largest percentages of direct premiums written were from Indiana (47%) and Illinois (35%).

On September 15, 2011, the Company received a letter from the INDOI which stated that the Department will not be able to approve the proposed conversion to an RRG. The South Carolina certificate of authority issued on June 17, 2013, states that the Company is an RRG. The Company is a reciprocal insurer and should not have a certificate of authority in South Carolina as an RRG. In 2013, the direct written premium in South Carolina was \$544,712. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

GROWTH OF THE COMPANY

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

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Premiums	
				Earned	Net Income (Loss)
2013	\$40,310,686	\$22,939,264	\$17,371,422	\$18,202,654	\$1,032,302
2012	26,393,519	10,600,428	15,793,091	6,918,562	1,506,296
2011	23,753,118	9,079,594	14,673,524	4,584,727	567,120
2010	23,374,234	8,529,735	14,844,500	4,586,030	1,209,060
2009	22,317,291	9,115,717	13,201,574	4,188,956	1,320,689

LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Company for the period under examination. The amounts were compiled from the Company's filed Annual Statements and from examination results:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Loss and Loss Adjustment Expense Ratio</u>	<u>Combined Ratio</u>
2013	\$ 18,202,654	\$ 11,934,493	\$ 5,589,066	65.56%	96.27%
2012	6,918,562	3,324,860	2,504,870	48.06%	84.26%
2011	4,584,727	3,275,993	1,454,723	71.45%	103.18%
2010	4,586,030	2,640,349	1,637,257	57.57%	93.27%
2009	4,188,956	897,441	2,145,592	21.42%	72.64%

The Company's net premiums earned increased significantly from 2012 to 2013. In 2013, net premiums earned were \$18,202,654 compared to \$6,918,562 in 2012. This increase was primarily due to the Company's Midwest, South and Southeast geographic expansion in 2012 and 2013. The Company reported an underwriting profit in four (4) of the five (5) years covered by this examination, and reported an underwriting loss of \$145,989 in 2011.

MANAGEMENT AND CONTROL

Directors

The Company's Articles of Incorporation provide that the initial Board of Directors shall be composed of three (3) members. The number of directors may be from time to time fixed by the Bylaws of the Corporation at any time. The Company's Bylaws specify the Board of Directors shall consist of three (3) members who shall be elected annually by a majority of the shares represented at the annual meeting of the shareholders. Such directors shall hold office until the next annual meeting. The following is a listing of six (6) persons serving as directors as of December 31, 2013:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Harold E. Antonson Valparaiso, Indiana	Chief Financial Officer US 1 Industries, Inc.
Gage M. Blue Mountain Pleasant, South Carolina	General Manager Carolina National Logistics, Inc.
Michael E. Kibler Valparaiso, Indiana	Chief Executive Officer US 1 Industries, Inc.
Richard A. Penney Sarasota, Florida	Independent Insurance Agent Exceter Insurance, Inc.
Robert I. Scissors Chesterfield, Missouri	Director US 1 Industries, Inc.

Lex L. Venditti
Crown Point, Indiana

President and Treasurer
American Inter-Fidelity Corporation

Annual Shareholders Meeting and Election of Directors

The shareholders of the Attorney-in-Fact did not hold an Annual Shareholders meeting for the purpose of the election of its directors during the period under examination. This is a violation of IC 27-6-6-9 which requires the subscribers and the Attorney-in-Fact to comply with the same standards for officers and directors as is required of stock and mutual insurance companies. Furthermore, this is a violation of IC 27-1-7-7(b) which requires the Annual Shareholders meeting to be held within five (5) months of the fiscal close of December 31. Additionally, the Attorney-in-Fact has not complied with the requirements of its Bylaws. The Bylaws state in Article III, Section 2 that the annual meeting may be held at any time but no later than five (5) months after the close of each fiscal year of the corporation. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

Officers

The Company’s Bylaws state that the officers of the Company shall be a President, one (1) or more Vice Presidents, a Secretary, a Treasurer and such other officers as may be appointed in accordance with the provisions of Article 3.1. The following is a list of key officers and their respective titles reported as of December 31, 2013:

<u>Name</u>	<u>Position</u>
Lex L. Venditti	President and Treasurer
Harold E. Antonson	Secretary

Election of Officers

The Board of Directors did not meet during 2009, 2010, 2011, and 2013 for the purpose of the election of its officers. On October 19, 2012, the Board of Directors voted to retain its same officers. This is a violation of IC 27-6-6-9 which requires the subscribers and the Attorney-in-Fact to comply with the same standards for officers and directors as is required of stock and mutual insurance companies. Furthermore, the Attorney-in-Fact has not complied with Article IV, Section 6 of its Bylaws which states the Board of Directors shall meet each year immediately after the annual meeting of the shareholders for the purpose of organization, election of officers, and consideration of any other business that may be brought before the meeting. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

