

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

IN THE MATTER OF: )

American Economy Insurance Company )  
175 Berkeley Street )  
Boston, MA 02116 )

Examination of American Economy Insurance Company

**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 Economy Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 29, 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 Economy Insurance Company 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.

Date

7/10/2015



Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0045 9913**

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

IN THE MATTER OF: )  
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American Economy Insurance Company )  
175 Berkeley Street )  
Boston, MA 02116 )

Examination of American Economy Insurance Company

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the American Economy Insurance Company (hereinafter "Company") for the time period January 1, 2010 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 22, 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 May 29, 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 Economy Insurance Company as of December 31, 2013.
2. That the Examiner's Recommendations are reasonable and necessary in order for the American Economy Insurance Company 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 10<sup>th</sup> day of  
July, 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.

A handwritten signature in dark ink, appearing to read "Robert W. [unclear]". The signature is written in a cursive style and is located in the lower-left quadrant of the page.

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

**OF**

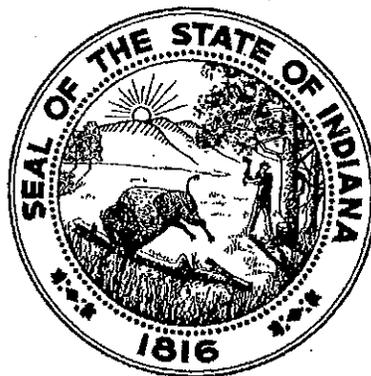
**AMERICAN ECONOMY INSURANCE COMPANY**

NAIC Co. CODE 19690

NAIC GROUP CODE 0111

As of

December 31, 2013



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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

May 22, 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 3816, an examination has been made of the affairs and financial condition of:

**American Economy Insurance Company**  
175 Berkeley Street  
Boston, Massachusetts 02116

hereinafter referred to as the "Company", or "AEIC", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Boston, Massachusetts and the offices of Noble Consulting Services, Inc., in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2013, 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

EXAMINATIONS/FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES/COMPANY RECORDS  
(317) 232-1991

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, 2013, 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 and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions, when applicable to domestic state regulations.

The examination of the Massachusetts domestic insurance companies of Liberty Mutual Group (LMG) was called by the Massachusetts Division of Insurance (MDOI) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The MDOI served as the lead state on the examination and the Illinois Department of Insurance, INDOI, New Hampshire Insurance Department (NHID), Oregon Insurance Division, and the Wisconsin Office of the Commissioner of Insurance served as participants.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was incorporated under the laws of the state of Indiana on September 23, 1959, and commenced business on October 23, 1959. The Company was a wholly-owned subsidiary of American States Insurance Company (ASIC), and ASIC was owned 100% by American States Financial Corporation (ASFC), an insurance holding company that was controlled through 83% ownership by Lincoln National Corporation until October 1, 1997, when Safeco Corporation (Safeco) completed the acquisition of ASFC. In 2000, ASFC was dissolved, and 100% of the Company's outstanding shares were transferred to Safeco.

On April 23, 2008, Safeco agreed to a merger with an LMG subsidiary. As a result of the merger, Liberty Mutual Holding Company, Inc. (LMHC), a Massachusetts mutual holding company, became the new ultimate parent. LMHC was formed in 2001 as part of the mutual holding company reorganization of Liberty Mutual Insurance Company (LMIC).

Effective January 1, 2009, the Company became part of the Peerless Insurance Pool (Peerless Pool) and entered into the Peerless amended and restated Pooling Agreement with Peerless Insurance Company (PIC) as the lead pool company.

Effective January 1, 2013, the Liberty Mutual Pool and Peerless Pool were merged into one (1) pool with LMIC serving as the lead company. AEIC continues to cede 100% of its direct written premium to the Liberty Mutual Pool and the participation percentage for the Company is 0% at December 31, 2013. The INDOI approved the Liberty Mutual second amended and restated Intercompany Reinsurance Agreement (Intercompany Reinsurance Agreement) on December 27, 2012.

## CAPITAL AND SURPLUS

Safeco owned 100% of the Company's issued and outstanding stock as of the examination date. The Company had 1,000,000 shares authorized, issued, and outstanding with a stated par value of \$5 as of December 31, 2013.

## DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends to Safeco during the examination period:

Year	Total	Ordinary Dividends	Extraordinary Dividends
2013	\$ 158,000,000	\$ -	\$ 158,000,000
2012	98,000,000	11,546,020	86,453,980
2011	-	-	-
2010	306,000,000	55,075,671	250,924,329
Total	<u>\$ 562,000,000</u>	<u>\$ 66,621,691</u>	<u>\$ 495,378,309</u>

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the net income of such insurer for the prior year. The Company paid three (3) extraordinary dividends during the examination period with the prior approval of the INDOI. Other dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to the parent during the examination period.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed to conduct business in forty-nine (49) states and the District of Columbia, excluding the state of New Jersey. Operationally, LMG conducts its business through four (4) strategic business units (SBU): Commercial Insurance, Global Specialty, Liberty International, and Personal Insurance. Each business unit operates independently of the others and has dedicated actuarial, claims, financial, information technology, sales, and underwriting resources. On a direct basis, the Company primarily writes commercial auto and commercial multiple peril business, with the three (3) largest states being California, Florida, and Washington

## 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
2013	\$ 77,595,314	\$ 13,825,270	\$ 63,770,044	-	\$ 65,348,950
2012	1,219,734,253	1,033,436,358	186,297,895	601,239,999	43,694,274
2011	1,268,229,649	1,034,199,616	234,030,033	586,389,471	9,428,265
2010	1,256,663,965	1,020,377,724	236,286,241	577,594,080	48,434,570

Decreases in amounts shown above for 2013 are primarily due to the merging of the Liberty Mutual Pool and the Peerless Pool. As a result, the participation percentage for the Company was decreased to 0% in 2013.

## 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. Directors shall be elected at the first annual shareholders' meeting and at each annual meeting thereafter. A director need not be a shareholder.

The following is a listing of persons serving as directors at December 31, 2013, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Margaret Dillon Norfolk, Massachusetts	Vice President and Chief Financial Officer Liberty Mutual Group
John Doyle Southborough, Massachusetts	Vice President and Comptroller Liberty Mutual Group
Paul Ivanovskis Foxboro, Massachusetts	Senior Vice President and Chief Actuary Liberty Mutual Group
Kevin Kirschner Indianapolis, Indiana	Director of Marketing Peerless Insurance Company
Dexter Legg Portsmouth, New Hampshire	Vice President and Secretary Liberty Mutual Group
James MacPhee North Easton, Massachusetts	Vice President and Chief Claims Officer Liberty Mutual Group
Elizabeth Morahan Newtonville, Massachusetts	Vice President and General Counsel Liberty Mutual Group
Timothy Sweeney Boston, Massachusetts	President and Chief Executive Officer Liberty Mutual Group

### Officers

The Bylaws state that the elected officers of the Company shall consist of a President, a Treasurer, and a Secretary. Each of the said officers shall be elected by a majority of the Board and shall hold office for one (1) year, or until such time as they might be removed. The President or the Chairman may appoint the number of Vice Presidents, Assistant Secretaries, Assistant Treasurers, or any such officer as the President or the Chairman may determine is required in the best interest of AEIC.

The following is a list of key officers and their respective titles as of December 31, 2013:

<u>Name</u>	<u>Office</u>
Timothy Sweeney	President and Chief Executive Officer
Dexter Legg	Vice President and Secretary
Laurance Yahia	Vice President and Treasurer
Margaret Dillon	Vice President and Chief Financial Officer
Anthony Fontanes	Vice President and Chief Investment Officer
John Doyle	Vice President and Comptroller
Elizabeth Morahan	Vice President and General Counsel

### CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2013.

### 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, 2013.

### CORPORATE RECORDS

#### Articles of Incorporation

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

#### Bylaws

There were no amendments made to the Bylaws during the examination period.

#### 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.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws do not specify the date or time the annual meeting of shareholders is to be held. For each year under review, the annual meeting of shareholders was held within five (5) months following the close of each fiscal year.

LMHC committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit, Compensation, Contributions, Executive, Investment, Nominating and Governance, and Risk.

### AFFILIATED COMPANIES

#### Organizational Structure

The following abbreviated organizational chart shows the direct upstream affiliates of the Company and the other Indiana domiciled insurance affiliates as of December 31, 2013:

