

Report of Examination of

**Motorists Commercial Mutual Insurance Company**  
Columbus, Ohio

As of December 31, 2013

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Columbus, Ohio  
August 15, 2014

Honorable Mary Taylor  
Lieutenant Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Lieutenant Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Motorists Commercial Mutual Insurance Company**

an Ohio domiciled, mutual, property and casualty insurance company, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department last examined the Company as of December 31, 2008. The Department’s current examination covers the period of January 1, 2009, through December 31, 2013.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate 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.

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

## Management and Control

### Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<b>Name</b>	<b>Principal Occupation</b>
John J. Bishop	Chairman, Retired President and Chief Executive Officer, Motorists Insurance Group
Robert L. Western	Retired from Wilson Mutual Insurance Company
Larry L. Forrester	Independent Consultant and Retired from NAMIC
David W. Lemon	Retired from American Hardware Mutual Insurance Company
Susan E. Haack	Secretary and Senior Vice President, Motorists Insurance Group
Sandra W. Harbrecht	President and Chief Executive Officer, Paul Werth Associates
David L. Kaufman	President and Chief Executive Officer, Motorists Insurance Group
Robert L. McCracken	Attorney, Nash, Spindler, Grimstad & McCracken LLP
Thomas C. Ogg	Retired from Motorists Insurance Group
Robert C. Smith	President and Chief Executive Officer, Spero-Smith Investment Advisers, Inc.
Michael L. Wiseman	Treasurer and Chief Financial Officer, Motorists Insurance Group
Charles D. Stapleton	Senior Vice President, Motorists Insurance Group

## Officers

As of the examination date, the following principal executive officers were elected and serving in accordance with the Company's Bylaws:

<b>Name</b>	<b>Title</b>
John J. Bishop	Chairman
David L. Kaufman	Chief Executive Officer
Michael L. Wiseman	Treasurer
Susan E. Haack	Secretary

## Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is an affiliate of Motorists Mutual Insurance Company, a mutual, property and casualty company.

## Territory and Plan of Operations

As of December 31, 2013, the Company was licensed to transact business in the District of Columbia and all states except Alabama, Arkansas, Florida, Hawaii, Mississippi, and Montana.

The table below illustrates the Company's 2013 premiums written, in thousands, by line of business:

<b>Line of Business</b>	<b>Direct</b>	<b>Assumed</b>	<b>Ceded</b>	<b>Net</b>	<b>Net %</b>
Auto physical damage	\$ 4,808	\$ 20,455	\$ 4,922	\$ 20,341	16.2
Homeowners multiple peril	57	24,367	59	24,365	19.3
Private passenger auto liability	1	19,801	1	19,801	15.7
Commercial auto liability	10,734	12,448	11,031	12,151	9.6
Commercial multiple peril	6,631	12,989	6,631	12,989	10.3
Other liability – occurrence	5,477	12,720	5,477	12,720	10.1
Workers' compensation	1,126	11,740	1,183	11,683	9.3
Inland marine	2,660	3,344	2,660	3,344	2.7
All other lines	<u>1,870</u>	<u>8,563</u>	<u>1,874</u>	<u>8,559</u>	<u>6.8</u>
Totals	<u>\$ 33,364</u>	<u>\$ 126,427</u>	<u>\$ 33,838</u>	<u>\$ 125,953</u>	<u>100.0</u>

The Company reported the following operating percentages during the examination period:

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Loss and loss adjustment expense ratio	66.8	70.9	77.9	73.5	73.2
Expense ratio	35.4	35.4	34.9	35.5	34.8
Policyholder dividends	<u>1.2</u>	<u>1.2</u>	<u>1.4</u>	<u>1.3</u>	<u>0.8</u>
Combined ratio	<u>103.5</u>	<u>107.6</u>	<u>114.2</u>	<u>110.3</u>	<u>108.8</u>

### **Reinsurance**

Effective January 1, 1993, the Motorists Insurance Group entered into an intercompany reinsurance pooling agreement whereby the members contributed to and participated in all business earned on and after that date. The participants pooling percentages at December 31, 2013, were as follows:

Motorists Mutual Insurance Company	70.5
Motorists Commercial Mutual Insurance Company	18.5
Iowa Mutual Insurance Company	3.5
Wilson Mutual Insurance Company	3.0
Phenix Mutual Fire Insurance Company	3.5
MICO Insurance Company	0.0
Iowa American Insurance Company	<u>1.0</u>
	<u>100.0</u>

In addition to participating in the intercompany reinsurance pooling arrangement described above, the Group assumes and cedes business to other insurers and reinsurers during the ordinary course of business under various contracts that cover individual risks or entire classes of business. Reinsurance is primarily assumed on a pro rata basis and ceded on an excess-of-loss basis.

The Company has policies and procedures in place to comply with Statements of Statutory Accounting Principles 62R & 63.

All contracts contained an insolvency clause, errors and omissions clause and an arbitration clause, which meet the guidelines prescribed by the NAIC.