Succession Plan

As of the date of this examination, the Company did not have a written succession plan for any of its key employees including the President. The Company should have a written succession plan for the President, Lex Venditti, which details how a successor would be chosen. The plan should also include who is going to perform Mr. Venditti’s direct responsibilities which include claims handling, underwriting, and financial reporting. The operations of the Company would be severely impacted without Mr. Venditti. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

Corporate Governance

The committees and the member directors as of December 31, 2013, were as follows:

CONFLICT OF INTEREST

The Company has established a conflict of interest policy through its Code of Ethics and Business Conduct for the disclosure of any material interest or affiliation by any one director or officer, which is likely to conflict with their official duties; however, the Company was unable to provide evidence that Conflicts of Interest Statements were annually reviewed by the Board of Directors. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

OATH OF OFFICE

Indiana Code 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 corporation and will not knowingly violate any of the laws applicable to such corporation. The Company was unable to provide evidence that the Oath of Office statements were signed by the Board of Directors. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company's Articles of Incorporation and Bylaws were not amended during the period under examination.

The Bylaws specify that the Board of Directors shall consist of three (3) members who shall be elected annually by a majority of the shares represented at the Annual Shareholders meeting. The Bylaws are not in compliance with IC 27-1-7-10(a) whereby the Company shall be managed by a Board of Directors, composed of not less than five (5) members. On October 11, 2010, the Board of Directors voted to amend its Bylaws to increase the number of directors to five (5); however, the Bylaws have not been amended to reflect this change. In addition, the Bylaws also specify that the officers of the corporation shall consist of a President, one (1) or more Vice Presidents, a Secretary and a Treasurer. During the period under examination the Company did not elect a Vice President. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

Minutes

The Board of Directors meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. The board minutes did not provide evidence that the preceding meetings and action taken during those meetings were read and approved during the period under examination. The minutes require the board's consent before they become an official record of the board's actions and approving them is a matter of following prudent corporate governance. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

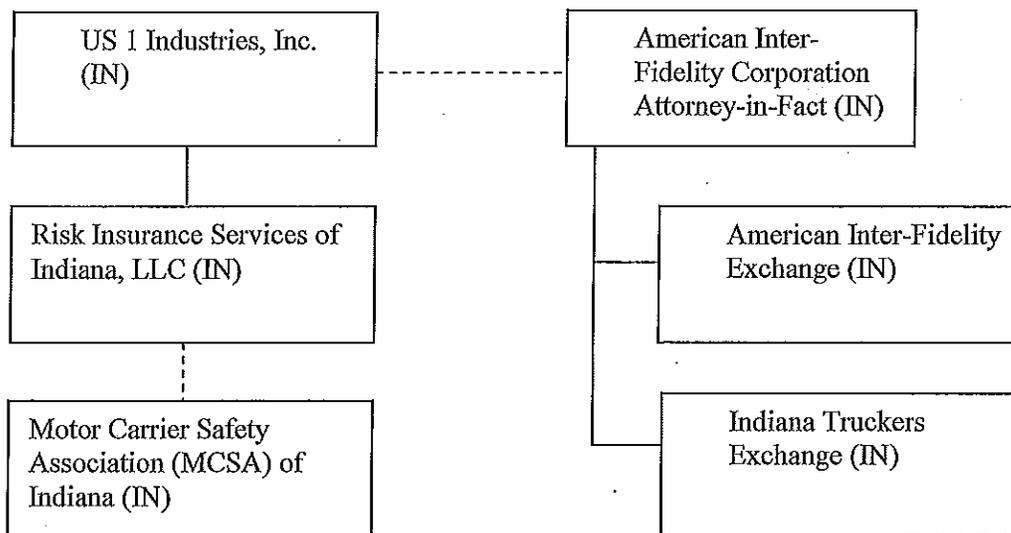
The NAIC *Annual Statement Instructions* state that the Company's Actuarial Opinion and Actuarial Report must be made available to the Board of Directors or a committee appointed by the Board of Directors. The Board of Directors minutes did not provide evidence that the Appointed Actuary had presented the Actuarial Opinion and Actuarial Report to the Board of Directors for the period covered by

this examination. (Please see the “Other Significant Findings” section of this report regarding this issue.)

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. The following organizational chart depicts the Company’s relationship with the other affiliated companies within the group:



Note: See below for description of the relationships between the affiliated companies in the group.

The Company is a reciprocal insurer managed by its Attorney-in-Fact, (AIFC), which was organized to provide services to the Company. The acceptances of the policy issued to the subscribers constitutes the insured’s agreement to be bound by all terms and conditions contained in the Attorney-in-Fact Agreement. AIFC is owned by three (3) individuals who serve as board members of the Company, two (2) of which serve as officers.