	<u>NAIC Co. Code</u>	<u>Domiciliary State</u>
Liberty Mutual Holding Company Inc.		MA
LMHC Massachusetts Holdings Inc.		MA
Liberty Mutual Group Inc.		MA
Liberty Mutual Fire Insurance Company	23035	WI
Employers Insurance Company of Wausau	21458	WI
Liberty Mutual Insurance Company	23043	MA
<b>LM Property and Casualty Insurance Company</b>	<b>32352</b>	<b>IN</b>
Liberty Insurance Holdings, Inc.		DE
Liberty Mutual Agency Corporation		DE
Peerless Insurance Company	24198	NH
Liberty – USA Corporation		DE
The National Corporation		IN
<b>National Insurance Association</b>	<b>27944</b>	<b>IN</b>
<b>Indiana Insurance Company</b>	<b>22659</b>	<b>IN</b>
<b>Consolidated Insurance Company</b>	<b>22640</b>	<b>IN</b>
Safeco Corporation		WA
<b>American States Insurance Company</b>	<b>19704</b>	<b>IN</b>
General Insurance Company of America	24732	NH
<b>Safeco Insurance Company of Indiana</b>	<b>11215</b>	<b>IN</b>
<b>American States Preferred Insurance Company</b>	<b>37214</b>	<b>IN</b>
<b>American Economy Insurance Company</b>	<b>19690</b>	<b>IN</b>
Ohio Casualty Corporation <sup>A</sup>		OH
The Ohio Casualty Insurance Company	24074	OH
<b>West American Insurance Company</b>	<b>44393</b>	<b>IN</b>

<sup>A</sup> 78% Owned by Liberty Mutual Insurance Company, 8% Owned by Employers Insurance Company of Wausau, 8% Owned by Peerless Insurance Company, 6% Owned by Liberty Mutual Fire Insurance Company

#### 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.

#### *Intercompany Short-term Borrowing Agreement*

Effective November 1, 2007, AEIC, ASIC, American States Preferred Insurance Company, and Safeco Insurance Company of Indiana entered into an Intercompany Short-term Borrowing Agreement with Safeco Insurance Company of America (SICA). No funds were distributed under the Intercompany Short-term Borrowing Agreement during 2013.

#### *Revolving Loan Agreements*

Effective March 5, 2012, LMIC entered into a Revolving Loan Agreement whereby LMIC may borrow up to \$100,000,000 from AEIC. The purpose of the agreement is to provide operating liquidity to accommodate fluctuations in daily cash flow and to promote efficient management of investments. The Revolving Loan Agreement was submitted to the INDOI on January 21, 2012, and it was not disapproved on February 17, 2012. As of December 31, 2013, there were no outstanding loans pursuant to the Revolving Loan Agreement dated March 5, 2012.

Effective March 5, 2012, AEIC entered into separate Revolving Loan Agreements with SICA whereby AEIC may borrow up to or loan up to \$50,000,000. The purpose of the agreements is to provide operating liquidity to accommodate fluctuations in daily cash flow and to promote efficient management of investments. The Revolving Loan Agreements were submitted to the INDOI on February 3, 2012, and were not disapproved on March 2, 2012. As of December 31, 2013, there were no outstanding loans pursuant to the Revolving Loan Agreements dated March 5, 2012.

#### *Investment Management Agreements*

Effective January 1, 2010, the Investment Management Agreement between AEIC and Liberty Mutual Investment Advisors (LMIA) was amended and restated, and supersedes the prior agreement between the parties. The amended and restated Investment Management Agreement was filed with the INDOI on or about December 31, 2009, and was not disapproved on January 26, 2010. AEIC paid management fees to LMIA pursuant to this agreement of \$143 in 2013.

Effective January 1, 2013, the Investment Management Agreement between AEIC and LMGAM was amended and restated, and supersedes the prior agreement between the parties. The amended and restated Investment Management Agreement was filed with the INDOI on November 27, 2012, and was not disapproved on December 26, 2012. AEIC paid \$539,558 in management fees to LMGAM pursuant to the terms of the Investment Management Agreement in 2013.

#### *Management Services Agreement*

Effective January 1, 2013, AEIC entered into a Management Services Agreement with LMIC under which LMIC provides administration, claims adjustments, claims processing, contract management, policyholder services, risk underwriting, and services determined to be reasonably necessary or desirable. The Management Services Agreement was submitted to the INDOI on November 13, 2012, and was not disapproved on December 27, 2012. There were no fees paid pursuant to the terms of the Management Services Agreement in 2013.

#### *Cash Management Agreement*

Effective April 1, 2012, AEIC entered into a Cash Management Agreement with LMGAM. The agreement was filed with the INDOI on February 29, 2012, and was not disapproved on March 23, 2012. There were no fees paid to LMGAM pursuant to the terms of the Cash Management Agreement in 2013.

#### *Intercompany Reinsurance Agreement*

Effective January 1, 2013, AEIC entered into the Intercompany Reinsurance Agreement covering all of their direct writings with participation being the percentage indicated within the agreement. The Intercompany Reinsurance Agreement was filed with the INDOI on November 13, 2012, and was not disapproved on December 27, 2012.

