

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

IN THE MATTER OF:)
)
Arsenal Insurance Corporation)
11711 N. Pennsylvania Street)
Carmel, Indiana 46032)

Examination of Arsenal Insurance Corporation

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 Arsenal Insurance Corporation, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on September 30, 2013, 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 Arsenal Insurance Corporation 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.

November 19, 2013
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0023 5529 33

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11711 N. Pennsylvania Street)
Carmel, Indiana)

Examination of Arsenal Insurance Corporation

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Arsenal Insurance Corporation (hereinafter "Company") for the time period January 1, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on September 20, 2013.

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 September 30, 2013 and was received by the Company on October 3, 2013.

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 Arsenal Insurance Corporation as of December 31, 2012.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Arsenal Insurance Corporation 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 19 day of
November, 2013.


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

ARSENAL INSURANCE CORPORATION
NAIC Co. CODE 11865

As of
December 31, 2012

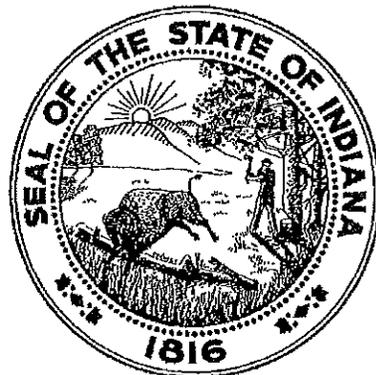


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STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

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

September 20, 2013

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 3753, an examination has been made of the affairs and financial condition of:

Arsenal Insurance Corporation
11711 N. Pennsylvania Street, Suite 110
Carmel, IN 46032

hereinafter referred to as "Arsenal," or the "Company," an Indiana domiciled title insurance company. The examination was conducted at the Company's home office located at the above address.

The Report of Examination, reflecting the status of the Company as of December 31, 2012, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

SCOPE OF EXAMINATION

The Company was last examined by the Indiana Department of Insurance (INDOI) as of the inception of the Company in 2004 through December 31, 2007. The present risk-focused examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2008 through December 31, 2012.

Noble conducted the risk-focused examination pursuant to and 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 Arsenal by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within Arsenal, 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, and management's compliance with Statutory Accounting Principles and Annual Statement instructions, when applicable to domestic state regulations.

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

HISTORY

On September 15, 2003, the incorporators applied to the INDOI for a Certificate of Authority. Upon meeting the requirements set forth within the Indiana Insurance Laws, a Certificate of Authority was granted on January 22, 2004.

CAPITAL AND SURPLUS

The Company has 1,000 shares authorized and 108 issued and outstanding. The stock does not have a par value and there is no preferred stock outstanding.

DIVIDENDS TO STOCKHOLDERS

No dividends were paid during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company writes title insurance in the state of Indiana only, marketing its products through title agents. Arsenal offers products adopted in form by the American Land Title Association. The products include title insurance policies and policy endorsements including owners, loan, and leasehold policies. Seventy-four percent (74%) of the Company's business is produced by Meridian Title Corporation (MTC), a title agency which employs the owners of Arsenal.

A title insurance company is liable for claims arising from uncovered liens, attachments, title search errors, or acts considered fraudulent during the period of coverage. Primarily, the Company ensures that no liens have arisen since the prior title search. Therefore, not all claims are necessarily the obligation of the current title company.

GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	<u>Capital</u> <u>and Surplus</u>	<u>Premiums</u> <u>Earned</u>	<u>Net</u> <u>Income</u>
2012	\$ 1,279,706	\$ 133,159	\$ 1,146,547	\$ 3,571,058	\$ 264,436
2011	1,133,297	251,186	882,111	2,367,100	36,246
2010	981,020	136,451	844,569	2,359,646	179,609
2009	786,244	122,868	663,376	1,755,858	108,953
2008	652,708	98,143	554,565	1,554,100	69,379

Premiums earned have increased each year of the examination period. As a result, admitted assets and capital and surplus have also increased throughout the examination period. The increase in premiums earned is primarily due to the rebound of the housing market from the 2008 housing market crash. Net income also increased each year under examination, with the exception of 2011. While the Company was still profitable in 2011, it decreased in profitability from 2010 mainly due to increases in federal income taxes and loss adjustment expenses incurred.