Indiana Truckers Exchange (ITE) is a dormant insurance company whose surplus has been pledged to the Company by its common members. The Company’s interest in ITE is reported on an equity basis as an invested asset.

The Company is an affiliate of US 1 Industries, Inc., a privately held company controlled by the same management team as the Company. The Company is also affiliated with Motor Carrier Safety Association (MCSA) of Indiana. MCSA is affiliated with Risk Insurance Services of Indiana, LLC (RIS), a wholly owned subsidiary of US 1 Industries, Inc. MCSA is a licensed purchasing group registered with the INDOL. MCSA provides benefits for non-asset based (owner operator) carriers located in the United States. For this business, an owner operator joins the MCSA and, as part of the MCSA, is offered physical damage and non-trucking liability insurance through a master policy issued by the Company. MCSA has no employees and is managed by RIS. As MCSA is Indiana based, any premiums written through the MCSA are reported as being written in Indiana.

Service Agreements

Attorney-in-Fact Agreement

The Company is operated by its Attorney-in-Fact. The Attorney-in-Fact receives 10% of the Company's annual gross premiums and 25% of its annual net income. In 2013, the total amount due to the Attorney-in-Fact was \$2,647,726. The agreement in place has never been executed by the Company nor a Form D filing made in accordance with IC 27-1-23-4. (Please see the "Other Significant Findings" section of this report regarding this issue.)

Risk Insurance Services of Indiana, LLC (RIS)

The Company has an agreement with RIS under which the Company pays a commission on certain policies written for subsidiaries of US 1 Industries, Inc. RIS is a wholly-owned subsidiary of US 1 Industries, Inc. The Company incurred \$237,238 under this agreement for the year ending December 31, 2013.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by a fidelity bond issued by Hartford Fire Insurance Company. The bond has blanket coverage of \$500,000 with a \$25,000 deductible. The fidelity bond exceeds the prescribed minimum coverage specified by the NAIC.

The Company has additional types of coverage in-force as of December 31, 2013, including but not limited to directors and officers liability, and workers compensation coverage.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposits as of December 31, 2013:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$ 1,423,573	\$ 1,468,225
All Other Special Deposits:		
Georgia	\$ 25,000	\$ 25,000
North Carolina	400,000	400,000
Total Other Special Deposits	\$ 425,000	\$ 425,000
Total Statutory And Special Deposits	\$ 1,848,573	\$ 1,893,225

REINSURANCE

Reinsurance Assumed

The Company assumes no reinsurance.

Reinsurance Ceded

Reinsurance coverage for the period 2009 to 2013 was provided by facultative certificates. A separate facultative certificate was written for each trucking firm. All commercial auto liability policies are reinsured. The Company offers a maximum policy limit of \$1,000,000 per occurrence. The Company retains the first \$250,000 or \$350,000 per loss and reinsures the excess limits on a facultative basis with Maiden Reinsurance Company. During 2013, the Company ceded \$2,456,310 of premiums to reinsurers, and the reserve for losses and loss adjustment expenses have been reduced by \$2,974,551 for unpaid losses ceded to reinsurers. Amounts recoverable on paid losses from reinsurance amounted to \$388,285 as of December 31, 2013.

Beginning August 1, 2013, the Company entered into an excess of loss reinsurance treaty with General Reinsurance Corporation which covered new and renewal commercial auto liability policies. The treaty provides coverage of \$500,000 in excess of the Company's retained liability of \$500,000.

RESERVES

John Pierce, FCAS, MAAA, was appointed by the Board of Directors to render an opinion on the statutory-basis loss and loss adjustment expense reserves of the Company for all years throughout the examination period.

The scope of the opinion stated by the Actuary examined the actuarial assumptions and methods used in determining loss reserves and related items, as shown in the Annual Statement of the Company, as prepared for filing with state regulatory officials. In forming the opinion, information prepared by the Company was relied upon. The provided data was evaluated for reasonableness and consistency. The data was reconciled to Schedule P - Part 1 of the Company's Annual Statement as of December 31, 2013.

