



## MISSISSIPPI INSURANCE DEPARTMENT

**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

501 N. WEST STREET, SUITE 1001  
WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
www.mid.state.ms.us

MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 359-2474

**MARK HAIRE**  
Deputy Commissioner of Insurance

January 31, 2012

### CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. George Reeth, President  
AmFed National Insurance Company  
576 Highland Colony Parkway, Suite 300  
Ridgeland, MS 39157

**RE: Report of Examination as of December 31, 2010**

Dear Mr. Reeth:


In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY   
Christina J. Kelsey  
Senior Attorney

MC/CJK/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE:   REPORT OF EXAMINATION OF AMFED  
          NATIONAL INSURANCE COMPANY**

**CAUSE NO. 12--6331**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

**II.**

That AmFed National Insurance Company, is a Mississippi-domiciled Company licensed to write Aircraft; Automobile Physical Damage/Liability; Boiler and Machinery; Casualty/Liability; Fidelity; Fire/Allied Lines; Home/Farm Owners; Industrial Fire; Inland Marine; Ocean Marine; Plate Glass; Surety; and Workers' Compensation coverages.

## **FINDINGS OF FACT**

### **III.**

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of AmFed National Insurance Company and appointed Sarah Lucibello, Examiner-In-Charge, to conduct said examination.

### **IV.**

That on or about September 30, 2011, the draft Report of Examination concerning AmFed National Insurance Company for the period of January 1, 2008 through December 31, 2010, was submitted to the Department by the Examiner-In-Charge, Sarah Lucibello.

### **V.**

That on or about December 12, 2011, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and was initially given 15 days to respond but was granted an additional 30 days based on request from company. On or about January 23, 2012, the Department received an e-mail from the Company with attached correspondence, and in response thereto, no revisions were made to the draft report.

## **CONCLUSIONS OF LAW**

### **VI.**

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination, all relevant examiner work papers and the Company's rebuttal, that the Report of Examination of AmFed National Insurance Company attached hereto as Exhibit "A", should be and same is hereby adopted as final.

**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, AmFed National Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that AmFed National Insurance Company take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 31<sup>st</sup> day of January 2012.

  
MIKE CHANEY  
COMMISSIONER OF INSURANCE

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 3<sup>rd</sup> day of January 2012, to:

**Mr. George Reeth, President  
AmFed National Insurance Company  
576 Highland Colony Parkway, Suite 300  
Ridgeland, MS 39157**



---

Christina J. Kelsey  
Senior Attorney

Christina J. Kelsey  
Senior Attorney  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 9853



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

### **AMFED NATIONAL INSURANCE COMPANY**

**576 Highland Colony Parkway, Suite 300  
Ridgeland, MS 39157**

**As of December 31, 2010**

**NAIC Group Code 661  
NAIC Company Code 11208  
NAIC ETS No. MS029-F8  
NAIC ETS No. MS120-M6**

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND  
PROCEDURES USED IN AN EXAMINATION**

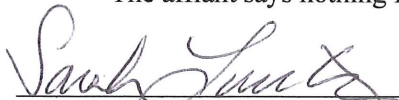
State of Illinois,

County of DuPage,

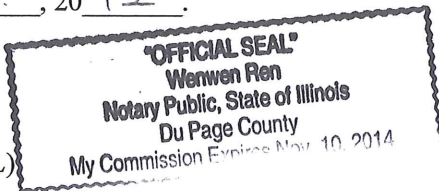
Sarah Lucibello, being duly sworn, states as follows:

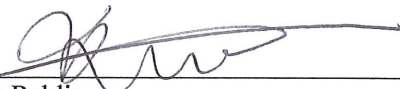
1. I have authority to represent the Mississippi Insurance Department in the examination of AmFed National Insurance Company.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of AmFed National Insurance Company was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

The affiant says nothing further.

  
\_\_\_\_\_  
Sarah Lucibello, CPA, CFE, CIA  
Examiner-in-charge

Subscribed and sworn before me by Sarah Anne Lucibello on this 26 day of Jan., 2012.

