

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

IN THE MATTER OF:)
)
Merchants Property Insurance Company of Indiana)
1715 North Meridian Street)
Indianapolis, Indiana 46202-1498)

Examination of Merchants Property Insurance Company
of Indiana

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Executive Director, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Merchants Property Insurance Company of Indiana, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on September 22, 2010, has been adopted by the Acting Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Merchants Property Insurance Company of Indiana 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.

September 29, 2010
Date

Cynthia D. Donovan
Cynthia D. Donovan
Deputy Commissioner
Financial Services Operations

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2385

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

IN THE MATTER OF:)
)
Merchants Property Insurance Company of Indiana)
1715 North Meridian Street)
Indianapolis, Indiana 46202-1498)

Examination of Merchants Property Insurance Company
of Indiana

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Merchants Property Insurance Company of Indiana (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on September 9, 2010.

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 22, 2010 and was received by the Company on September 27, 2010.

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 Merchants Property Insurance Company of Indiana as of December 31, 2009.
2. That the Examiners' Recommendations are reasonable and necessary in order for the Merchants Property Insurance Company of Indiana 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 29th day of
September, 2010.


Stephen W. Robertson, Executive Director
Acting Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

**THE MERCHANTS PROPERTY INSURANCE
COMPANY OF INDIANA**

NAIC Co. CODE 11894

As of

December 31, 2009

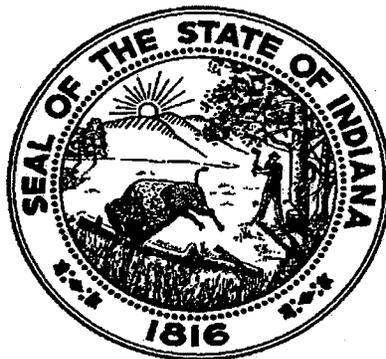


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

CAROL CUTTER, Commissioner

September 10, 2010

Honorable Alfred W. Gross
Chair, NAIC Financial Condition (E) Committee, NAIC
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Stephen W. Robertson, Executive Director
Acting Insurance Commissioner,
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioners:

Pursuant to the authority vested in Appointment Number 3647, an examination has been made of the affairs and financial condition of:

The Merchants Property Insurance Company of Indiana
1715 North Meridian Street
Indianapolis, IN 46202

an Indiana domiciled stock property and casualty insurance company hereinafter referred to as the "Company". The examination was conducted at the office of Noble Consulting Services, Inc. in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2009, 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
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by Noble Consulting Services, Inc. (Noble) as of the period ended December 31, 2004. The present examination was conducted by Noble and covered the period from January 1, 2005 through December 31, 2009 and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

We conducted our examination pursuant to and in accordance with the 2010 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The working papers prepared by Katz, Sapper & Miller, LLP, the Company's auditors, in their audit of the Company's accounts for the year ended December 31, 2009 were reviewed. A portion of the auditor's working papers have been incorporated into the working papers of the examiners and have been utilized for the purposes of this examination in accordance with the provisions contained in the Handbook.

HISTORY

The Company was incorporated in Indiana on September 16, 1917 as a stock property and casualty insurance company. The Company operated under the name The Merchants Fire Insurance Company of Indiana until November 1954, when the current name was adopted. In October 1994 a subsidiary company, the Merchants Property and Casualty Insurance Company, was merged into the Company.

The Company is 90.1% owned by Merchants Holding Company, Inc., which is 82.2% owned by Clark-Merchants, Inc. Clark-Merchants, Inc. is a family owned holding company.

During 2006 the Company surrendered its Alabama Certificate of Authority and surrendered its Ohio Certificate of Authority in 2008. The Company continues to maintain its license in Indiana.

CAPITAL AND SURPLUS

As of December 31, 2009, the Company had 10,000 shares of authorized common stock with a par value of \$125 per share, of which 9,575 shares were issued and outstanding. The Company reported capital stock totaling \$1,196,875 and gross paid in and contributed surplus totaling \$25,000 as of December 31, 2009. Dividends paid during the examination period were as follows:

<u>Year</u>	<u>Dividend</u>
2009	\$ 896,220
2008	980,480
2007	978,565
2006	880,900
2005	553,435

TERRITORY AND PLAN OF OPERATION

Effective July 31, 2004, the Company discontinued writing new business and renewing existing policies. As of October 2005 there were no policies in force. The Company has completed the run-off and remains dormant; the only activity the Company has is the management of its investment portfolio.

GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2009	\$ 46,957,718	\$ 8,844,976	\$ 38,112,742	\$ -	\$ 935,358
2008	43,422,700	7,672,000	35,750,700	-	3,553,915
2007	53,470,810	12,073,473	41,397,337	-	1,342,649
2006	50,262,274	11,065,689	39,196,585	4,990	1,031,126
2005	46,263,830	9,750,743	36,513,087	67,403	788,456

As shown above, the Company no longer has any policies in force. The only activity in which the Company is engaged is managing its investment portfolio. The results of investment portfolio fluctuate year to year due to the volatility of the market.