The 2013 opinion stated the reserve balances: 1) meet the requirements of the insurance laws of Indiana, 2) are computed in accordance with accepted actuarial standards and principals, and 3) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

Appointed Actuary's Report

The Appointed Actuary's report is poorly documented and difficult to follow. In particular, the lack of a comprehensive summary sheet makes it hard to compare the Appointed Actuary's estimates with the Company's numbers. The NAIC *Annual Statement Instructions* require that the actuarial report include "an exhibit in the Appointed Actuary's report which complies with this requirement." **(Please see the "Other Significant Findings" section of this report regarding this issue.)**

Loss Data at Quarterly Evaluation Points

The Appointed Actuary groups the data by accident year. For a company with rapid premium growth, accident year data can be distorted and it is typically more accurate to review data on an accident quarter basis. It is understood that data limitations (i.e., lack of historical loss evaluation at quarterly intervals) make this analysis difficult or impossible. However, this is a significant issue with the analysis and steps should be taken to correct potential distortions. **(Please see the "Other Significant Findings" section of this report regarding this issue.)**

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting information were reviewed and tested to the extent deemed necessary. The Annual Statement totals for Admitted Assets, Liabilities, Surplus, Premiums Written and Net Income for the years ended December 31, 2009 through December 31, 2013, were agreed to each year's trial balance with no exceptions noted. In general, the Examiners determined the Company's accounting procedures, practices, and account records were satisfactory. However, certain accounting record deficiencies were noted in this report as shown below, and included within the "**Other Significant Findings**" section on page 17 of this report:

Claim Record Retention Policy

Although the Company has retained its claims files back to 2008, it is possible with its current retention policy that a claim file could be destroyed before completion of an examination. The Examiners noted the following in regards to the retention policy:

- The closed claim files not in litigation are retained for two (2) years after closing.
- The closed claim files with litigation are retained for four (4) years after closing.
- The closed claim files involving injury to minor claimants are retained until the minor reaches age 18 unless closed due to settlement with release and court approval in file, then retained per normal procedure.
- If a claim file is closed and exceeds the normal retention standards, it is kept until all the claims from that particular accident year are closed.
- The Incident Management System (IMS) claims system does not include copies of source documents related to a claim. The external audits typically go back to the manual claims file in order to perform their claim testing.

(Please see the "Other Significant Findings" section of this report regarding this issue.)

IT Conflict of Interest

The individual performing IT services for the Company is the son of the Underwriting Assistant/Claims Supervisor at the Company. It is strongly recommended that the Company take the necessary steps to eliminate this potential conflict of interest. **(Please see the "Other Significant Findings" section of this report regarding this issue.)**

IT General Ledger

The general ledger remains open for a period of two (2) years and as a result the system allows posting to the prior year. To ensure that prior period adjustments are not inadvertently or intentionally altered, where the system allows for such, it is recommended that the Company review the configuration of its system to disallow access to perform such prior period adjustments. **(Please see the "Other Significant Findings" section of this report regarding this issue.)**

Unresolved Issues on Rick Penney Business

Effective January 1, 2013 to December 31, 2013, the Company and Motor Carrier Safety Association (MCSA) entered into a Master Policy Agreement Commercial Auto Physical Damage and a Master Agreement for Non-Trucking Automobile Coverage. The Examination Team was provided a copy of the master policy on January 14, 2015. From a sample of policies reviewed, the Examiners identified single certificate holders of coverage were issued from a master policy to companies located in Illinois, Indiana, Kentucky, North Carolina, and Texas. As a result, the following concerns were noted:

- The Company issued certificates of coverage to individual owner operators located in Kentucky but is not duly licensed in Kentucky to write the lines of insurance covered by the master policy.
- Are premium taxes to be remitted to the state of the certificate holders or only Indiana?
- Is Rick Penney licensed as a non-resident agent in all states where he produced business?

(Please see the “Other Significant Findings” section of this report regarding this issue.)

FINANCIAL EXHIBITS

Comparative Exhibit – Statutory Statement of Assets
Comparative Exhibit – Statutory Statement of Liabilities, Surplus, and Other Funds
Comparative Exhibit - Statutory Statement of Income
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

AMERICAN INTER-FIDELITY EXCHANGE

FINANCIAL STATEMENTS

Assets

	As of December 31, 2013			December 31, Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
Assets:				
Bonds	\$ 8,159,329	\$ -	\$ 8,159,329	\$ 8,504,884
Common stocks	14,600,195	-	14,600,195	12,432,685
Mortgage loans on real estate	591,677	-	591,677	-
Real estate	698,076	-	698,076	-
Cash \$7,530,219, cash equivalents \$0 and short-term investments \$0	7,530,219	-	7,530,219	1,459,751
Other invested assets	1,324,875	-	1,324,875	1,085,104
Subtotals, cash and invested assets	\$ 32,904,371	\$ -	\$ 32,904,371	\$ 23,482,424
Investment income due and accrued	61,936	-	61,936	84,768
Uncollected premiums and agents' balances in the course of collection	6,574,777	-	6,574,777	2,695,631
Amounts recoverable from reinsurers	388,285	-	388,285	-
Aggregate write-ins for other than invested assets	381,318	-	381,318	130,696
Total Assets	\$ 40,310,686	\$ -	\$ 40,310,686	\$ 26,393,519