(SEAL) 

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

My commission expires Nov. 10, 2014 [date].



**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

**MISSISSIPPI INSURANCE DEPARTMENT**

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Jackson, MS 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 359-1951

September 30, 2011

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2010, of the affairs and financial condition of:

**AMFED NATIONAL INSURANCE COMPANY**  
**COMPANY LICENSE # 0100043**  
**NAIC COMPANY CODE 11208**  
576 Highland Colony Parkway, Suite 300  
Ridgeland, MS 39157

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and the report of examination is herewith submitted.

## **INTRODUCTION**

This examination was performed by examiners representing the Mississippi Insurance Department (“MID”) and covered AmFed National Insurance Company (“Company”) operations and financial condition from January 1, 2008 through December 31, 2010, including material transactions and/or events occurring subsequent to the examination date through September 30, 2011.

## **SCOPE OF EXAMINATION**

We have performed our examination of AmFed National Insurance Company. The last exam was completed as of December 31, 2007. This examination covers the period of January 1, 2008 through December 31, 2010.

Concurrent with this examination, we conducted an examination of the Company’s subsidiary, AmFed Casualty Insurance Company (AmFed Casualty). An examination report for AmFed Casualty will be issued under separate cover.

We conducted our examination in accordance with the NAIC Financial Condition Examiners 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.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

There were no comments and/or recommendations deemed necessary for purposes of the previous examination report.

## **HISTORY OF THE COMPANY**

The Company was incorporated in November 2001, under the laws of the State of Mississippi, and commenced business in January 2002. The Company was originally organized to primarily provide coverage on the business commonly known as workers' compensation insurance provided for by Miss. Code Ann. § 83-19-1(f). In February 2003, the MID approved the Company's amended Articles of Association to include all forms of fire and casualty insurance contracts that an insurer can lawfully enter.

Prior to October 1, 2008, the Company was a wholly owned subsidiary of AmFed Holding Company ("AFHC"). Effective October 1, 2008, AmFed Holding Company sold its 100% interest in AmFed National Insurance Company to Companion Property and Casualty Insurance Company ("Companion"). Companion is a subsidiary of Blue Cross Blue Shield of South Carolina ("BCBSSC").

On October 6, 2009, the Articles of Incorporation were amended increasing the authorized issuance of common stock to 1,000,000 shares with the par value of Two Dollars per share.

## **CORPORATE RECORDS**

The minutes of the meetings of Stockholders and Board of Directors ("Board"), regarding the Company's business affairs as recorded during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at the meetings for deliberation.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board. The members of the duly elected Board, along with their place of residence, year elected/appointed, and principal occupation, at December 31, 2010, were as follows:

<b>Name and Residence</b>	<b>Year Elected/Appointed</b>	<b>Principal Occupation</b>
Ms. Judith M. Davis Columbia, South Carolina	2008	EVP, Chief Legal Officer and Corporate Secretary of BCBSSC
Mr. Robert A. Leichtle Columbia, South Carolina	2008	EVP, CFO and Treasurer of BCBSSC

Mr. David S. Pankau Columbia, South Carolina	2010	President and CEO of BCBSSC
Mr. Charles M. Potok (1) Columbia, South Carolina	2008	President of Companion Property and Casualty Insurance Company
Mr. J. William Roberts (2) Madison, Mississippi	2001	President, AmFed National Insurance Company
Mr. William R. Shrader Columbia, South Carolina	2008	SVP, Actuarial & Health Regulation of BCBSSC
Mr. Stephen K. Wiggins Lexington, South Carolina	2008	EVP and Chief Information Officer of BCBSSC

- (1) Effective May 31, 2011, Mr. Potok resigned from his position at Companion Property and Casualty Insurance Company and the Board. Mr. Potok's position on the Board was not replaced, as his interim successor; Judith Davis was already a Board Member.
- (2) Effective March 31, 2011, Mr. Roberts retired from his position as President of the Company and resigned from the Board. He was replaced by George P. Reeth effective August 29, 2011.

