

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

IN THE MATTER OF:)

NAMIC Insurance Company, Inc.)
3601 Vincennes Road)
Indianapolis, Indiana 46268)

Examination of: NAMIC Insurance Company, Inc.

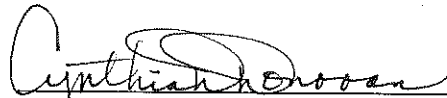
NOTICE OF ENTRY OF ORDER

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 NAMIC Insurance Company, Inc., any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of NAMIC Insurance Company, Inc. 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 June 25, 2014


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0033 9992 30

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COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
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NAMIC Insurance Company, Inc.)
3601 Vincennes Road)
Indianapolis, Indiana)

Examination of: NAMIC Insurance Company, Inc.

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the NAMIC Insurance Company, Inc. (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 April 25, 2014.

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 22, 2014 and was received by the Company on May 27, 2014.

On June 6, 2014, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

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

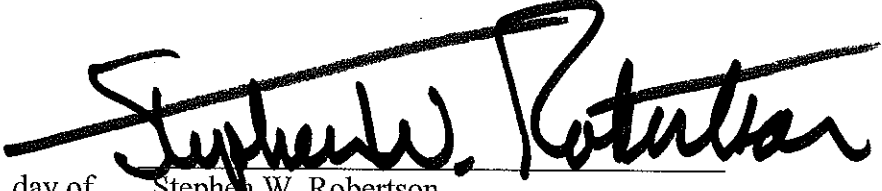
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2012.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

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

Signed and Sealed this 25 day of
June, 2014.

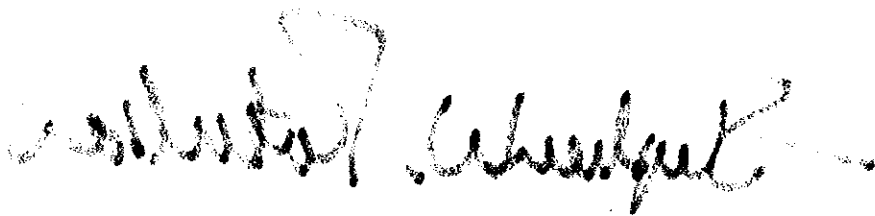

Stephen W. Robertson
Insurance Commissioner

ABOUT AFFIRMATIONS

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

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

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

A handwritten signature in cursive script, appearing to read "Robert J. Schuchert", is written across the bottom of the page.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
NAMIC INSURANCE COMPANY, INC.
NAIC COMPANY CODE 29629

As of
December 31, 2012

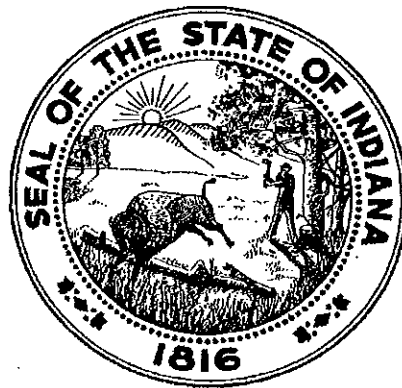


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STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

Indiana Department of Insurance

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

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Stephen W. Robertson, Commissioner

April 25, 2014

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 3800, an examination has been made of the affairs and financial condition of:

NAMIC Insurance Company, Inc.
3601 Vincennes Road
Indianapolis, Indiana 46268

an Indiana domestic, stock, property and casualty insurance company hereinafter referred to as the "Company." The examination was conducted at the corporate offices of the Company at 3691 Vincennes Road, Indianapolis, IN 46268.

The Report of Examination, showing the status of the Company as of December 31, 2012, 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 PRO 1-800-332-4674
1-800-622-4461

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2007. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2008 through December 31, 2012, 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 BKD, 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, 2012.

In accordance with the 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.

There were no comments or recommendations made in the previous INDOI report of examination.

HISTORY

The Company was incorporated on November 21, 1986 under the provisions of Indiana Insurance Law and commenced business on July 1, 1987. The Company is a member of the National Association of Mutual Insurance Companies (NAMIC), an Indiana not-for-profit trade association which provides various services to its member companies. The Company was organized to provide NAMIC member companies with a market for directors and officers (D&O), and errors and omissions (E&O) liability insurance, and E&O liability insurance for certain agents of member companies.

