



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

## MISSISSIPPI INSURANCE DEPARTMENT

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

**MARK HAIRE**  
Deputy Commissioner of Insurance

**RICKY DAVIS**  
State Chief Deputy Fire Marshal

MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
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May 30, 2018

### CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. John W. Roberts, President  
AmFed National Insurance Company  
576 Highland Colony Parkway, Suite 300  
Ridgeland, MS 39157

**RE: Report of Examination as of December 31, 2016**

Dear Mr. Roberts:

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. 18-7288**

**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 David A. Palmer, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about March 1, 2018, the draft Report of Examination concerning AmFed National Insurance Company for the period of January 1, 2012 through December 31, 2016, was submitted to the Department by the Examiner-In-Charge, David A. Palmer.

### V.

That on or about April 24, 2018, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period, with an extension until May 24, 2018, to submit any rebuttal to the draft report. On or about May 25, 2018, the company responded by email.

## 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 <sup>30<sup>th</sup></sup> day of May 2018.

The seal of the Commissioner of Insurance, Mississippi, is circular with a blue border. Inside the border, the words "COMMISSIONER OF INSURANCE" are written at the top and "MISSISSIPPI" at the bottom. In the center is an eagle with its wings spread, perched on a shield with a cross. The seal is partially overlaid by the signature and title of the Deputy Commissioner.

*J. Mark Haire*  
MARK HAIRE  
DEPUTY 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 30<sup>th</sup> day of May 2018, to:

**Mr. John W. Roberts, 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**

**as of**

**December 31, 2016**

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

State of Texas

County of Collin

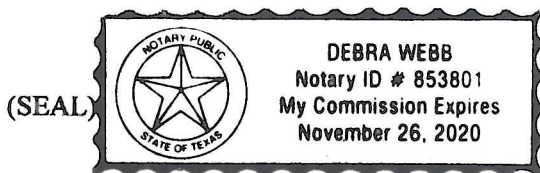
David A. Palmer, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of AmFed National Insurance Company as of December 31, 2016.
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 National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

D/A Palmer  
Examiner's Signature

Subscribed and sworn before me by David A. Palmer on this 19th day of April, 2018.



Debora Webb  
Notary Public

My commission expires 11-26-20 [date].



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

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

**MISSISSIPPI INSURANCE DEPARTMENT**

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FAX: (601) 576-2568

April 27, 2018

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, 2016, of the affairs and financial condition of:

**AMFED NATIONAL INSURANCE COMPANY**  
576 Highland Colony Parkway, Suite 300  
Ridgeland, MS 39157

License #	NAIC Group #	NAIC #	FEETS#	MATS#
0100043	3528	11208	11208-MS-2016-4	MS-MARTINJ-1

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* and was performed in Ridgeland, Mississippi, at the main administrative home office of the Company. The report of examination is herewith submitted.

## **SCOPE OF EXAMINATION**

We have performed a full scope, risk-focused financial examination of AmFed National Insurance Company (“Company”). The last examination covered the period of January 1, 2011, through December 31, 2011. This examination covers the period January 1, 2012, through December 31, 2016.

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, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

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

### 1. Agent Termination Communication Delay

Finding:

The Company had numerous instances where timely communication of the termination of agents was not reported to the Mississippi Insurance Department. Per Miss. Code Ann. §83-17-77, an insurer or authorized representative of the insurer that terminates the appointment, employment, contract or other insurance business relationship with a producer shall notify the Commissioner within thirty (30) days following the effective date of the termination.

Recommendation:

It is recommended that the Company implement a process to communicate the termination of agents to the Commissioner within 30 days.

Current Status: During the examination, it was found that the Company failed to comply with the recommendation, as there were instances found where the Company did not comply with Miss. Code Ann. §83-17-77. This issue is repeated in the Comments and Recommendations of this report.

2. Untimely Holding Company Filings

Finding:

The Company did not timely file their Form B and C Holding Company filings during the examination period (holding company registration statements were marked received by MID on July 9, 2012) in accordance with Miss. Code Ann. §83-6-5 and §83-6-9.

Recommendation:

It is recommended that the Companies adhere to the June 1 filing deadline for Holding Company filings.

Current status: During the examination period, it was found that the Company was properly filing the Form B and C Holding Company filings in accordance with Miss. Code Ann. §83-6-5 and §83-6-9.