MANAGEMENT AND CONTROL

Directors

The Company's Bylaws state that the Board of Directors shall consist of five (5) members. The Shareholders at the annual meeting elect the members of the Board. Persons serving as Directors at December 31, 2009 were:

Name and Address

Principal Occupation

William Brown Clark
Indianapolis, IN

President and Chairman of the Board
The Merchants Property Insurance Company of Indiana

Sara Clark Lootens
Indianapolis, IN

Executive Vice President, Secretary, and Treasurer
The Merchants Property Insurance Company of Indiana

Ralph Burnett Clark
Cape Coral, FL

Retired

Ann Clark Calkins
Cleveland Heights, OH

Homemaker

Timothy Knoll Ryan
Indianapolis, IN

Attorney and Partner
Hackman, Hulett & Cracraft, LLP

Officers

The Company's Bylaws state the officers of the Company, who shall be elected by the Board of Directors, shall consist of a President, a Chairman of the Board of Directors, an Executive Secretary, a Treasurer, and such Administrative Vice Presidents and Administrative Secretaries as shall be elected from time to time, for a term lasting until the next annual meeting of the Board of Directors. The same person may hold any two or more offices, except the offices of President and the Secretary shall not be held by the same person. The following is a list of key officers and their respective titles as of December 31, 2009:

Name

Office

William Brown Clark

President and Chairman of the Board

Sara Clark Lootens

Executive Vice President, Secretary, and Treasurer

Shirley Ann Weedling

Assistant Treasurer

Committees

In accordance with the Company's Bylaws, the Directors may elect an executive committee and investment committee. The executive committee consists of three (3) Directors who shall have all of the powers of the Board of Directors. The investment committee consists of three (3) members, two (2) of which are Directors.

The following individuals were committee members at December 31, 2009:

Executive Committee

Investment Committee

William Brown Clark

William Brown Clark

Sara Clark Lootens

Sara Clark Lootens

Timothy Knoll Ryan

Shirley Ann Weedling

CONFLICT OF INTEREST

The Company requires Officers and Directors to review and sign Conflict of Interest statements on an annual basis. The Officers and Directors listed in the management and control section of this report have reviewed and signed statements as of year-end 2009.

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 corporation. Each Director signed an "Oath of Office" for all the years during the examination period.

CORPORATE RECORDS

Articles of Reorganization and Bylaws

There were no amendments made to the Company's Articles of Reorganization and Bylaws during the period under examination.

Minutes

The Board of Directors and Shareholder meeting minutes were reviewed for the period under examination and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular board meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

The following depicts the organization structure of The Merchants Property Insurance Company of Indiana and affiliates:

Clark-Merchants, Inc.

Merchants Holding Company

The Merchants Property Insurance Company of Indiana

- 11894

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 IDOI as required in accordance with IC 27-1-23-4.

Allocation of Federal Income Tax Agreement

The Company is party to an Allocation of Federal Tax Agreement to file a consolidated federal tax return with its parent, Merchants Holding Company, Inc. Each member's liability is determined as if calculated on a separate return basis.

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 St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$250,000 with a deductible of \$10,000. The fidelity bond is adequate to meet the prescribed minimum coverage as recommended by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2009 including, but not limited to, directors' and officers' liability, commercial property, commercial umbrella, and workers compensation.

STATUTORY AND SPECIAL DEPOSITS

The Company had a statutory deposit for the State of Indiana with a par value of \$200,000 and a statement value of \$200,509.

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, 2009 and 2008 were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2005 through December 31, 2009 were agreed to each year's independent audit report without exception.

The Merchants Property Insurance Company of Indiana

FINANCIAL STATEMENTS

Assets

	As of December 31, 2009			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Assets:				
Bonds	\$ 13,521,244	\$ -	\$ 13,521,244	\$ 13,374,636
Common stocks	32,595,725	-	32,595,725	28,792,371
Properties occupied by the company	139,819	-	139,819	139,819
Cash, cash equivalents and short-term investments	487,370	-	487,370	807,933
Subtotals, cash and invested assets	<u>46,744,158</u>	<u>-</u>	<u>46,744,158</u>	<u>43,114,759</u>
Investment income due and accrued	210,653	-	210,653	231,759
Current federal and foreign income tax recoverable and interest thereon	2,907	-	2,907	76,172
Electronic data processing equipment and software	-	-	-	10
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>46,957,718</u>	<u>-</u>	<u>46,957,718</u>	<u>43,422,700</u>
Total assets	<u>\$ 46,957,718</u>	<u>\$ -</u>	<u>\$ 46,957,718</u>	<u>\$ 43,422,700</u>