CAPITAL AND SURPLUS

The authorized capital of the Company consists of 2,000 shares of Class A common stock and 498,000 shares of Class B common stock with a par value of \$51 per share. As of December 31, 2012, the Company had issued 2,000 shares of Class A common stock (\$102,000 total par value) and 89,419 shares of Class B common stock (\$4,560,369 total par value) for total capital stock of \$4,662,369. All of the Company's outstanding Class A common stock was held by NAMIC. Pursuant to the terms of a

Subscription and Security Holders Agreement, the Class B common stock ownership is limited to mutual property and casualty insurance companies which are members of NAMIC. This agreement also specifies that no single shareholder may own more than 5,000 shares of the Company's Class B common stock.

As of December 31, 2012, the Company reported gross paid-in and contributed surplus of (\$980,466) and unassigned funds (surplus) of \$18,414,946.

DIVIDENDS TO STOCKHOLDERS

The Company did not declare or pay stockholder dividends during the period covered by this examination.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in Indiana and Kentucky. The Company is also authorized to write business on an excess and surplus lines basis in the following seventeen (17) states and territory: Colorado, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Carolina, North Dakota, Ohio, Pennsylvania, South Dakota, Tennessee, Texas, Virginia, Wisconsin and Guam.

The Company's mission is to provide professional liability insurance to NAMIC member mutual insurance companies, the business partners of those companies, and to insurance industry-related entities. The Company's market is currently limited to these three groups. For the period covered by this examination, the Company wrote the following lines of business: Directors and Officers Liability, Professional Liability, Insurance Agents and Brokers Errors & Omissions Liability, Insurance Company Trustees and Fiduciaries Liability, and Employment Practices Liability.

The Company markets its products through NAMIC Insurance Agency, Inc. (Agency). Agency is the sole distribution channel for the Company's insurance products.

GROWTH OF THE COMPANY

Comparative financial data, as reported in the Company's filed Annual Statements for the period under examination, was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Admitted Assets	\$ 47,323,267	\$ 46,407,145	\$ 47,767,694	\$ 44,797,637	\$ 42,870,371
Total Liabilities	25,226,419	25,802,864	26,888,977	27,505,822	25,081,268
Surplus	22,096,849	20,604,281	20,878,717	17,291,816	17,789,103
Net Income	1,610,884	1,280,467	1,586,309	(672,426)	(1,126,235)
Direct Premiums Written	8,674,158	8,073,577	7,660,570	7,380,387	7,109,621
Net Premiums Written	4,343,762	2,732,669	2,494,703	2,399,510	2,461,006

Net Premiums Written increased by approximately 59% in 2012 from 2011. The growth in Net Premiums Written was mainly the result of an increase in the Company's assumed premiums under a fronting arrangement. See the "Reinsurance" section of this report for additional information on the Company's fronting arrangement.

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>
2012	\$ 3,611,742	\$ 2,081,804	\$ 1,485,769	57.64%	98.78%
2011	2,472,628	990,118	1,027,042	40.04%	81.58%
2010	2,561,075	1,042,045	894,132	40.69%	75.60%
2009	2,408,462	3,562,448	1,193,906	147.91%	197.49%
2008	2,526,212	995,489	1,155,396	39.41%	85.14%

With the exception of 2009, the Company reported an underwriting profit in each of the other four years covered by this examination.

MANAGEMENT AND CONTROL

Directors

The Company's Bylaws specify the number of directors of the Company shall be nine (9). The directors are elected as required under the provisions of Article E of the Company's Articles of Incorporation as follows:

The Class A stock, voting as a class, shall be entitled to elect a number of directors (the "Class A directors") equal to the first integral number which is more than one-half (1/2) of the whole authorized number of directors.

The Class B stock, voting as a class, shall be entitled to elect a number of directors (the "Class B Directors") equal to the first integral number which is less than one-half (1/2) of the whole authorized number of directors.