## **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 May 30, 2014, a Form A was filed on behalf of AmFed Holding Company, LLC. AmFed Holding Company, LLC was formed by Builders and Contractors Association of Mississippi (“BCAM”), John W. Roberts, and Greg McLemore. On June 30, 2014, a hearing was held with representatives from AmFed Holding Company, LLC, BCAM, Companion, and the Mississippi Insurance Department. The order was signed on June 30, 2014 approving the Form A transaction with the effective date of the transaction being July 1, 2014. On July 1, 2014, AmFed Holding Company, LLC purchased AmFed National Insurance Company and its subsidiary AmFed Casualty Insurance Company from Companion.

## **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, number of years as Director, and principal occupation, at December 31, 2016, were as follows:

Name and Residence	Year Elected/Appointed	Principal Occupation
John William Roberts Madison, Mississippi	2014	President & CEO, AmFed National Insurance Company
Gregory Thomas McLemore Brandon, Mississippi	2014	Chief Operating Officer, AmFed National Insurance Company
Donald Robin Massey Meridian, Mississippi	2014	Owner of D and H Construction and Cabinetry
Joel Anthony Carroll Tupelo, Mississippi	2014	Manager, Sanderson Construction Company, Inc.
Joel Eugene Smith Brookhaven, Mississippi	2014	Owner of Smith Painting and Contracting, Inc.
Robert Clayton Easterling Gulfport, Mississippi	2014	Owner of Easterling Bros Insulation

Wade Byers Quin Ridgeland, Mississippi	2014	Owner of Wade Quin Construction LLC
Danny Michael Sprouse Steens, Mississippi	2014	Owner of Sprouse Construction, Inc.
Jackie Christopher Massey Nesbit, Mississippi	2014	Owner of Massey Home Builders

### **Committees**

The Company utilized an Investment Committee and Audit Committee during the examination period. The following directors/officers served on the Investment Committee and Audit Committee at December 31, 2016:

#### Committee Structure

<b>Investment Committee</b>	<b>Audit Committee</b>
Gregory Thomas McLemore*	John William Roberts*
Donald Robin Massey	Donald Robin Massey
Wade Byers Quin	Wade Byers Quin
Richard Charles Camp	Gregory Thomas McLemore
Danny Michael Sprouse	Danny Michael Sprouse

\* Chairman

### **Officers**

<b>Name</b>	<b>Year Elected/Appointed</b>	<b>Title</b>
John William Roberts	2014	President and Chief Executive Officer
Gregory Thomas McLemore	2014	Executive Vice President & Chief Operating Officer
Richard Charles Camp	2014	Chief Financial Officer
Michael Glenn Richardson	2014	Vice President
Brenda Denise Van Velkinburgh	2014	Vice President and Chief Information Officer
James Prentice Swanner	2014	Vice President
Donald Robin Massey	2014	Secretary

### **Conflict of Interest**

The Company has formal procedures whereby disclosure was 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

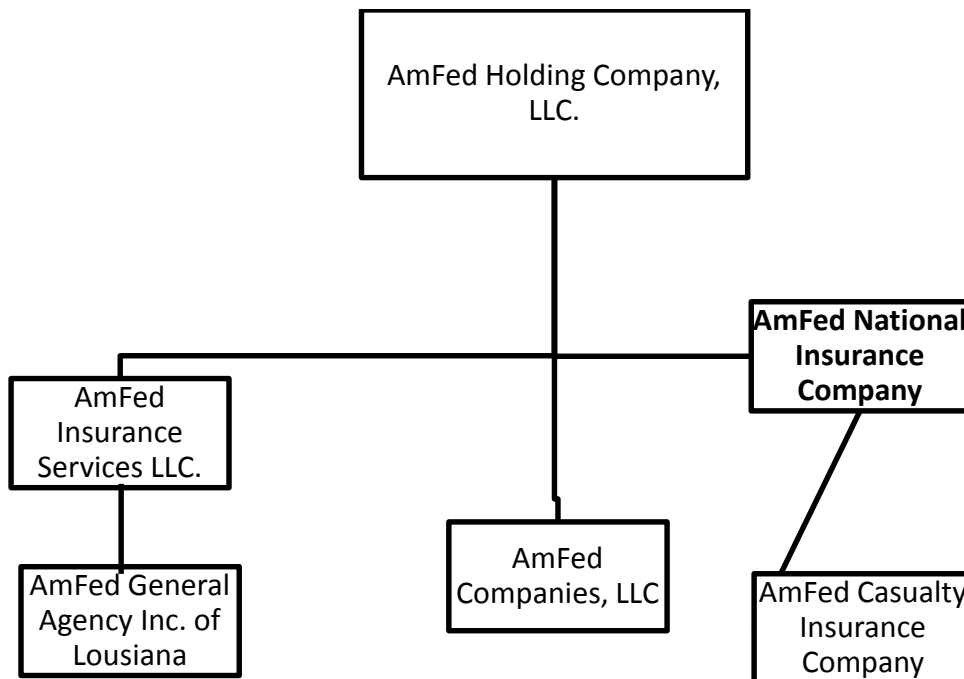
Company's policies were noted.