MANAGEMENT AND CONTROL

Directors

Per the Bylaws, the Board of Directors shall be composed of three (3) members. The following is a listing of persons serving as directors at December 31, 2012, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Andrew R. Drake Zionsville, Indiana	President Arsenal Insurance Corporation
Debra A. Collins Pendleton, Indiana	Vice President, Secretary, and Treasurer Arsenal Insurance Corporation
Mark T. Myers South Bend, Indiana	President Meridian Title Corporation

Officers

The Company's Bylaws state that the executive officers of the corporation shall be chosen by the Board of Directors and shall be a President, Secretary, and Treasurer. The Board of Directors may also choose one (1) or more Vice Presidents and other officers as it shall deem necessary.

The following is a list of officers and their respective titles as of December 31, 2012:

<u>Name</u>	<u>Office</u>
Andrew R. Drake	President
Debra A. Collins	Vice President, Secretary, and Treasurer

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 corporation and will not knowingly violate any of the laws applicable to such Company. Per review of the signed statements, it was noted that all Directors and officers listed in the Management and Control section of this Report of Examination had completed Oath of Office statements.

CORPORATE RECORDS

Articles of Incorporation

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

Bylaws

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

Minutes

The minutes from the Board of Directors meetings were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted.

Indiana Code (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. For each year under review, the annual meeting of shareholders was held within five (5) months following the close of each fiscal year.

AFFILIATED COMPANIES

Organizational Structure

Arsenal is part of a holding company system and is owned by three (3) individuals. Andrew R. Drake, President, and Debra A. Collins, Vice President, Secretary, and Treasurer, each own 46% of the Company. The remaining 8% of Arsenal's stock is owned by Mark T. Myers. All three (3) persons also have ownership interest in MTC, Arsenal's largest producer.

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.

Employee Services Agreement

Arsenal and MTC have entered into an employee services agreement in which MTC agrees to provide the services of MTC employees to Arsenal. In consideration for the performance of services of MTC employees, Arsenal pays MTC a Monthly Leasing Fee, which includes an agreed upon salary for each employee, as well as charges for payroll tax costs, employee benefit contributions, and other amounts paid by MTC on account of the MTC employees included in the agreement. The original effective date of the agreement was March 1, 2004.

Shared Services Agreement

Arsenal and MTC have entered into an agreement for sharing of services provided by MTC. These services include clerical, accounting, systems access, as well as furniture, fixtures, equipment, and supplies. The original effective date of the agreement was March 1, 2004.

Sublease Agreement

Arsenal and MTC entered into a sublease agreement which allows Arsenal to use MTC office space to conduct Arsenal business. The original effective date of the agreement was March 1, 2004.

Issuing Agency Contract

Arsenal has entered into an issuing agency contract with MTC which allows MTC to produce title insurance business for Arsenal. This original effective date of this agreement was February 25, 2004.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from fraudulent or dishonest acts by its employees through a fidelity bond issued by the General Casualty Company of Wisconsin. The bond has blanket coverage of \$100,000. The amount meets the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2012, including, but not limited to, liability and medical expenses, additional insureds blanket, business income changes, and damage to rented premises.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Arsenal does not have any direct employees to which pension, stock ownership, and insurance plans would be applicable.

STATUTORY DEPOSITS

The Company reported a statutory deposit for the state of Indiana for all policyholders with a book value and a fair value of \$61,970 at December 31, 2012.

REINSURANCE

The Company is not a party to any type of reinsurance contract.

ACCOUNTS AND RECORDS

Arsenal'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, 2011 and December 31, 2012, were agreed to the respective Annual Statements with no material exceptions noted. It was noted that the Company is accounting for its premium revenue, commission expense, and loss and loss adjustment expenses on a cash basis of accounting rather than the accrual basis required by Generally Accepted Accounting Principles. See the "Other Significant Issues" section of this report.