In accordance with Article E of the Articles of Incorporation, five (5) of the nine (9) directors were elected by the Class A shareholder, NAMIC, and four (4) of the directors were elected by the Class B shareholders. The following is a listing of persons serving as directors as of December 31, 2012:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Peter J. Cammarata Ophelia, Virginia	President Northern Neck Insurance Company
Todd J. Carmony Wooster, Ohio	President and Chairman of the Board Wayne Mutual Insurance Company
Charles M. Chamness Indianapolis, Indiana	Chairman of the Board* NAMIC Insurance Company, Inc.
Linda J. Day Louden, New Hampshire	President and Chief Executive Officer The Concord Group Insurance Companies
Kurt P. Foley Fenton, Michigan	President and Chief Executive Officer Pioneer State Mutual Insurance Company
J. Wilbur Maas Sioux Center, Iowa	President Farmers Mutual Insurance Association
Christopher G. Shipe Berryville, Virginia	President and Chief Executive Officer Loudon Mutual Insurance Company
G. Steven Smith Acton, Ontario	President and Chief Executive Officer Farm Mutual Reinsurance Plan, Inc.
Wayne F. White Conway, Arkansas	President Farmers Union Mutual Insurance Company

* Per Article IV of the Company's Bylaws, the board of directors shall elect the President of NAMIC as chairman of the board of directors.

Officers

The Company's Bylaws state the officers shall consist of the Chairman of the Board, the President, one or more Vice Presidents, Secretary, Treasurer and such other subordinate officers as may be chosen by the board of directors. The Company's daily operations were managed by the following senior officers as of December 31, 2012:

<u>Name</u>	<u>Office</u>
Timothy F. Sullivan	President and Chief Executive Officer
Joyce C. Dean	Secretary/Treasurer
Pamela J. Keeney	Vice President - Underwriting
Brian J. Stanek	Vice President -- Information Technology

Corporate Governance

The Company's Bylaws provide that the directors may create an executive committee of three (3) directors, at least one of which must be a Class B director. In addition, the Bylaws specify that the board of directors may by resolution provide for such other standing or special committees of the board of directors. The Company had the following standing board committees as of December 31, 2012:

Audit Committee
Compensation Committee
Executive Committee
Governance Committee
Investment Committee
Reinsurance Committee

CONFLICT OF INTEREST

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer, or key employee, which is likely to conflict with their official duties. From a review of the officers' and directors' signed statements, there were no conflicts of interest reported by any of the officers or directors.

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. It was noted during the examination that the board members subscribed to an "Oath of Office."

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Company's Articles of Incorporation during the period covered by this examination.

Bylaws

The Company amended its Bylaws to include Article VI, Indemnification and Insurance. This Article provides that the Company will indemnify current and former directors, officers, employees, and other eligible persons in connection with or resulting from certain "Claims" as defined within Article VI. The amendment to the Bylaws was adopted by a resolution of the Company's board of directors on July 25, 2008.

Minutes

The board of directors and shareholder meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual shareholder meetings and board meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system in which it is the sole insurance affiliate of the parent holding company, NAMIC. In addition to the Company, NAMIC, a not for profit trade association, has a for-profit subsidiary, NAMIC Service Corporation, Inc. (NSC). In turn, NSC is the 100% owner of a subsidiary - NAMIC Insurance Agency, Inc. Agency is the sole distribution agency for the Company's insurance products. Other entities within the holding company include the following:

- NAMIC PG – a risk purchasing group formed and operating pursuant to the Liability Risk Retention Act of 1986 (15 USC 3901 et seq.) under which liability insurance is available to group members.
- NAMIC Group Insurance Trust (a Voluntary Employees Beneficiary Association "VEBA" multiple employer benefit trust providing health insurance benefit programs to member company personnel).
- NAMIC Master Retirement Trust (a multiple employer benefit trust providing retirement benefit programs to member company personnel).
- NAMIC PAC (a federal election political action committee registered with the Federal Election Committee "FEC")

- NAMIC Advocacy Fund (a separate segregated account, a 527 entity)

An abbreviated organizational chart of the holding company system as of December 31, 2012 is included below:

Organizational Chart

Company	NAIC Code	Incorporated State
National Association of Mutual Insurance Companies		IN
NAMIC Insurance Company, Inc. – 100%*	29629	IN
NAMIC PG, Inc. – 100%		IN
NAMIC Service Corporation, Inc. – 100%		IN
NAMIC Insurance Agency, Inc. – 100%		IN

*NAMIC owns 100% of the Company’s Class A common stock.