### Committee

The Company utilized the BCBSSC Audit Committee as elected by BCBSSC pursuant to the procedure described in Miss. Code Ann. § 83-5-119 paragraph (e) to designate the BCBSSC Audit Committee as the Audit Committee for the Company. The following directors served on the Audit Committee at December 31, 2010:

Harry R. Easterling, Chair
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John M. Trask, Jr.
--------------------

Minor M. Shaw
---------------

Merl F. Code
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Joseph F. Sullivan
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### Officers

The following are the officers that were duly elected by the Board and holding office at December 31, 2010.

Name	Year Elected/Appointed	Title
J. William Roberts (1)	2001	President
Michael G. Richardson	2001	Vice President
Gregory T. McLemore (2)	2001	Vice President and Chief Financial Officer
Brenda Van Velkinburgh	2001	Vice President
Vivian Monistere	2009	Vice President

Duncan S. McIntosh	2010	Secretary
Robert A. Leichtle	2010	Treasurer
David A. Cote	2010	Assistant Treasurer
Jamie I. Early	2010	Assistant Secretary

- (1) Effective March 31, 2011, Mr. Roberts retired from his position as President of the Company. Effective August 29, 2011 the President position was filled by George P. Reeth.
- (2) Effective June 3, 2011, Mr. McLemore resigned from the Company and was replaced by Mr. Richie Camp as Chief Financial Officer.

### **Conflict of Interest**

The Company has formal procedures whereby disclosure is made to the Board of any material interest or affiliation on the part of any officer or director that is, or would likely be, a conflict with their official duties. These procedures were reviewed, and no conflicts or exceptions to the Company's policies were noted.

### **Corporate Governance**

Upon review of the corporate governance structure, the overall corporate structure was determined to be adequate based upon the Company's size and structure. The Company is 100% owned by Companion effective October 1, 2008, whose parent is BCBSSC. While management was stable and comprised of individuals with several years' experience at the Company, turnover was experienced in two key management positions subsequent to the examination period, as described in the Subsequent Events section of this report. There did not appear to be any compensation arrangements that caused unusual emphasis on earnings. Management records, such as Board minutes, were reviewed with no exceptions.

The Board's involvement and oversight along with its independence from management was considered during the course of our examination without material concern. Other key variables in our consideration of the Board's involvement included, but were not limited to factors such as: (1) the frequency of Board Meetings, (2) the type of information communicated to the Board prior to meetings and the topics discussed along with the depth and quality of discussions, (3) key communication channels to and from management with the Board, along with overall "tone at the top". Information regarding the Board members, committees and other related information can be found in the Management and Control section of this report.

The appropriateness of the Company's organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining our understanding of its organizational structure. This includes consideration of the entity's centralized structure and its ability to communicate information upstream, downstream and across all business activities. Our consideration also encompassed understanding the assignment of authority and responsibility. There were no material concerns regarding the Company's

organizational structure, its ability to provide for necessary information flow to manage its activities or assignment of authority and responsibility.

Our consideration of corporate governance encompassed the risk management function through discussions with senior management and a member of the Board, as well as through gaining an understanding of the risk management function through inspection of relevant risk management documentation. Upon our review and consideration of these components and functions, there was no material concerns noted.

Management competence is a consideration in overall assessment of corporate governance. In our review of this area, we considered factors such as (1) experience level within the Company of key management, (2) management/employee turnover and (3) previous experience of key management. There was no material concerns noted upon our consideration of this area. While two key management positions experienced turnover subsequent to our examination period, as discussed in greater detail in the Subsequent Events section of this report, management has significant experience with the Company.