## **HOLDING COMPANY STRUCTURE**

The Company is 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, 2016, reflecting the holding company system, is shown below. Schedule Y of the Company's 2016 annual statement provided a list of all related companies of the holding company group.



## **Parent and Affiliated Companies**

The following is information concerning the Company's affiliates and subsidiary:

**AmFed Casualty Insurance Company (“AmFed Casualty”):** 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 multiple states. All premiums and losses of AmFed Casualty are ceded to AmFed National Insurance Company.

**AmFed Companies, LLC:** This company is a wholly-owned subsidiary of AmFed Holding Company, 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.

**AmFed Insurance Services, LLC:** This company is a wholly-owned subsidiary of AmFed Holding Company, 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.

## **Affiliated and Related Party Transactions**

### **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 may write and administer workers' compensation products and have the responsibility for premium collection, claims adjustment, claims payment and underwriting on behalf of the Company. During 2016, the Company paid \$220,474.72 as a result of this agreement.

### **Service Agreement**

Effective January 1, 2009, the Company entered into a service agreement with AmFed Companies, LLC and AmFed Insurance Services, LLC (collectively referred to the Companies). Pursuant to this agreement, AmFed National performed marketing, information systems, general administrative and other services to the Companies, on a cost reimbursement basis. AmFed National received \$115,849.73 in 2016 for the services provided.

### **Reinsurance Agreement**

As described below under the “Reinsurance” section of this Report, the Company assumed 100% of the business written by AmFed Casualty Insurance Company pursuant to a quota share agreement.



## **FIDELITY BOND AND OTHER INSURANCE**

The Company was a named insured under a fidelity bond issued to the AmFed Holding Company, LLC in the amount of \$1,000,000. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the NAIC for these companies.

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

The Company sponsors a 401K plan covering substantially all employees of the Company. Employees may contribute up to 15% of their salary to the plan. The Company will match 100% of the first 3% and 50% of the next 2% of employee contributions. The match amount is fully funded and vests immediately. The Company's expense related to the plan was \$93,000 in 2016.

## **TERRITORY AND PLAN OF OPERATION**

The Company was authorized to write workers' compensation business in the states of Alabama, Arkansas, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia. The Company wrote multi-line workers' compensation through independent agents in states the Company was licensed. As of December 31, 2016, the Company wrote \$14,509,616 in direct written premium of which 91% was written in Mississippi, 8.9% was written in Tennessee, and 0.1% was written in Louisiana.

## **GROWTH OF COMPANY**

The review of the growth of the Company was performed based on balances reported in the annual statements filed with the MID during the period under examination.

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total admitted assets	\$69,661,075	\$74,023,107	\$70,708,598	\$21,730,015	\$23,165,267
Total liabilities	\$37,483,763	\$44,575,484	\$44,500,461	\$8,859,196	\$10,253,019
Total capital and surplus	\$32,177,312	\$29,447,623	\$26,208,137	\$12,870,819	\$12,912,248
Net cash from operations	(\$2,854,078)	\$6,088,514	\$30,177,303	\$190,457	(\$608,686)
Total adjusted risk-based capital	\$32,177,312	\$29,447,623	\$26,208,137	\$12,870,819	\$12,912,248
Authorized control level risk-based capital	\$ 3,758,278	\$4,031,556	\$3,403,898	\$ 303,980	\$ 521,462

Premiums Earned	\$11,709,038	\$21,954,049	\$25,956,169	\$0	\$0
Net underwriting gain (loss)	\$1,815,529	\$4,336,736	\$ 1,432,810	(\$429,239)	\$ 372,863
Net Income	\$ 2,479,994	\$3,545,044	(\$192,506)	\$69,027	\$394,199

## **REINSURANCE**

### Assumed

The Company assumed 100% of the voluntary workers' compensation and employers' 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

Effective January 1, 2016, the Company entered into an excess of loss reinsurance agreement with General Reinsurance Corporation. Pursuant to the agreement, the Company's retention is at \$500,000 and General Reinsurance Corporation's limit of liability is \$500,000. The agreement was terminated effective February 1, 2017, and replaced with a reinsurance agreement with Hannover Ruck SE and Maiden Re Insurance Services, LLC.