Affiliated Agreements

As of December 31, 2012, the Company operated under the following intercompany agreements which have been filed with the INDOI in accordance with IC 27-1-23-4.

Administrative and Services Agreement

The Company entered into an agreement with NAMIC on September 12, 2001, whereby NAMIC agreed to perform personnel and administrative services for the Company in return for payment of fees to NAMIC based on the costs of providing such services. These services included staff compensation, payroll, benefit administration, recruitment, and information systems services. In addition, NAMIC agreed to provide office space and office equipment. This agreement was superseded by three separate agreements that became effective in January 2013. **As a result, please see the “Subsequent Events” section of the report for a summary of these additional agreements.**

Agency Agreement

The Company entered into an agreement with NAMIC Insurance Agency, Inc. effective January 1, 1990, whereby the Company grants full power and authority to the Agent subject to such binding authority as may be granted, to receive and accept proposals for insurance covering such classes or risks as the Company may authorize to be written. Effective January 1, 2002, the agreed upon commission, by the parties, of the contract was specified to be 15% on all business not written on a facultative basis. Commissions on facultative business will be paid on each separate facultative placement at a rate as agreed upon by both parties.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond whereby the Company is insured for a single loss up to \$500,000 with a \$5,000 deductible.

As of December 31, 2012, the fidelity bond coverage limit was adequate to meet the prescribed minimum coverage specified by the NAIC.

Other significant insurance coverages in force as of December 31, 2012, included errors & omissions, directors & officers, commercial general liability, employment practices liability, and commercial excess and umbrella liability. All other coverages were determined to be adequate as of December 31, 2012.

STATUTORY AND SPECIAL DEPOSITS

The Company reported statutory deposits for the benefit of all policyholder with the State of Indiana as of December 31, 2012 as stated below. The Company did not have any other statutory deposits with other states as of December 31, 2012.

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$2,608,765	\$2,456,969

REINSURANCE

The Company's reinsurance program is described below:

Reinsurance Assumed

Scottsdale Insurance Company 100% Quota Share Reinsurance Agreement

The NAMIC Insurance Company Professional Liability Insurance Program ("Program") is written in approximately 43 states (this number can vary in any given year based on renewals or new business in states in which the Program has only one or a few insureds). For the remaining states in which the Company is not chartered, it relies on business partnerships to provide the authority to issue policies to the Program policyholders. From 1994 until December 31, 2011, the Company's business partner was Scottsdale Insurance Company (and its affiliate, National Casualty Company, together "Scottsdale").

From 1994 through 2010, the Company and Scottsdale worked together under a reinsurance agreement that provided for the Company assuming 75% of the premium and losses for the first \$1 million in coverage, and 90% of the premium and losses for the \$4 million excess of \$1 million limits on all Program business written by Scottsdale. Scottsdale retained 25% and 10%, respectively, of the premium and losses for the first \$1 million and \$4 million excess of \$1 million layers.

Effective January 1, 2011, the Company entered into a new reinsurance agreement that provided for it to assume 70% of the premium and losses for the first \$1 million in coverage, and 85% of the premium and losses for the \$4 million excess of \$1 million limits on all Program business written by Scottsdale.

Scottsdale retained 30% and 15%, respectively, of the premium and losses for the first \$1 million and \$4 million excess of \$1 million layers.

Effective January 1, 2012, the Company entered into a fronting arrangement with Scottsdale whereby Scottsdale ceded 100% of the Program business to the Company under a 100% Quota Share Reinsurance Agreement.

See the “Subsequent Events” section of the report for additional changes that were made to the Company’s fronting arrangement in 2014.

Quota Share Reinsurance Agreements - Farm Mutual Reinsurance Plan and Promutual Reassurance

The Company also assumes a small amount of Canadian business from Farm Mutual Reinsurance Plan, Inc. and Promutual Reassurance. The assumed Canadian business includes professional liability, directors and officers liability, and trustees and fiduciaries liability coverages. During 2012, the Company assumed approximately \$271,000 of premium under these two agreements.