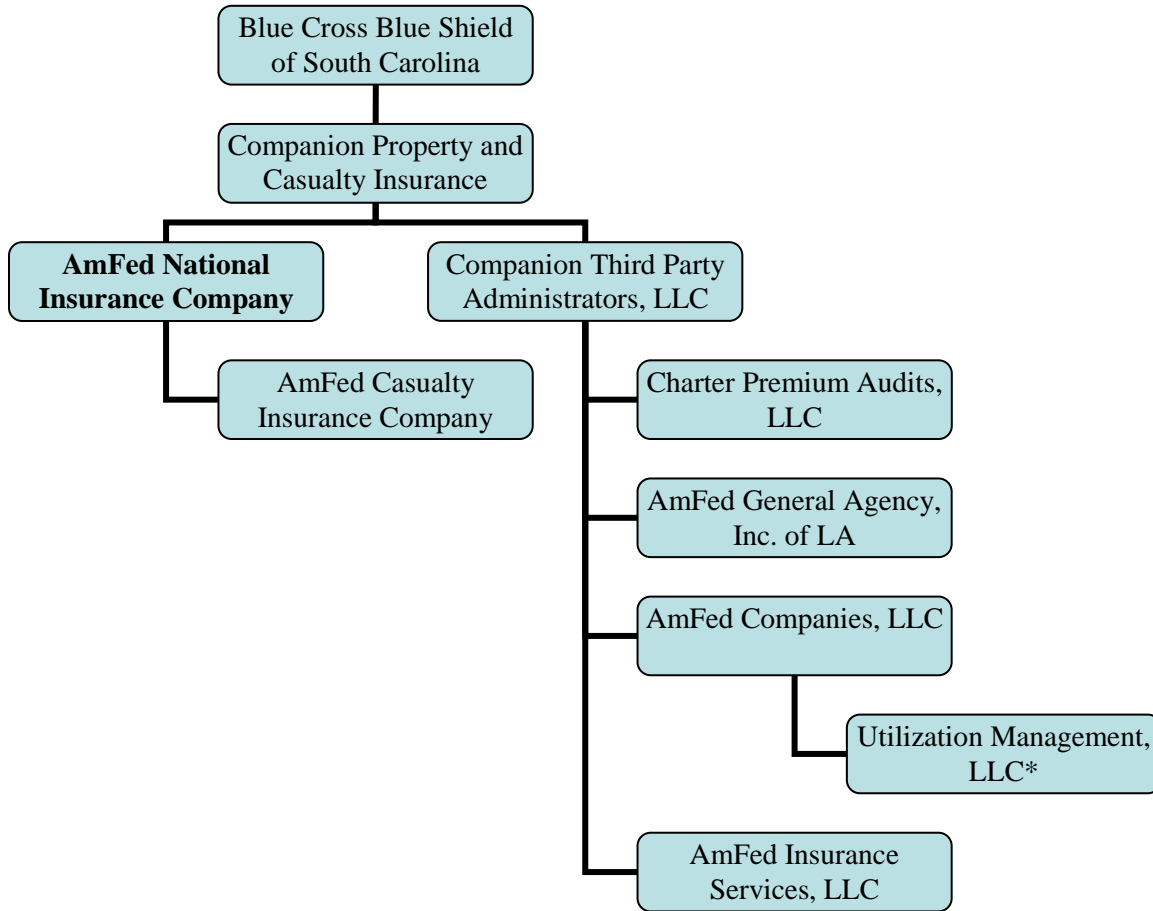
During our consideration of corporate governance, it was noted that the Company did not have an internal audit department. The Company's ultimate parent, BCBSSC, did have an internal audit department; however, the Company's business was largely out of scope due its relative immateriality to BCBSSC. Additionally, the Company utilizes different systems and processes from BCBSSC, therefore the BCBSSC internal audit department was not taken into account in our review of the Company's corporate governance.

### **HOLDING COMPANY STRUCTURE**

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. Holding Company Registration Statements were filed during the examination period with the MID in accordance with Miss. Code Ann. § 83-6-5 and § 83-6-9. The statements and applicable amendments that were filed with the MID during the examination period were reviewed and it appeared that any changes and material transactions by and between the Company and its affiliates were appropriately disclosed.

**Organizational Chart**

A simplified organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company’s 2010 annual statement provided a list of all related companies of the holding company group.



\* Utilization Management, LLC discontinued operations as a separate entity and its operations were taken over by AmFed Companies, LLC in 2009, but are shown here as the Company had agreements in place with Utilization Management, LLC during the examination period.