AMERICAN INTER-FIDELITY EXCHANGE

FINANCIAL STATEMENTS

Liabilities, Surplus, and Other Funds

	As of December 31, 2013			December 31,
	Per Annual Statement	Exam Adjustments	Per Examination	Prior Year
Liabilities:				
Losses	\$ 11,683,188	\$ -	\$ 11,683,188	\$ 6,030,109
Loss adjustment expenses	708,989	-	708,989	544,532
Commission payable, contingent commissions, and other similar charges	246,118	-	246,118	139,387
Taxes, licenses and fees	143,176	-	143,176	111,708
Current federal and foreign income taxes	97,599	-	97,599	405,851
Net deferred tax liability	223,355	-	223,355	29,871
Unearned premiums	3,154,523	-	3,154,523	1,099,614
Cede reinsurance premiums payable	324,929	-	324,929	-
Amounts withheld or retained by company for account of others	4,888,067	-	4,888,067	1,357,552
Remittance and items not allocated	126,461	-	126,461	126,461
Payable to parent, subsidiaries, and affiliates	1,331,259	-	1,331,259	628,209
Aggregate write-ins for liabilities	11,600	-	11,600	127,135
Total Liabilities	\$ 22,939,264	\$ -	\$ 22,939,264	\$ 10,600,428
Gross paid in and contributed surplus	\$ 9,481,391	\$ -	\$ 9,481,391	\$ 9,481,391
Unassigned funds (surplus)	7,890,031	-	7,890,031	6,311,700
Surplus as Regards Policyholders	\$ 17,371,422	\$ -	\$ 17,371,422	\$ 15,793,091
Total Liabilities, Surplus, and Other Funds	\$ 40,310,686	\$ -	\$ 40,310,686	\$ 26,393,519

AMERICAN INTER-FIDELITY EXCHANGE

FINANCIAL STATEMENTS

Statement of Income

	<u>As of December 31, 2013</u>			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Underwriting Income:				
Premiums earned	\$ 18,202,654	\$ -	\$ 18,202,654	\$ 6,918,562
Losses incurred	\$ 11,091,002	\$ -	\$ 11,091,002	\$ 2,904,292
Loss adjustment expenses incurred	843,491	-	843,491	420,568
Other underwriting expenses incurred	5,589,066	-	5,589,066	2,504,870
Total underwriting deductions	<u>\$ 17,523,559</u>	<u>\$ -</u>	<u>\$ 17,523,559</u>	<u>\$ 5,829,730</u>
Net underwriting gain (loss)	<u>\$ 679,095</u>	<u>\$ -</u>	<u>\$ 679,095</u>	<u>\$ 1,088,832</u>
Investment Income				
Net investment income earned	\$ 757,292	\$ -	\$ 757,292	\$ 608,674
Net realized capital gains (losses) less capital gains tax	159,878	-	159,878	412,398
Net investment gain	<u>\$ 917,170</u>	<u>\$ -</u>	<u>\$ 917,170</u>	<u>\$ 1,021,072</u>
Other Income				
Aggregate write-ins for miscellaneous income	\$ 78	\$ -	\$ 78	\$ -
Total other income	<u>\$ 78</u>	<u>\$ -</u>	<u>\$ 78</u>	<u>\$ -</u>
Net income before dividends to policyholders after capital gains tax and before federal and foreign income taxes	\$ 1,596,343	\$ -	\$ 1,596,343	\$ 2,109,904
Dividends to policyholders	-	-	-	-
Net gain from operations after dividends to policyholders, after capital gains tax before all other federal and foreign income taxes	<u>\$ 1,596,343</u>	<u>\$ -</u>	<u>\$ 1,596,343</u>	<u>\$ 2,109,904</u>
Federal and foreign income taxes incurred	564,041	-	564,041	603,608
Net Income	<u><u>\$ 1,032,302</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,032,302</u></u>	<u><u>\$ 1,506,296</u></u>

AMERICAN INTER-FIDELITY EXCHANGE

FINANCIAL STATEMENTS

Capital and Surplus Account

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and Surplus Account:					
Surplus as regards policyholders, December 31 prior year	\$ 15,793,091	\$ 14,673,524	\$ 14,844,500	\$ 13,201,574	\$ 11,098,231
Net income	1,032,302	1,506,296	567,120	1,209,060	1,320,689
Change in unrealized capital gains (loses)	1,181,661	300,412	(698,381)	512,817	667,936
Change in net deferred income tax	(193,484)	(130,684)	(64,146)	(162,960)	11,146
Change in nonadmitted assets	(387,973)	(556,458)	24,445	83,997	108,156
Aggregate write-ins for gains and losses in surplus	(54,175)	-	(14)	12	(4,584)
Change in surplus as regards policyholders for the year	<u>\$ 1,578,332</u>	<u>\$ 1,119,567</u>	<u>\$ (170,976)</u>	<u>\$ 1,642,926</u>	<u>2,103,343</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 17,371,422</u>	<u>\$ 15,793,091</u>	<u>\$ 14,673,524</u>	<u>\$ 14,844,500</u>	<u>\$ 13,201,574</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2013, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

1. Allocated Surplus

As of December 31, 2013, the Company had a surplus of \$17,371,422 which had not been allocated to the individual subscribers as stipulated under the Attorney-in-Fact Agreement (See page 3).