Effective January 1, 2016 through January 1, 2017, the Company entered into an excess of loss reinsurance agreement with New York Marine and General Insurance Company. Pursuant to the agreement for workers compensation, New York Marine and General Insurance Company shall be liable for the ultimate net loss in excess of the Company's retention of \$1,000,000 as a result of each occurrence. New York Marine and General Insurance Company's liability in respect of each occurrence shall be the statutory limit of the policy. Pursuant to the agreement for employers' liability, New York Marine and General Insurance Company shall be liable for the ultimate net loss in excess of the Company's retention of \$1,000,000 as a result of each occurrence. New York Marine and General Insurance Company's liability in respect of each occurrence shall not exceed \$1,000,000 each occurrence. The agreement was terminated effective February 1, 2017 and was replaced with a new treaty from New York Marine and General Insurance Company in which the reinsurer will be liable for the ultimate loss in excess of Company's retention of \$1,000,000 as a result of each loss occurrence, subject to a \$2,000,000 annual aggregate deductible. Additionally, the Company was entered into a treaty with XL Reinsurance America, Inc. and Lloyd's of London Syndicates for a \$2,000,000 excess of \$1,000,000 coverage with a \$2,000,000 maximum subject loss.

## **ACCOUNTS AND RECORDS**

The 2016 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.

The Company was licensed as a multi-line property and casualty insurance company pursuant to Miss. Code Ann. § 83-19-31(b), which required the Company to maintain a minimum capital of \$600,000 and surplus of \$900,000. Pursuant to Miss. Code Ann. § 83-5-55, the Company was required to file an NAIC Property and Casualty Annual Statement. The Company was also required to file a risk-based capital (RBC) report pursuant to Miss. Code Ann. § 83-5-401 through § 83-5-427.

### **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, 2016:

<b><u>Description of Security</u></b>	<b><u>Par Value</u></b>	<b><u>Fair Value</u></b>
MS Special Obligation	\$500,000	\$588,050
US Treasury Note	\$25,000	\$25,145
US Treasury Note	\$100,000	\$100,780
US Treasury Note	\$125,000	\$126,225
US Treasury Note	\$100,000	\$98,400
US Treasury Note	\$150,000	\$149,655
Total	<u>\$1,000,000</u>	<u>\$1,088,255</u>

## **FINANCIAL STATEMENTS**

### **Introduction**

The financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2016, a Statement of Income for the year ended December 31, 2016, and a Reconciliation of Capital and Surplus for the examination period ended December 31, 2016.

The following financial statements are based on the statutory financial statements filed by the Company with the Mississippi Insurance Department and present the financial condition of the Company for the period ending December 31, 2016.

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2016**

**ASSETS**

Bonds	\$45,241,929
Common stocks	10,951,434
Cash, cash equivalents, and short-term investments	3,601,541
Investment income due and accrued	303,366
Uncollected premiums and agents balances	3,179,519
Deferred premiums, agent balance, and installments booked but deferred	329,734
Amounts recoverable from reinsurers	1,857,433
Other amounts receivable under reinsurance contracts	2,048,931
Current federal and foreign income tax recoverable and interest thereon	109,755
Net deferred tax asset	1,206,804
Electronic data processing equipment and software	40,830
Receivables from parents, subsidiaries, and affiliates	789,799
Total Assets	\$69,661,075

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses	\$25,165,938
Reinsurance payable on paid losses and loss adjustment expenses	193,390
Loss adjustment expenses	3,148,512
Commissions Payable	201,004
Other expenses	550,942
Taxes, licenses, and fees	316,508
Unearned premiums	5,206,440
Ceded reinsurance premiums payable (net of ceding commissions)	2,365,448
Aggregate write ins for liabilities	335,581
Total Liabilities	\$37,483,763
Common capital stock	\$1,000,000
Gross paid in and contributed surplus	16,425,698
Unassigned funds (surplus)	14,751,614
Surplus as regards policyholders	\$32,177,312
Total liabilities and surplus	\$69,661,075

**SUMMARY OF OPERATIONS  
FOR YEAR ENDED DECEMBER 31, 2016**

Premiums earned	\$11,709,038
Losses incurred	4,375,010
Loss adjustment expenses incurred	1,952,063
Other underwriting expenses incurred	3,554,248
Aggregate write ins for underwriting expenses	12,188
Total underwriting deductions	<u>\$9,893,509</u>
Net underwriting gain (loss)	\$1,815,529
Net investment income earned	\$1,087,420
Net realized capital gains (loss)	21,998
Net investment gain	<u>\$1,109,418</u>
Net gain (loss) from agents' or premium balances charged off	59,808
Finance and service charges not included in premiums	5,360
Total other income	<u>\$65,168</u>
Federal and foreign income taxes incurred	<u>\$510,121</u>
Net Income	<u>\$2,479,994</u>