Fidelity Business - Travelers Casualty & Surety Company

The Company reinsures Travelers Casualty and Surety Company for a small book of fidelity business. At the outset of this partnership, a proprietary fidelity bond was developed with unique features that are not typically included within standard bond forms in the marketplace. Under a Quota Share Reinsurance Agreement, the Company assumed 40% of losses per policy up to a maximum of \$1,000,000 per policy. The Company only assumed \$106,000 of premium under this agreement during 2012.

Reinsurance Ceded

The following ceded agreements were in effect as of December 31, 2012:

NAMIC Reinsurance Facility (Facility) – NAMIC member companies

As a condition of obtaining and maintaining insurance through the NAMIC Insurance Company program for directors and officers or insurance company professional liability exposures, any member insurance company with legal authority to reinsure the Company for general liability exposures (including Section 2 of multi-peril policies) is required to reinsure the Company. This requirement is limited, on a per-risk basis, to one-half of such insurance company’s normal liability per-risk net retention for monoline general liability policies (but not including automobile liability policies), up to a maximum of one-half of one percent (.5%) of its policyholders’ surplus as of the end of the last previous calendar year (referred herein as the “reinsurance obligation”), subject to an increase in the event of the insolvency of the Company or one or more members of the Facility. Companies with the legal authority to insure or reinsure liability exposures, but that do not do so, are deemed to have a normal per-risk net retention of zero, and therefore, are not required to reinsure the Company.

As of December 31, 2012, the Company ceded or retroceded to the NAMIC Reinsurance Facility, 40% of the first \$1,000,000 each claim, each policy, and 70% of the next \$4,000,000 each claim, each policy, in

excess of \$1,000,000 each claim, each policy.

Aggregate Excess of Loss Reinsurance Contract – Allianz Risk Transfer AG

Effective January 1, 2011, the Company entered into a D&O/E&O Aggregate Excess of Loss Reinsurance Contract. Under the contract, the reinsurer is liable to the Company for the amount of ultimate net loss, if any, in excess of a 95% loss ratio up to a maximum of a 145% loss ratio.

Employment Practices Liability – Hartford Steam Boiler Inspection & Insurance Company

The Company is reinsured 100% by Hartford Steam Boiler (HSB) on all employment practices liability (EPL) endorsements that are attached to Agents' E&O policies. The Company ceded approximately \$161,000 of premium under this agreement during 2012.

In addition to treaty coverages described above, the Company also cedes policy risks in excess of \$5,000,000 on a facultative basis.

RESERVES

Alan M. Crowe, FCAS, MAAA, associated with the firm of Oliver Wyman Actuarial Consulting, Inc., is the Company's Appointed Actuary. Mr. Crowe was appointed by the board of directors to render an opinion on the reserves of the Company. He rendered an opinion on such reserves for the years ended December 31, 2008 to 2012.

The scope of the opinion was to examine the loss and loss adjustment expense reserves of the Company. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. The 2012 opinion stated the reserves: A) meet the requirements of the insurance laws of the State of Indiana; B) are consistent with reserves computed in accordance with accepted loss reserving standards and principles; and C) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

During the examination, it was determined by the INDOI consulting actuaries, David Shepherd, FCAS, MAAA, and Gregory Fanoë, FCAS, MAAA, both from the firm of Merlinos & Associates, Inc., that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

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 balance prepared from the Company's general ledger for the year ended December 31, 2012 was agreed to the 2012 Annual Statement without exception.

The Company's independent auditors issued unqualified opinions on the Company's audited Statutory

Financial Statements for each year during the examination period. The audited financial statements were agreed to the Annual Statements for the years ended December 31, 2008 through December 31, 2012 with no material exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers which were reviewed during the examination. From a review of the internal controls and the Company's disaster recovery plan, it was determined that the current information systems possess most of the physical and internal controls as prescribed by the NAIC.

The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

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.