The following is information concerning the Company’s affiliates and subsidiary with which agreements are in place:

**Blue Cross Blue Shield of South Carolina:** BCBSSC is the ultimate controlling entity and was incorporated in 1946 under the laws of the State of South Carolina and was formed by merger in its current form in 1971. BCBSSC is licensed as a mutual insurance company that writes accident and health insurance and provides hospitalization and other health care benefits for its members. BCBSSC also performs administrative services for other self-funded plans and for certain other programs, such as Medicare.



**Companion Property and Casualty Insurance:** Companion, a wholly owned subsidiary of BCBSSC, was incorporated on February 13, 1984 under the laws of the State of South Carolina. Companion offers workers' compensation insurance, a variety of commercial package policies, commercial auto, commercial umbrella and property insurance for residential condominiums.

**AmFed Companies, LLC:** This company is a wholly owned subsidiary of Companion Third Party Administrators, LLC and was incorporated in 1998 under the laws of the State of Mississippi. AmFed Companies, LLC acts as a third party administrator for self-insured funds.

**Utilization Management, LLC:** This company was a wholly owned subsidiary of AmFed Companies, LLC, until it was discontinued as a separate entity and its operations assumed by AmFed Companies, LLC in 2009. Utilization Management, LLC was incorporated in 2000 under the laws of the State of Mississippi and performed bill review and case management services.

**AmFed Insurance Services, LLC:** This company is a wholly owned subsidiary of Companion Third Party Administrators, LLC and was incorporated in 2000 under the laws of the State of Mississippi. AmFed Insurance Services, LLC operates as a Managing General Agent for excess and surplus lines.

**AmFed Casualty Insurance Company:** This company was formed on March 16, 2004 as a wholly owned subsidiary of the Company and is licensed to write workers' compensation and employers' liability insurance contracts in Mississippi. All premiums and losses are ceded to the Company.

### **Affiliated and Related Party Transactions**

#### **Services Agreement**

Effective January 1, 2009, the Company entered into a service agreement with AmFed Companies, LLC and AmFed Insurance Services, LLC (collectively referred to as AmFed). Pursuant to this agreement, the Company performed marketing, information systems, general administrative and other services to AmFed, on a cost reimbursement basis. The Company received \$646,000 in 2010 for the services provided.

#### **Service Agreement**

Effective January 1, 2005, the Company entered into a service agreement with AmFed Companies, LLC, Utilization Management, LLC, and AmFed Insurance Services, LLC (collectively referred to as AmFed). Pursuant to this agreement, AmFed wrote and administered workers' compensation products and had the responsibility for premium collection, claims adjustment, claims payment and underwriting on behalf of the Company. During 2010, the Company paid \$268,000 as a result of this agreement.

#### **Tax Allocation Agreement**

Upon its acquisition by Companion on October 1, 2008, the Company became party to the tax allocation agreement between BCBSSC and each of its subsidiaries effective January 1, 2002.

Pursuant to this agreement, BCBSSC and its eligible subsidiaries, including the Company filed a consolidated federal income tax return. Under this agreement, BCBSSC collects from or refunds to the subsidiaries the amount of taxes or benefits based on the Company's proportionate share of the consolidated federal income tax liability computed as if the companies filed separate returns, multiplied by the consolidated federal income tax return liability.

#### Reinsurance Agreement

As described below under the "Reinsurance" section of this Report, the Company assumed 100% of the business written by AmFed Casualty pursuant to a quota share agreement. Effective on its acquisition on October 1, 2008, the Company entered into a multiple line quota share reinsurance agreement with Companion, in which the Company ceded 100% of the gross liabilities not already covered by existing reinsurance contracts on premiums earned and losses incurred on or after October 1, 2008.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company was a named insured under a fidelity bond issued to its ultimate parent, BCBSSC and its affiliates, in the amount of \$10 million. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the NAIC for these companies on a consolidated basis. The Company also maintained other business property and liability coverage through BCBSSC. Based on our review, the Company's insurance coverage appeared adequate.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company along with its Parent, sponsored a defined contribution plan covering substantially all of its employees. Provisions were made within the financial statements for obligations under such plans.