The Merchants Property Insurance Company of Indiana

FINANCIAL STATEMENTS

Liabilities, Capital and Surplus

	As of December 31, 2009			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Liabilities:				
Losses	\$ 5,500	\$ -	\$ 5,500	\$ 15,400
Loss adjustment expenses	6,343	-	6,343	10,523
Other expenses	2,512	-	2,512	2,968
Taxes, licenses and fees	26,972	-	26,972	29,556
Net deferred tax liability	8,803,649	-	8,803,649	7,613,553
Total liabilities excluding protected cell liabilities	8,844,976	-	8,844,976	7,672,000
Total liabilities	8,844,976	-	8,844,976	7,672,000
Common capital stock	1,196,875	-	1,196,875	1,196,875
Gross paid in and contributed surplus	25,000	-	25,000	25,000
Unassigned funds (surplus)	36,890,867	-	36,890,867	34,528,825
Surplus as regards policyholder	38,112,742	-	38,112,742	35,750,700
Total liabilities, capital and surplus	\$ 46,957,718	\$ -	\$ 46,957,718	\$ 43,422,700

The Merchants Property Insurance Company of Indiana

FINANCIAL STATEMENTS

Statement of Income

	As of December 31, 2009			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
UNDERWRITING INCOME				
Premiums earned	\$ -	\$ -	\$ -	\$ -
DEDUCTIONS				
Losses incurred	(10,418)	-	(10,418)	1,451
Loss adjustment expenses incurred	15,378	-	15,378	(8,339)
Other underwriting expenses incurred	185,752	-	185,752	151,652
Total underwriting deductions	<u>190,712</u>	<u>-</u>	<u>190,712</u>	<u>144,764</u>
Net underwriting gain (loss)	(190,712)	-	(190,712)	(144,764)
INVESTMENT INCOME				
Net investment income earned	1,143,247	-	1,143,247	1,375,037
Net realized capital gains less capital gains tax	<u>101,088</u>	<u>-</u>	<u>101,088</u>	<u>3,808,713</u>
Net investment gains	1,244,335	-	1,244,335	5,183,750
OTHER INCOME				
Total other income	-	-	-	-
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>1,053,623</u>	<u>-</u>	<u>1,053,623</u>	<u>5,038,986</u>
Dividends to policyholders	-	-	-	-
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>1,053,623</u>	<u>-</u>	<u>1,053,623</u>	<u>5,038,986</u>
Federal and foreign income taxes incurred	<u>118,265</u>	<u>-</u>	<u>118,265</u>	<u>1,485,071</u>
Net income	<u>\$ 935,358</u>	<u>\$ -</u>	<u>\$ 935,358</u>	<u>\$ 3,553,915</u>
CAPITAL AND SURPLUS ACCOUNT				
Surplus as regards policyholders, December 31 prior year	35,750,700	-	35,750,700	41,397,337
Net income	<u>935,358</u>	<u>-</u>	<u>935,358</u>	<u>3,553,915</u>
Change in net unrealized capital gains or (losses) less capital gains tax of \$1,194,409	2,318,558	-	2,318,558	(8,214,840)
Change in net deferred income tax	4,313	-	4,313	(5,265)
Change in nonadmitted assets	33	-	33	33
Dividends to stockholders	(896,220)	-	(896,220)	(980,480)
Change in surplus as regards policyholders for the year	<u>2,362,042</u>	<u>-</u>	<u>2,362,042</u>	<u>(5,646,637)</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 38,112,742</u>	<u>\$ -</u>	<u>\$ 38,112,742</u>	<u>\$ 35,750,700</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2009 based on the results of this examination.

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, a management representation letter in the standard NAIC format was obtained. This letter was executed by key financial personnel of the Company and provided to the IDOI.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of **The Merchants Property Insurance Company of Indiana** as of **December 31, 2009**.

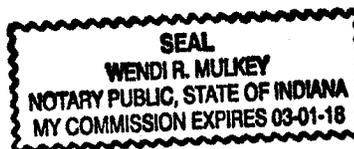
The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the 2010 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 condition of **The Merchants Property Insurance Company of Indiana** as of **December 31, 2009** as determined by the undersigned.



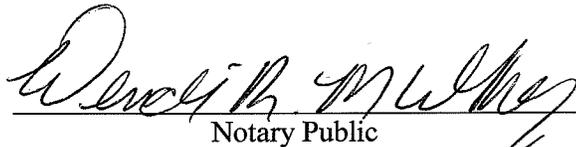
Lisa A. Warrum, CFE
Noble Consulting Services, Inc.



State of:
County of:

On this 10 day of September, 2010, before me personally appeared, Lisa A. Warrum, 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: 3-1-18 
Notary Public