*Federal Tax Sharing Agreement*

Effective September 22, 2008, AEIC entered into a Federal Tax Sharing Agreement, as amended, with LMHC and affiliates. Under this agreement, the method of allocation is based upon separate return allocation with credit applied for losses as appropriate. AEIC has the enforceable right to recoup prior year payments in the event of future losses. The agreement may be terminated for any party when that entity no longer is a member of the consolidated group for tax filing purposes.

**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 Fidelity & Deposit Company of Maryland. The bond has a single loss coverage limit of \$15,000,000, with a \$50,000,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2013, including but not limited to audit expenses, computer systems fraud, tele-facsimile transfer fraud, trading loss, and voice initiated transfer fraud.

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

The Company does not have any direct employees, and therefore does not have any direct obligations for a defined pension, defined contribution pension, postretirement welfare, deferred compensation, compensated absences, or postemployment benefit plans. Services for the operation of the Company are provided under provisions of the Management Services Agreement.

**STATUTORY DEPOSITS**

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

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Illinois	\$1,538,723	\$1,715,269
Indiana	2,263,843	2,236,034
All Other Special Deposits:		
Arizona	1,331,628	1,297,368
California	262,277	296,448
Delaware	190,520	174,859
Georgia	264,295	256,771
Idaho	406,608	395,032
Massachusetts	429,536	428,256
Montana	56,872	65,716
Nevada	124,700	153,872
New Mexico	505,336	503,830
North Carolina	352,775	351,890
Oregon	727,414	897,589
Tennessee	101,067	100,766
Total Deposits	<u>\$8,555,594</u>	<u>\$8,873,700</u>

## REINSURANCE

Prior to January 1, 2013, LMIC was organized with two (2) separate and distinct intercompany reinsurance pools: the Liberty Mutual Pool and the Peerless Pool. Each pool was on a different examination cycle, with MDOI as the lead state for the Liberty Mutual Pool and NHID for the Peerless Pool; effective January 1, 2013, the Peerless Pool was merged into the Liberty Mutual Pool and thus dissolved.

Per the terms of the Intercompany Reinsurance Agreement, effective January 1, 2013, each affiliated member company, other than Wausau Business Insurance Company, Wausau General Insurance Company, and Wausau Underwriters Insurance Company, cedes to LMIC and LMIC accepts 100% of each company's risks arising out of its policies. LMIC cedes to each affiliated member company and each of the companies accepts their respective share of the Liberty Mutual Pool risks. Each company shall reimburse the ceding company for its share of the assessments, expenses, losses, policyholder dividends, and taxes. Also, each company shall maintain reserves for its share of the ceding company's liabilities.

Following is a list of the companies within LMG receiving a share of the Liberty Mutual Pool and their respective contract percentages:

Name of Pool Members	Percentage of Pool	Domiciliary State
Liberty Mutual Insurance Company	50.0%	MA
Peerless Insurance Company	20.0%	NH
Employers Insurance Company of Wausau	8.0%	WI
Liberty Mutual Fire Insurance Company	8.0%	WI
The Ohio Casualty Insurance Company	8.0%	NH
Safeco Insurance Company of America	6.0%	NH
<b>American Economy Insurance Company<sup>A</sup></b>	<b>0.0%</b>	<b>IN</b>
<b>American States Insurance Company<sup>A</sup></b>	<b>0.0%</b>	<b>IN</b>
<b>American States Preferred Insurance Company<sup>A</sup></b>	<b>0.0%</b>	<b>IN</b>
<b>Consolidated Insurance Company<sup>A</sup></b>	<b>0.0%</b>	<b>IN</b>
<b>Indiana Insurance Company<sup>A</sup></b>	<b>0.0%</b>	<b>IN</b>
<b>LM Property and Casualty Insurance Company<sup>A</sup></b>	<b>0.0%</b>	<b>IN</b>
<b>National Insurance Association<sup>A</sup></b>	<b>0.0%</b>	<b>IN</b>
<b>Safeco Insurance Company of Indiana<sup>A</sup></b>	<b>0.0%</b>	<b>IN</b>
<b>West American Insurance Company<sup>A</sup></b>	<b>0.0%</b>	<b>IN</b>
Total	<u>100.0%</u>	

<sup>A</sup> Indiana domiciled insurers that are party to the Intercompany Reinsurance Agreement, but do not participate in the retrocession of pool business.