NAMIC INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

Assets

	As of December 31, 2012			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Assets:				
Bonds	\$ 29,680,995	\$ -	\$ 29,680,995	\$ 29,382,850
Preferred Stocks	236,304	-	236,304	202,350
Common Stocks	9,399,853	-	9,399,853	8,132,425
Cash \$396,484, cash equivalents \$0 and short-term investments \$761,690	1,158,174	-	1,158,174	3,151,495
Receivable for securities	28,892	-	28,892	-
Subtotals, cash and invested assets	\$ 40,504,218	\$ -	\$ 40,504,218	\$ 40,869,121
Investment income due and accrued	261,398	-	261,398	264,872
Uncollected premiums and agents' balances in the course of collection	1,655,339	-	1,655,339	1,854,698
Amounts recoverable from reinsurers	86,112	-	86,112	116,622
Funds held by or deposited with reinsured companies	4,756,200	-	4,756,200	3,176,187
Current federal income tax	60,000	-	60,000	-
Net deferred tax asset	-	-	-	125,645
Total Admitted Assets	\$ 47,323,267	\$ -	\$ 47,323,267	\$ 46,407,145

NAMIC INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2012			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Liabilities:				
Losses	\$ 2,237,426	\$ -	\$ 2,237,426	\$ 3,306,934
Reinsurance payable on paid losses and loss adjustment expenses	578,320	-	578,320	308,074
Loss adjustment expenses	2,855,189	-	2,855,189	1,214,417
Other expenses (excluding taxes, licenses and fees)	872,090	-	872,090	709,306
Taxes, licenses and fees (excluding federal and foreign income taxes)	6,770	-	6,770	4,371
Net deferred tax liability	176,246	-	176,246	-
Current FIT	-	-	-	233,328
Unearned premiums	2,127,061	-	2,127,061	1,395,041
Ceded reinsurance premiums payable (net of ceding commissions)	15,447	-	15,447	296,531
Funds held by company under reinsurance companies	16,356,518	-	16,356,518	17,879,604
Amounts withheld or retained by company for accounts of others	1,352	-	1,352	2,252
Payable for securities	-	-	-	453,006
Total Liabilities	\$ 25,226,419	\$ -	\$ 25,226,419	\$ 25,802,864
Common capital stock	\$ 4,662,369	\$ -	\$ 4,662,369	\$ 4,663,899
Gross paid in & contributed surplus	(980,466)	-	(980,466)	(975,385)
Unassigned funds (surplus)	18,414,946	-	18,414,946	16,915,767
Surplus as regards policyholders	\$ 22,096,849	\$ -	\$ 22,096,849	\$ 20,604,281
Total liabilities, capital and surplus	\$47,323,267	\$ -	\$ 47,323,267	\$ 46,407,145

NAMIC INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

Summary of Operations

	As of December 31, 2012			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Underwriting Income				
Premiums earned	\$ 3,611,742	\$ -	\$ 3,611,742	\$ 2,472,628
Losses incurred	\$ (389,275)	\$ -	\$ (389,275)	\$ 84,102
Loss adjustment expenses incurred	2,471,079	-	2,471,079	906,016
Other underwriting expenses incurred	1,485,769	-	1,485,769	1,027,042
Total underwriting deductions	\$ 3,567,573	\$ -	\$ 3,567,573	\$ 2,017,160
Net underwriting gain (loss)	\$ 44,169	\$ -	\$ 44,169	\$ 455,467
Investment Income				
Net investment income earned	\$ 651,948	\$ -	\$ 651,948	\$ 730,695
Net realized capital gains (losses) less capital gains tax	942,068	-	942,068	275,601
Net investment gain	\$ 1,594,016	\$ -	\$ 1,594,016	\$ 1,006,296
Other Income				
Aggregate write-ins for miscellaneous income	26,881	-	26,881	\$ 207,624
Total other income	\$ 26,881	\$ -	\$ 26,881	\$ 207,624
Net income before dividends to policyholders after capital gains tax and before federal and foreign income taxes	\$ 1,665,066	\$ -	\$ 1,665,066	\$ 1,669,387
Dividends to policyholders	-	-	-	-
Net gain from operations after dividends to policyholders, after capital gains tax before all other federal and foreign income taxes	\$ 1,665,066	\$ -	\$ 1,665,066	\$ 1,669,387
Federal and foreign income taxes incurred	54,183	-	54,183	388,920
Net income	\$ 1,610,884	\$ -	\$ 1,610,884	\$ 1,280,467