### **TERRITORY AND PLAN OF OPERATION**

The Company is authorized to write fire and casualty business in the state of Mississippi. The Company writes multi-line workers' compensation through independent agents in Mississippi. During the examination period, the Company primarily wrote workers' compensation insurance, with limited writings in homeowners insurance in 2008, which the Company allowed to expire in 2009.

## **GROWTH OF COMPANY**

	2010	2009	2008
Total admitted assets	\$ 29,337,784	\$ 29,519,748	\$ 36,031,601
Total liabilities	\$ 17,852,684	\$ 20,184,861	\$ 30,184,470
Total capital and surplus	\$ 11,485,100	\$ 9,334,887	\$ 5,847,131
Net cash from operations	\$ (1,482,807)	\$ (5,786,053)	\$ 288,036
Total adjusted risk-based capital	\$ 11,485,100	\$ 9,334,888	\$ 5,847,132
Authorized control level risk-based capital	\$ 840,287	\$ 868,216	\$ 1,322,912
Premiums earned	\$ -	\$ -	\$ 13,786,863
Net underwriting gain (loss)	\$ 2,140,786	\$ 3,516,181	\$ (213,327)
Net investment income earned	\$ 607,817	\$ 805,634	\$ 803,380
Net realized capital gains (losses)	\$ 318,422	\$ 360,207	\$ (1,363,661)
Net Income	\$ 2,263,618	\$ 3,755,543	\$ (606,127)
Net underwriting gain to PHS	18.6%	37.7%	-3.6%
Return on surplus	21.5%	43.5%	-1.8%
Yield on invested assets	3.2%	3.6%	3.2%
Non-investment grade bonds to total bonds	0.0%	0.0%	0.0%

## **REINSURANCE**

In accordance with the Risk Surveillance Approach contained within the NAIC Examiners' Handbook, the reinsurance program of the Company was considered and no material concerns were noted. Further, no treaties were noted that contained unusual provisions, transfer of risk issues or other relevant concerns. A general description and listing of the reinsurance agreements are presented below.

### Assumed

The Company assumed 100% of the voluntary workers' compensation and employees' liability insurance written by its wholly-owned subsidiary, AmFed Casualty. Under the provisions of the quota share reinsurance agreement, the Company paid AmFed Casualty a commission allowance which approximates policy acquisition costs.

### Ceded

The Company ceded voluntary workers' compensation and employers' liability insurance business through quota share and excess of loss reinsurance contracts. Effective October 1, 2008, the Company entered into a multiple line quota share reinsurance agreement with Companion in which the Company ceded 100% of the gross liabilities not already covered by existing

reinsurance contracts on premiums earned and losses incurred on or after October 1, 2008. Prior to entering into the reinsurance agreement with Companion, the Company retained the first \$500,000 of loss on each claim and losses in excess of \$20 million were not reinsured.

### **ACCOUNTS AND RECORDS**

The 2010 trial balance of the Company's accounts was traced to the balance sheet of the Company's statutory annual statement filed with the MID, with no exceptions noted. The Company was audited annually by an independent CPA firm.

The Company's accounting and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains supporting documentation that was reviewed during the examination as applicable.

### **STATUTORY DEPOSITS**

The Company's statutory deposits with the state of Mississippi complied with Miss. Code Ann. § 83-19-31(2). The following chart displays the Company's total statutory deposits as held at December 31, 2010 in Mississippi.