**RECONCILIATION OF CAPITAL AND SURPLUS  
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2016**

	2016	2015	2014	2013	2012
Capital and Surplus, December 31, prior year	\$29,447,623	\$26,208,137	\$12,870,819	\$12,912,248	\$12,433,567
Net Income	2,479,994	3,545,044	(192,506)	69,027	394,199
Change in net unrealized capital gains (losses)	359,825	(110,029)	105,704	13,790	51,355
Change in net deferred income tax	(237,050)	35,854	1,509,349	(108,284)	105,115
Change in non-admitted assets	126,920	(231,383)	(339,951)	(15,962)	166,345
Cumulative effect on changes in accounting principles	-	-	-	-	(238,333)
Capital Changes – Paid in	-	-	-	-	-
Surplus adjustments – Paid in	-	-	12,254,722	-	-
Capital and Surplus, December 31, current year	\$32,177,312	\$29,447,623	\$26,208,137	\$12,870,819	\$12,912,248

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS  
DECEMBER 31, 2016**

As a result of this examination, there have been no changes made to the admitted assets, liabilities, and surplus balance reported by the Company in the December 31, 2016 annual statement as filed with the MID. The capital and surplus reported by the Company of \$32,177,312 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, specific areas of the Company's market conduct activities were reviewed. The specific areas reviewed included those items indicated below.

### **Underwriting and Rating**

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

### **Claims Handling**

No exceptions were noted during the course of our testing regarding the Company's claims handling and payments.

### **Operations/Management**

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**

Notices for selected agents terminated during the examination period were reviewed for compliance with Mississippi Code. The Company had instances where timely communication of the termination of agents was not reported to the MID, per Miss. Code Ann. §83-17-77.

Agent Certificates for selected agents terminated during the examination period were reviewed for compliance with Mississippi Code. The Company had instances where timely communication was not provided to the agents that the certificate of authority is non-renewed or cancelled, per Miss. Code Ann. §83-17-5.

Appointed Agents for the Company in the state of Mississippi and other states, as well as those agents appointed during the examination period, were compared to agents' records maintained by the MID. The Company had instances where a notice of appointment was not provided to the MID within 15 days from the date the agency contract was executed or the first application was submitted, per Miss. Code Ann. §83-17-75.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

At December 31, 2016, the Company was involved as a defendant in various litigation matters arising during normal business activities. 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**

As of the end of field work, the examination did not identify any material transactions or events that could be identified as a significant subsequent event.

## **COMMENTS AND RECOMMENDATIONS**

### **1. Terminated Agent Communication Delay**

*Finding:*

The Company had instances where timely communication of the termination of agents was not reported to the Mississippi Insurance Department. Per Miss. Code Ann. §83-17-77, an insurer or authorized representative of the insurer that terminates the appointment, employment, contract or other insurance business relationship with a producer shall notify the Commissioner within thirty (30) days following the effective date of the termination.

*Recommendation:*

It is recommended that the Company implement a process to communicate the termination of agents to the Commissioner within 30 days.

### **2. Agent Certificate-Notification of Nonrenewal or Cancellation**

*Finding:*

The Company had instances where timely communication was not provided to the agents that the certificate of authority was non-renewed or cancelled. Per Miss. Code Ann. §83-17-5, an insurer must notify the agent within thirty (30) days if the authority is non-renewed or cancelled.

*Recommendation:*

It is recommended that the Company implement a process to communicate with its agents within 30 days if the authority of the agent is non-renewed or cancelled.

### **3. Appointment of agents**

*Finding:*

The Company had instances where notice of appointment was not provided to the MID within 15 days from the date the agency contract was executed or the first application was submitted. Per Miss. Code Ann. §83-17-75, to appoint a producer as its agent, the appointing insurer shall file, in a format approved by the commissioner, a notice of appointment within fifteen (15) days from the date the agency contract is executed or the first insurance application is submitted.

*Recommendation:*

It is recommended that the Company implement a process to ensure that all appointments of producers are filed within 15 days to the Mississippi Insurance Department.

## ACKNOWLEDGMENT

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

Examiner-in-charge: David Palmer, CFE

Examiner: Ryne Davison, CFE

Examiner: Mario Ascic

IT Examiner: Darlene Lenhart-Schaeffer, CISA

Supervising Examiner: Katerina Bolbas, CFE

Actuary: Robert Daniel, ACAS, MAAA

Department Designee: Mark Cooley, CFE

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

Respectfully submitted,



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Examiner-in-charge



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Department Designee