NAMIC INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

Capital and Surplus Account

	As of December 31, 2012			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Capital and Surplus Account:				
Surplus as regards policyholders December 31, prior year	\$ 20,604,281	\$ -	\$ 20,604,281	\$ 20,878,716
Net income	1,610,884	-	1,610,884	1,280,467
Change in net unrealized capital gains or (losses)	607,937	-	607,937	(429,825)
Change in net deferred income tax	(463,543)	-	(463,543)	(38,066)
Change in nonadmitted assets	(38,893)	-	(38,893)	(71,412)
Capital paid in	(1,530)	-	(1,530)	(168,147)
Paid in surplus	(5,081)	-	(5,081)	(433,578)
Aggregate write-ins for gains and losses in surplus	(217,209)	-	(217,209)	(413,874)
Capital and surplus, December 31, current year	<u>\$ 22,096,849</u>	<u>\$ -</u>	<u>\$ 22,096,849</u>	<u>\$ 20,604,281</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 FINDINGS

There were no significant findings made as a result of this examination.

SUBSEQUENT EVENTS

Intercompany Agreements

The Company entered into the following three intercompany agreements subsequent to the period covered by this examination:

Client Services Agreement

Effective January 11, 2013, the Company entered into a Client Services Agreement ("Agreement") with its affiliate, NSC. Under the terms of the Agreement, NSC, as a professional employer organization ("PEO"), agrees to provide professional employer, human resource, employee administration and management services to the Company through the co-employment of the Company's employees ("Assigned Employees"). In consideration of the services provided by NSC pursuant to this Agreement, the Company agrees to pay NSC the fees, expenses and amounts specified in Exhibit A of the Agreement which include employee compensation, benefit costs (health, retirement, wellness, vacation, sick leave, EAP, etc.), and related payroll/employment costs.

Administrative Services Agreement

Effective January 11, 2013, the Company entered into an Administrative Services Agreement with its affiliate, NSC, whereby NSC agrees to provide administrative, operations, technical, reception and similar services required by the Company. In return for the services, the Company agrees to pay a monthly service fee as specified in Exhibit A of the agreement.

Office Lease

The Company entered into an Office Lease with NSC effective January 11, 2013, in which it agrees to lease office space from NSC for the purposes of conducting its insurance operations. The term of the lease is four years from January 1, 2013 to December 31, 2016. Under the terms of the lease, the Company is required to make monthly rental payments. The rental cost is set as the amount equal to the rent paid by the Company during the preceding year multiplied by the percentage increase or decrease in the U.S. Department of Labor Consumer Price Indices for the Indianapolis, Indiana area during the calendar year immediately preceding the renewal term.

The preceding agreements replaced the Company's Administrative and Services Agreement that was dated September 12, 2001. On April 24, 2013, the INDOI informed the Company that it would not disapprove these agreements.

Change in Fronting Arrangement

Effective January 1, 2014, the Company terminated its fronting arrangement with Scottsdale Insurance Company with respect to new business and entered into a new fronting arrangement for its Program business with The State National Group, Inc. (State National) located in Bedford, Texas. As part of the new fronting arrangement, the Company entered into a 100% quota share reinsurance agreement with three subsidiaries of State National which included State National Insurance Company, United Specialty Insurance Company, and National Specialty Insurance Company. Under this quota share agreement, the Company assumes 100% of the Program business written on the State National companies' policy forms.

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.

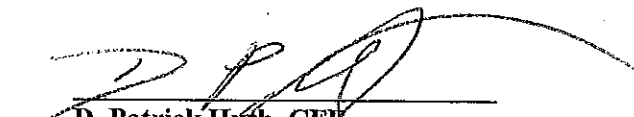
AFFIDAVIT

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 **NAMIC Insurance Company, Inc.**, as of **December 31, 2012**.

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 2012 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 **NAMIC Insurance Company, Inc.**, as of **December 31, 2012**, as determined by the undersigned.



D. Patrick Huth, CFE
The Thomas Consulting Group, Inc.

State of: Georgia
County of: Cobb

On this 2 day of May, 2014, before me personally appeared, D. Patrick Huth, 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 10/14/17 

Notary Public