<b>Description</b>	<b>Par Value</b>	<b>Book/Adjusted Carrying Value</b>	<b>Fair Value</b>
U.S. Treasury Bond	\$ 25,000	\$ 25,270	\$ 25,360
WI School District GO Bond	150,000	153,973	156,822
OK School District GO Bond	100,000	100,399	101,378
PA School District GO Bond	125,000	126,806	128,541
TX School District GO Bond	100,000	100,304	100,321
	<b>\$ 500,000</b>	<b>\$ 506,752</b>	<b>\$ 512,422</b>

**AmFed National Insurance Company  
Financial Statements  
Examination as of December 31, 2010**

**Introduction**

The following financial statements reflect the same amounts reported by the Company and consist of a Statement of Assets, Liabilities, Surplus and Other Funds – Statutory at December 31, 2010, as Statement of Income – Statutory for the year ended December 31, 2010, and a Reconciliation of Surplus as Regards Policyholders – Statutory for the examination period ended December 31, 2010.

**AmFed National Insurance Company**  
**Statement of Assets, Liabilities, Surplus and Other Funds – Statutory**

<b>December 31,</b>	<b>2010</b>
<b>Assets</b>	
Bonds	\$ 10,826,608
Common stocks	1,178,395
Cash and short-term investments	6,536,206
Investment income due and accrued	106,834
Uncollected premiums and agents' balances in course of collection	675,338
Deferred premiums	1,773,126
Amounts recoverable from reinsurers	3,185,123
Other amounts receivable under reinsurance contracts	4,149,755
Net deferred tax asset	550,446
Electronic data processing equipment and software	19,910
Receivable from parent, subsidiaries and affiliates	333,062
Other Assets	2,983
Total admitted assets	<b>\$ 29,337,784</b>
<b>Liabilities, Surplus and Other Funds</b>	
Losses	\$ 6,064,782
Reinsurance payable on paid losses and loss adjustment expenses	941,295
Loss adjustment expenses	801,663
Commissions payable, contingent commissions and other similar charges	(32,991)
Other expenses	776,610
Taxes, licenses and fees	86,067
Current federal and foreign income taxes	(93,315)
Unearned premiums	4,763,572
Ceded reinsurance premiums payable	3,921,235
Payable to parent, subsidiary and affiliates	558,066
Aggregate write-ins for liabilities	65,700
Total liabilities	<b>17,852,684</b>
Common capital stock	1,000,000
Gross paid in and contributed surplus	4,170,976
Unassigned funds	6,314,124
Total surplus and other funds	<b>11,485,100</b>
Total liabilities, surplus and other funds	<b>\$ 29,337,784</b>

**AmFed National Insurance Company**  
**Statement of Income – Statutory**

<b>For the Year Ended December 31,</b>	<b>2010</b>
<b>Underwriting Income</b>	
Premiums Earned	\$ -
<u>Deductions</u>	
Losses incurred	(2,272,859)
Loss adjustment expenses incurred	81,124
Other underwriting expenses incurred	(132,781)
Aggregate write-ins for underwriting decisions	183,730
Total underwriting deductions	(2,140,786)
Net underwriting gain	2,140,786
<b>Investment Income</b>	
Net investment income earned	607,817
Net realized gains	318,422
Net investment gain	926,239
<b>Other Income</b>	
Net loss from agents' or premium balances charged off	(73,029)
Finance and service charges not included in premiums	37,790
Total other income	(35,239)
Net income before dividends to policyholders and before federal income taxes	3,031,786
Less: Federal income taxes incurred	768,168
Net income	<b>\$ 2,263,618</b>

**AmFed National Insurance Company**  
**Reconciliation of Surplus as Regards Policyholders – Statutory**

For the examination period ended December 31, 2010

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Surplus as regards policyholders, beginning of the year	\$ 6,565,684	\$ 5,847,131	\$ 9,334,887
Net income (loss)	(606,128)	3,755,542	2,263,618
Change in net unrealized capital gains (losses)	495,026	(456,779)	(28,142)
Change in net deferred income tax	(89,803)	28,908	(554,200)
Change in non-admitted assets	(517,648)	160,085	468,937
Surplus as regards policyholders, end of the year	\$ 5,847,131	\$ 9,334,887	\$ 11,485,100



**AmFed National Insurance Company**  
**Reconciliation of Examination Adjustments to Surplus – Statutory**

For the year ended December 31, 2010

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As a result of this examination, there have been no changes affecting surplus, as regards to policyholders, made to the admitted assets, liabilities, and surplus balance reported by the Company in the December 31, 2010 annual statement as filed with the MID. The capital and surplus reported by the Company of \$11,485,100 is accepted as reasonably stated for purposes of the balance sheet per the examination.