## 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, 2012 and December 31, 2013, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2010 through December 31, 2013, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

AMERICAN ECONOMY INSURANCE COMPANY

Assets

As of December 31, 2013

	<u>Per Examination*</u>
Bonds	\$ 11,823,511
Stocks:	
Common stocks	11,380,328
Cash, cash equivalents, and short-term investments	3,229,533
Other invested assets	11,041
Receivables for securities	30,000
Subtotals, cash and invested assets	<u>26,474,413</u>
Investment income due and accrued	120,354
Reinsurance:	
Amounts recoverable from reinsurers	12,301,151
Current federal and foreign income tax recoverable and interest thereon	35,640,711
Net deferred tax asset	1,551,780
Receivables from parent, subsidiaries and affiliates	1,499,613
Aggregate write-ins for other than invested assets	7,292
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>77,595,314</u>
Total	<u>\$ 77,595,314</u>

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

AMERICAN ECONOMY INSURANCE COMPANY  
 Liabilities, Surplus and Other Funds  
 As of December 31, 2013

	Per Examination*
Ceded reinsurance premiums payable (net of ceding commissions)	\$ 13,799,870
Payable to parent, subsidiaries and affiliates	25,400
Total liabilities excluding protected cell liabilities	13,825,270
Total liabilities	13,825,270
Common capital stock	5,000,000
Gross paid in and contributed surplus	50,145,851
Unassigned funds (surplus)	8,624,193
Surplus as regards policyholders	63,770,044
Totals	\$ 77,595,314

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

AMERICAN ECONOMY INSURANCE COMPANY  
Statement of Income  
For the Year Ended December 31, 2013

	Per Examination*
<b>UNDERWRITING INCOME</b>	
Premiums earned	\$ -
<b>INVESTMENT INCOME</b>	
Net investment income earned	17,656,161
Net realized capital gains (losses) less capital gains tax	3,770,811
Net investment gain (loss)	21,426,972
<b>OTHER INCOME</b>	
Aggregate write-ins for miscellaneous income	(1,459)
Total other income	(1,459)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	21,425,513
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	21,425,513
Federal and foreign income taxes incurred	(43,923,437)
Net income	\$ 65,348,950

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

AMERICAN ECONOMY INSURANCE COMPANY  
Capital and Surplus Account Reconciliation

	2013	2012	2011	2010
Surplus as regards policyholders, December 31 prior year	\$ 186,297,895	\$ 234,030,033	\$ 236,286,241	\$ 508,630,666
Net income	65,348,950	43,694,274	9,428,265	48,434,570
Change in net unrealized capital gains or (losses) less capital gains tax	(16,552,146)	5,203,917	(2,532,332)	123,335
Change in net deferred income tax	(46,130,529)	(6,214,593)	(656,884)	(12,476,174)
Change in nonadmitted assets	36,597,303	(177,509)	(9,533,248)	7,072,276
Cumulative effect of changes in accounting principles	-	2,924,710	448,738	-
Surplus adjustments:				
Paid in	(145,000,000)	(11,833,429)	-	(136,602,521)
Dividends to stockholders	(13,000,000)	(72,002,031)	-	(169,397,479)
Aggregate write-ins for gains and losses in surplus	(3,791,429)	(9,327,477)	589,253	(9,498,432)
Change in surplus as regards policyholders for the year	(122,527,851)	(47,732,138)	(2,256,208)	(272,344,425)
Surplus as regards policyholders, December 31 current year	<u>\$ 63,770,044</u>	<u>\$ 186,297,895</u>	<u>\$ 234,030,033</u>	<u>\$ 236,286,241</u>

### COMMENTS ON THE FINANCIAL STATEMENTS

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

### OTHER SIGNIFICANT ISSUES

There were no significant issues found during the examination period requiring disclosure in this Report of Examination.

### SUBSEQUENT EVENTS

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

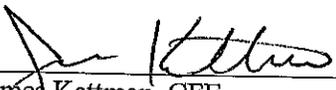
**AFFIDAVIT**

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., hereinafter collectively referred to as the "Examiners", performed an examination of American Economy Insurance Company, as of December 31, 2013.

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 American Economy Insurance Company as of December 31, 2013, as determined by the undersigned.

  
\_\_\_\_\_  
James Kattman, CFE  
Noble Consulting Services, Inc.

State of: Indiana  
County of: Marion

On this 22 day of MAY, 2015, before me personally appeared, James Kattman, 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 comm.  expires

**SAMANTHA LEIGH DOUGHERTY**  
Notary Public, State of Indiana  
Hendricks County  
Commission # 827606  
My Commission Expires  
July 04, 2019

  
\_\_\_\_\_  
Notary Public