ARSENAL INSURANCE CORPORATION

FINANCIAL STATEMENTS

Assets

	As of December 31, 2012			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Cash, cash equivalents and short-term investments	1,275,149	-	1,275,149	1,126,258
Aggregate write-ins for invested assets	-	-	-	2,505
Subtotals, cash and invested assets	<u>1,275,149</u>	<u>-</u>	<u>1,275,149</u>	<u>1,128,763</u>
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	4,557	-	4,557	4,534
Total assets	<u>\$ 1,279,706</u>	<u>\$ -</u>	<u>\$ 1,279,706</u>	<u>\$ 1,133,297</u>

ARSENAL INSURANCE CORPORATION

FINANCIAL STATEMENTS

Liabilities, Surplus, and Other Funds

	As of December 31, 2012			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Liabilities:				
Statutory premium reserve	\$ 50,000	\$ -	\$ 50,000	\$ 50,000
Aggregate of other reserves required by law	50,000	-	50,000	50,000
Other expenses	1,500	-	1,500	-
Taxes, licenses and fees	20,984	-	20,984	26,113
Amounts withheld or retained by company for account of others	(975)	-	(975)	991
Payable to parent, subsidiaries and affiliates	11,650	-	11,650	124,082
Total liabilities	133,159	-	133,159	251,186
Common capital stock	500,000	-	500,000	500,000
Unassigned funds (surplus)	646,547	-	646,547	382,111
Surplus as regards policyholders	1,146,547	-	1,146,547	882,111
Total liabilities, capital and surplus	\$ 1,279,706	\$ -	\$ 1,279,706	\$ 1,133,297

ARSENAL INSURANCE CORPORATION

FINANCIAL STATEMENTS

Statement of Income

	As of December 31, 2012			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Title insurance and related income:				
Title insurance premiums earned	\$ 3,571,058	\$ -	\$ 3,571,058	\$ 2,367,100
Total operating income	3,571,058	-	3,571,058	2,367,100
Expenses:				
Losses and loss adjustment expenses incurred	35,425	-	35,425	39,164
Operating expenses incurred	3,256,902	-	3,256,902	2,185,416
Total operating expenses	3,292,327	-	3,292,327	2,224,580
Net underwriting gain or (loss)	278,731	-	278,731	142,520
Net investment income earned	4,731	-	4,731	2,373
Net investment gains (losses)	4,731	-	4,731	2,373
Aggregate write-ins for miscellaneous income or (loss) or other deductions	8,244	-	8,244	12,983
Net income after capital gains tax and before all other federal income taxes	291,706	-	291,706	157,876
Federal and foreign income taxes incurred	27,270	-	27,270	121,630
Net income (loss)	\$ 264,436	\$ -	\$ 264,436	\$ 36,246

ARSENAL INSURANCE CORPORATION

FINANCIAL STATEMENTS

Reconciliation of Capital and Surplus

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and Surplus Account:					
Surplus as regards policyholders,					
December 31 prior year	\$ 882,111	\$ 844,570	\$ 663,376	\$ 554,565	\$ 484,161
Net income	264,436	36,246	179,609	108,953	69,379
Change in nonadmitted assets	-	1,295	1,585	(142)	1,025
Change in surplus as regards policyholders for the year	<u>264,436</u>	<u>37,541</u>	<u>181,194</u>	<u>108,811</u>	<u>70,404</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 1,146,547</u>	<u>\$ 882,111</u>	<u>\$ 844,570</u>	<u>\$ 663,376</u>	<u>\$ 554,565</u>