It is recommended that the Company allocate surplus to individual subscribers in accordance with the Attorney-in-Fact Agreement. This same finding was noted during the previous examination.

2. Certificate of Authority in South Carolina

On September 15, 2011, the Company received a letter from the INDOI which stated that the Department will not be able to approve the proposed conversion to an RRG. The South Carolina certificate of authority issued on June 17, 2013, states that the Company is an RRG. The Company is a reciprocal insurer and should not have a certificate of authority in South Carolina as an RRG. In 2013, the direct written premium in South Carolina was \$544,712 (See page 3).

It is strongly recommended that the Company take the necessary steps to correct this error in its certificate of authority in South Carolina.

3. Annual Shareholders Meeting and Election of Directors

The shareholders of the Attorney-in-Fact did not hold an Annual Shareholders meeting for the purpose of the election of its directors during the period under examination. This is a violation of IC 27-6-6-9 which requires the subscribers and the Attorney-in-Fact to comply with the same standards for officers and directors as is required of stock and mutual insurance companies. Furthermore, this is a violation of IC 27-1-7-7(b) which requires the Annual Shareholders meeting to be held within five (5) months of the fiscal close of December 31. Additionally, the Attorney-in-Fact has not complied with the requirements of its Bylaws. The Bylaws state in Article III, Section 2 that the Annual Meeting may be held at any time but no later than five (5) months after the close of each fiscal year of the corporation (See page 5).

It is recommended that the Attorney-in-Fact hold its Annual Shareholders meeting and maintain records of such within five (5) months of the fiscal close of December 31 for the purpose of electing its directors in accordance with IC 27-6-6-9 and IC 27-1-7-7(b).

4. Election of Officers

The Board of Directors did not meet during 2009, 2010, 2011 and 2013 for the purpose of the election of its officers. On October 19, 2012, the Board of Directors voted to retain its same officers. This is a violation of IC 27-6-6-9 which requires the subscribers and the Attorney-in-Fact to comply with the same standards for officers and directors as is required of stock and mutual insurance companies. Furthermore, the Attorney-in-Fact has not complied with Article IV, Section 6 of its Bylaws which states the Board of Directors shall meet each year immediately after the annual meeting of the shareholders for the purpose of organization, election of officers, and consideration of any other business that may be brought before the

meeting (See page 5).

It is recommended that the Board of Directors hold and maintain records of an annual meeting to elect the officers of the Company in accordance with IC 27-6-6-9, and the Bylaws.

5. Succession Plan

As of the date of this examination, the Company did not have a written succession plan for any of its key employees including the President. The Company should have a written succession plan for the President, Lex Venditti, which details how a successor would be chosen. The plan should also include who is going to perform Mr. Venditti's direct responsibilities which include claims handling, underwriting, and financial reporting. The operations of the Company would be severely impacted without Mr. Venditti (See page 5).

It is recommended the Company develop a written succession plan that is approved by the Board and submit the succession plan to the INDOI for review.

6. Investment and Audit Committees Appointed

The Examination Team found no evidence in the Board of Director minutes that its Investment or Audit Committees were appointed and approved by its Board of Directors (See page 6).

It is recommended that the Board of Directors minutes document the appointment and approval of its Investment Committee and Audit Committee members.

7. Investment Policy and Investment Committee Minutes

The Company does not have a formal investment policy that is approved by the Board or Investment Committee. This is a violation of IC 27-6-6-9 which requires the subscribers and the Attorney-in-Fact to comply with the same standards for officers and directors as is required of stock and mutual insurance companies. The Company stated in the Annual Statement General Interrogatories No. 17 that it keeps a complete and permanent record of the proceedings of its Board of Directors meetings and all subordinate committees thereof. No Investment Committee meeting minutes were formalized to provide evidence that the investment transactions and holdings were approved by the Investment Committee during the examination period. This is a violation of IC 27-1-7-16 which states that every corporation shall keep correct and complete books of account and minutes of its directors and finance committees. (See page 6).

It is recommended that an investment policy be formalized and approved by the Board or Investment Committee. It is also recommended that the investment transactions and holdings be approved at least quarterly and documented in the minutes of the board or Investment Committee meetings.