## **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct. The areas in which limited procedures were performed included privacy compliance, producer licensing, underwriting and rating, and claims handling compliance. Exceptions in regard to producer licensing are discussed below.

### **Privacy**

The Company had a privacy policy in place for the protection of its policyholders. No material concerns were noted during the course of our testing regarding the Company's privacy policy.

### **Producer Licensing**

Agents writing business for the Company in the state of Mississippi, as well as those agents terminated during the examination period, were compared to agents records maintained by the MID. Numerous differences were noted during this comparison, such as differences in appointment dates and/or termination dates, variances in termination and/or active status, and other miscellaneous differences.

Termination notices were reviewed for agents terminated during the examination period and differences were noted in comparing the termination date per the notice and the termination date reported to the MID. Additionally, instances were noted where a termination notice was not delivered and termination documentation was not retained.

It is recommended that the Company ensure proper record keeping regarding appointed and terminated agents, which should include the retention of appointment and termination information. The Company should ensure that accurate information regarding agents is communicated to the MID.

Agents terminated during the examination period were compared to commission payments. Nine agents were found to have been paid commissions on new business written after their termination dates.

It is recommended that the Company implement procedures to ensure that agents who are terminated cannot submit new business after their termination date. The Company should additionally implement procedures to ensure that commissions are not paid to agents for business that was submitted after termination.

### **Underwriting and Rating**

No exceptions were noted during the course of our testing regarding the Company's underwriting and rating.

## **Claims Handling**

As a component of the claims liability testing associated with the related sample items selected, the claim files were reviewed to ensure that relevant information was appropriately documented and timely communicated to the policyholder without material exception.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

At December 31, 2010, the Company was involved as a defendant in various litigation matters. Although the outcome of such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions should not have a material adverse effect on the surplus of the Company.

## **SUBSEQUENT EVENTS**

Effective March 31, 2011, the Company's President, J. William Roberts retired. Effective June 3, 2011, the Company's Chief Financial Officer resigned. Both positions have been filled as detailed in the Management and Control section of the report.

Effective February 3, 2011, a license was obtained to write casualty business in Tennessee.

## **COMMENTS AND RECOMMENDATIONS**

There were no recommended adjustments to surplus as of December 31, 2010 based on the results of this examination.

### 1. Agent Record Keeping

#### Finding:

Numerous differences were noted during the comparison of the Company's agent files and the MID agent files, such as differences in appointment dates and/or termination dates, variances in termination and/or active status, and other miscellaneous differences.

Termination notices were reviewed for agents terminated during the examination period and differences were noted in comparing the termination date per the notice and the termination date reported to the MID. Additionally, instances were noted where a termination notice was not delivered and termination documentation was not retained.

#### Recommendation:

It is recommended that the Company ensure proper record keeping regarding appointed and terminated agents, which should include the retention of appointment and termination information. The Company should ensure that accurate information regarding agents is communicated to the MID.

2. Commissions to Terminated Agents

Finding:

Agents terminated during the examination period were compared to commission payments. Nine agents were found to have been paid commissions on new business written after their termination dates.

Recommendation:

It is recommended that the Company implement procedures to ensure that agents who are terminated cannot submit new business after their termination date. The Company should additionally implement procedures to ensure that commissions are not paid to agents for business that was submitted after termination.

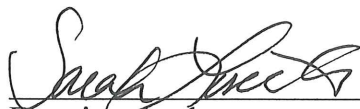
## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-charge	Sarah Lucibello, CPA, CFE, CIA
Examiner:	Amy Carter, CPA
Supervising Examiner:	Antonio S. Sadorra, CFE
Automation Examiner:	Scott Langstein, CISA
Actuary:	Robert P. Daniel, ACAS, MAAA Merlinos & Associates, Inc.

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Examiner-in-charge