COMMENTS ON THE FINANCIAL STATEMENTS

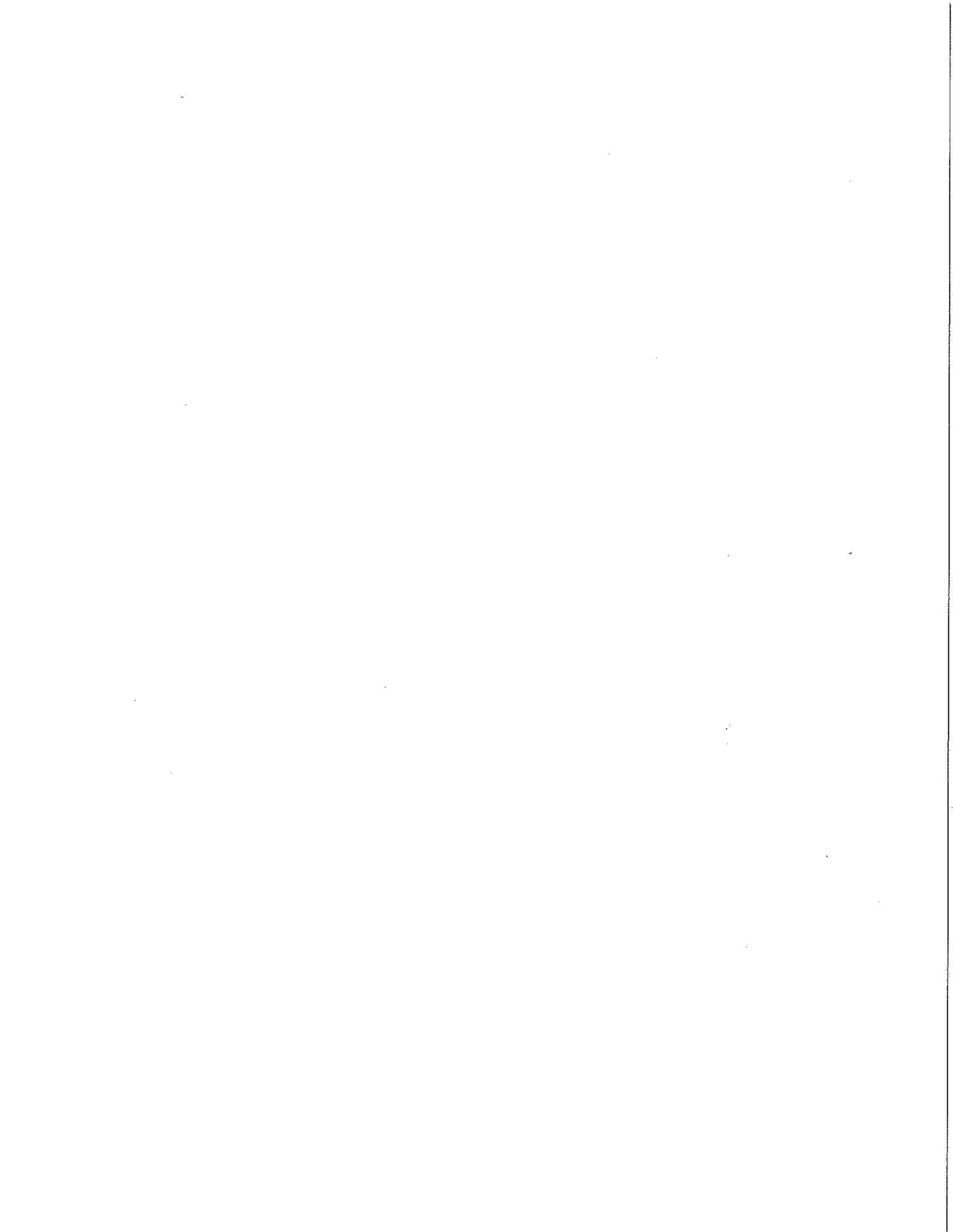
There were no recommended adjustments to surplus as of December 31, 2012, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

The Company is reporting its premium revenue, commission expense, and loss and loss adjustment expenses on a cash basis of accounting rather than the accrual basis of accounting. The Company should report these items on an accrual basis of accounting for future reporting periods.

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 the 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. performed an examination of **Arsenal Insurance Corporation** as of December 31, 2012.

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 Examiner's 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 the conditions of **Arsenal Insurance Corporation** as of December 31, 2012, as determined by the undersigned.



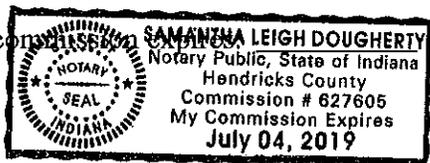
Roy D. Eft, CPA, CFE, MCM
Noble Consulting Services, Inc.

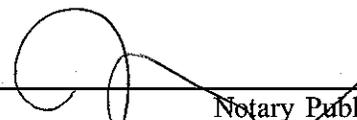
State of:
County of:

On this 25 day of Sept., 2013, before me personally appeared, Roy D. Eft, 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





Notary Public