8. Audit Committee

Although the Company has established an Audit Committee, it was noted that its only documented action was the approval of the Company's external auditors. Pursuant to the provisions of 760 IAC 1-78-2(4) (A) (B), an audit committee's duties shall include a review of accounting and financial reporting processes, and the audits of the financial statements. The Audit Committee is directly responsible for the oversight of the work of its accountant for the purpose of preparing and issuing the audited financial reports or related work. The Company's accountant shall report directly to the Audit Committee. In addition, the Audit Committee should maintain a detailed list of any open audit deficiencies and monitor

the Company's actions to assure that such deficiencies are appropriately being addressed in a timely manner. The Audit Committee should maintain committee minutes as evidence to support these actions are carried out (See page 6).

In accordance with 760 IAC 1-78-2(4) (A) (B) it is recommended that the Company's Audit Committee duties include the review of accounting and financial reporting processes, and the audits of financial statement. Additionally, this is a violation of IC 760 IAC 1-78-13 (b) (3) which requires that the Audit Committee be directly responsible for the oversight of the work of any accountant for the purpose of preparing or issuing the audited financial report or related work under this rule. Each accountant shall report directly to the Audit Committee. Furthermore, it is recommended that the Company maintain committee minutes to support these actions.

9. Conflict of Interest and Oath of Office Statement

The Company has established a conflict of interest policy through its Code of Ethics and Business Conduct for the disclosure of any material interest or affiliation by any one director or officer, which is likely to conflict with their official duties. However, the Company was unable to provide evidence those conflicts of interest statements were reviewed annually by the Board of Directors. 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 corporation and will not knowingly violate any of the laws applicable to such corporation. The Company provided no evidence that each director signed an Oath of Office statement during the period under examination (See page 7).

It is recommended that the Board of Directors' minutes document that the directors discussed the Code of Ethics annually. In addition, it is recommended that the Company comply with IC 27-1-7-10(i).

10. Bylaws

The Bylaws specify that the Board of Directors shall consist of three (3) members who shall be elected annually by a majority of the shares represented at the Annual Shareholders Meeting. The Bylaws are not in compliance with IC 27-1-7-10(a) whereby the company shall be managed by a Board of Directors, composed of not less than five (5) members. On October 11, 2010, the Board of Directors voted to amend its Bylaws to increase the number of directors to five (5); however, the Bylaws have not been amended to reflect this change. Furthermore, the 2013 annual statement listed six (6) directors. In addition, the Bylaws specify the officers of the corporation shall consist of a President, one (1) or more Vice Presidents, a Secretary, and a Treasurer. During the period under examination the Company did not elect a Vice President (See page 7).

It is recommended that the Bylaws be updated to comply with IC 27-1-7-10(a). It is also recommended that the Company elect a Vice President as its officer to comply with its Bylaws. Furthermore, it is recommended the Company file a copy of its amended Bylaws as a separate filing with the INDOI.

11. Board Minutes Approval

The Board of Directors meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. The board minutes did not provide evidence that the preceding meetings and action taken during those meetings were read and approved during the period under examination. The minutes require the board's consent before they

become an official record of the board's actions and approving them is a matter of following prudent corporate governance. (See page 7).

It is recommended that the Board of Directors' minutes provide evidence of the reading and approval of the preceding meeting minutes.

12. Actuarial Opinion and Actuarial Report

The NAIC *Annual Statement Instructions* state that the Company's Actuarial Opinion and Actuarial Report must be made available to the Board of Directors or a committee appointed by the Board of Directors. The Board of Directors minutes did not provide evidence that the Appointed Actuary had presented the Actuarial Opinion and Actuarial Report to the Board of Directors for the period covered by this examination (See page 7).

It is recommended that the Company comply with the NAIC *Annual Statement Instructions* with respect to procedures and requirements for the presentation of the Actuarial Opinion and Actuarial Report to the Board of Directors. This same finding was identified during the previous examination.

13. Attorney-in-Fact Agreement

The Company is operated by an Attorney-in-Fact. The Attorney-in-Fact receives 10% of the Company's annual gross premiums and 25% of its annual net income. In 2013, the total amount due to the Attorney-in-Fact was \$2,647,726. The agreement in place has never been executed by the Company nor filed with the IDOI in accordance with IC 27-1-23-4. (See page 9).

It is recommended that the Company execute a formal management agreement. It is also recommended that the Company file the executed agreement with the IDOI.

14. Appointed Actuary's Report

The appointed Actuary's report is poorly documented and difficult to follow. In particular, the lack of a comprehensive summary sheet makes it hard to compare the Appointed Actuary's estimates with the Company's numbers. The NAIC *Annual Statement Instructions* require that the actuarial report include "an exhibit in the Appointed Actuary's report which complies with this requirement" (See page 10).

It is recommended that the Appointed Actuary include "an exhibit that ties to the Annual Statement and compares the Actuary's conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis."

15. Loss Data at Quarterly Evaluation Points

The Appointed Actuary groups the data by accident year. For a company with rapid premium growth, accident year data can be distorted and it is typically more accurate to review data on an accident quarter basis. It is understood that data limitations (i.e., lack of historical loss evaluation at quarterly intervals) make this analysis difficult or impossible. However, this is a significant issue with the analysis and steps should be taken to correct potential distortions (See page 10).

It is recommended that the Company and/or Appointed Actuary compile the loss data at quarterly evaluation points to enable the Appointed Actuary to perform his analysis on an accident quarter basis.

16. Claim Record Retention Policy

Although the Company has retained its claims files back to 2008, it is possible with its current retention policy that a claim file could be destroyed before completion of an examination. The Examiners noted the following in regards to the retention policy (See page 11):

- The closed claim files not in litigation are retained for two (2) years after closing.
- The closed claim files with litigation are retained for four (4) years after closing.
- The closed claim files involving injury to minor claimants are retained until the minor reaches age 18 unless closed due to settlement with release and court approval in file, then retained per normal procedure.
- If a claim file is closed and exceeds the normal retention standards, it is kept until all the claims from that particular accident year are closed.
- The IMS claims system does not include copies of source documents related to a claim. The external audits typically go back to the manual claims file in order to perform their claim testing.

It is recommended that the Company's retention policy provide for claim files to be retained until after the five (5) year examination period is completed. In accordance with IC 27-6-6-7 the business affairs, records, and assets of any such organization shall be subject to examination by the insurance department at any reasonable time. In accordance with IC 27-1-3.1-8(a)(2) the commissioner or any of the commissioner's examiners shall, at a minimum, conduct an examination of every insurer licensed in Indiana at least once every five (5) years.

17. IT Conflict of Interest

The individual performing IT services for the Company is the son of the Underwriting Assistant/Claims Supervisor at the Company (See page 11).

It is strongly recommended that the Company take the necessary steps to eliminate this potential conflict of interest. Subsequent to the examination period, the Company entered into a Service & Support Agreement on February 1, 2015 with ON-SITE Computer, LLC to provide technical support.

18. IT General Ledger

The general ledger remains open for a period of two (2) years and as a result the system allows posting to the prior year (See page 11).

To ensure that prior period adjustments are not inadvertently or intentionally altered, where the system allows for such, it is recommended that the Company review the configuration of its system to disallow access to perform such prior period adjustments.

19. Unresolved Issues on Rick Penney Business

Effective January 1, 2013 to December 31, 2013, the Company and Motor Carrier Safety Association (MCSA) entered into a Master Policy Agreement Commercial Auto Physical Damage and a Master Agreement for Non-Trucking Automobile Coverage. The Examination Team was provided a copy of the master policy on January 14, 2015. From a sample of policies reviewed, the Examiners identified single certificate holders of coverage were issued from a master policy to companies located in Illinois, Indiana, Kentucky, North Carolina, and Texas. As a result, the following concerns were noted (See page 12):

- The Company issued certificates of coverage to individual owner operators located in Kentucky but is not duly licensed in Kentucky to write the lines of insurance covered by the master policy.
- Are premium taxes to be remitted to the state of the certificate holders or only Indiana?
- Is Rick Penney licensed as a non-resident agent in all states where he produced business?

It is recommended that the Company contact each state in which they issue single certificates of coverage to determine if they are operating in compliance with each state's laws. In addition, it is recommended that the Company verify that Rick Penney is licensed as a non-resident agent in all states where he produced business.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this report.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.

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 The Thomas Consulting Group, Inc., hereinafter collectively referred to as the "Examiners" performed an examination of the **American Inter-Fidelity Exchange** as of **December 31, 2013**.

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

The examination was performed in accordance with those procedures required by the 2013 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 standard 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 the **American Inter-Fidelity Exchange** as of **December 31, 2013**, as determined by the undersigned.



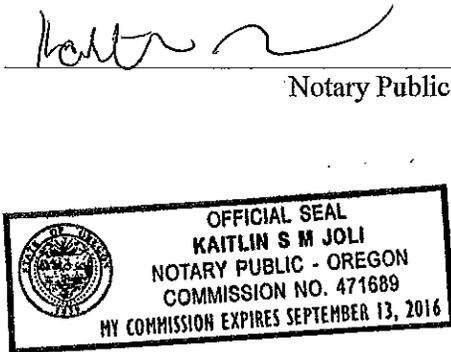
David Daulton, CFE
The Thomas Consulting Group, Inc.

State of:
County of:

On this 30 day of May, 2015, before me personally appeared, David Daulton, 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 September 13, 2016



IN COMMISSION EXPIRES SEPTEMBER 11, 1999
COMMISSION NO. 121989
NOTARY PUBLIC - OHIO
KATHLEEN M. JOLI
OFFICIAL SEAL