## **Financial Statements**

The financial condition and the results of its operations for the five-year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds**  
**December 31, 2013**

**Assets**

Bonds	\$ 172,031,501
Common stocks	61,584,108
Cash and short term investments	3,588,065
Other invested assets	23,427,645
Receivable for securities	<u>134,050</u>
Subtotal, cash and invested assets	260,765,369
Investment income due and accrued	1,614,965
Uncollected premiums in course of collection	10,293,012
Deferred premiums and installments booked but deferred	14,323,035
Amounts recoverable from reinsurers	9,402,703
Funds held by or deposited with reinsured companies	33,275,041
Current federal income tax recoverable and interest thereon	39,093
Net deferred tax asset	4,545,936
Electronic data processing equipment and software	18,964
Receivable from parent, subsidiaries and affiliates	1,856,579
Aggregate write-ins for other than invested assets	<u>760,277</u>
Total assets	<u>\$ 336,894,974</u>

**Statement of Assets, Liabilities, Surplus and Other Funds**  
**December 31, 2013**

**Liabilities**

Losses	\$ 77,495,336
Reinsurance payable on paid losses and loss adjustment expenses	6,704,623
Loss adjustment expenses	20,246,342
Commissions payable	4,153,300
Other expenses	1,203,567
Taxes, licenses and fees	1,295,281
Unearned premiums	56,840,292
Dividends declared and unpaid to policyholders	1,396,615
Ceded reinsurance premiums payable	3,661,299
Funds held by company under reinsurance treaties	19,643,714
Amounts withheld or retained by company for account of others	212,883
Remittances and items not allocated	(11,933)
Provision for reinsurance	553,591
Payable to parent, subsidiaries and affiliates	683,502
Aggregate write-ins for liabilities	<u>1,900,015</u>
Total liabilities	<u>195,978,427</u>

**Capital and Surplus**

Unassigned funds	<u>140,916,547</u>
Total capital and surplus	<u>140,916,547</u>
Total liabilities, capital and surplus	<u>\$ 336,894,974</u>

**Statement of Income**  
**For the Year Ended December 31, 2013**

Premiums earned	\$ <u>122,595,054</u>
Losses incurred	66,040,434
Loss adjustment expenses incurred	15,905,726
Other underwriting expenses incurred	44,583,296
Aggregate write-ins for underwriting deductions	<u>(352)</u>
Total underwriting deductions	<u>126,529,104</u>
Net underwriting loss	<u>(3,934,050)</u>
Net investment income earned	7,681,893
Net realized capital gains	<u>4,429,118</u>
Net investment gain	<u>12,111,011</u>
Net loss from premium balances charged off	(147,977)
Finance and service charges not included in premiums	780,025
Aggregate write-ins for miscellaneous income	<u>4,459</u>
Total other income	<u>636,507</u>
Net income before federal income taxes and dividends to policyholders	8,813,468
Dividends to policyholders	<u>1,526,317</u>
Net income before federal income taxes	7,287,151
Federal income taxes incurred	<u>(1,721,653)</u>
Net income	<u>\$ 9,008,804</u>

**Statement of Changes in the Capital and Surplus Account**  
**As of and For the Year Ended December 31**  
(In thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, prior year end	\$ 128,582	\$ 121,348	\$ 124,134	\$ 116,531	\$ 102,336
Net income (loss)	9,008	3,647	3,271	(2,247)	1,541
Change in net unrealized capital gains (losses)	4,377	3,925	(2,461)	6,719	6,426
Changes in net unrealized foreign exchange capital gain (loss)	57	25	(35)	(42)	18
Change in net deferred income tax	(2,087)	2,963	829	4,987	(888)
Change in non-admitted assets	555	(10,757)	249	(3,362)	858
Change in provision for reinsurance	98	(68)	(58)	(147)	(63)
Aggregate write-ins for gains and (losses) in surplus	<u>326</u>	<u>7,499</u>	<u>(4,581)</u>	<u>1,695</u>	<u>6,303</u>
Net change in capital and surplus	<u>12,334</u>	<u>7,234</u>	<u>(2,786)</u>	<u>7,603</u>	<u>14,195</u>
Capital and surplus, current year end	<u>\$ 140,916</u>	<u>\$ 128,582</u>	<u>\$ 121,348</u>	<u>\$ 124,134</u>	<u>\$ 116,531</u>

**Notes to Financial Statements**

**Investments**

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

**Loss and Loss Adjustment Expense (LAE) Reserves**

The Company's Board of Directors appointed Peter Weisenberger, FCAS, MAAA, Assistant Vice President of Actuarial Services of the Company, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Weisenberger prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's 2013 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the pooled reserves. On the basis of his analysis, Mr. Botsko concluded the pooled reserves fall within a reasonable range of reserve estimates at December 31, 2013.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

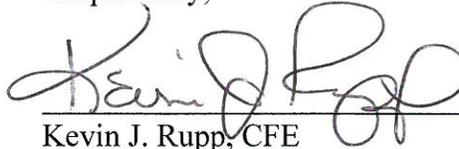
Total Admitted Assets	<u>\$ 336,894,974</u>
Liabilities	\$ 195,978,427
Capital and Surplus	<u>140,916,547</u>
Total Liabilities, Capital and Surplus	<u>\$ 336,894,974</u>

### Acknowledgement

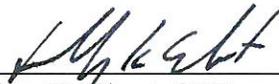
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, CFE, AES, CISA, CISSP, CIDM; Ryan S. Gibson, AES, CFE, CISA, FLMI; Bryan E. Radecky, CFE, CPA; Stephen W. Bishel, CPA; and Aaron R. Hibbs, CFE, ChFC, CPA, FLMI.

Respectfully,



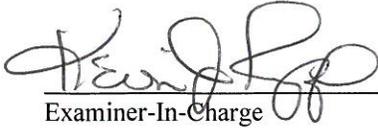
Kevin J. Rupp, CFE  
Examiner-in-Charge  
Ohio Department of Insurance



Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2013.

  
Examiner-In-Charge

10/7/14  
Date

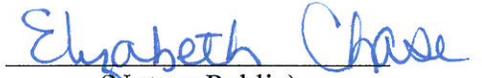
  
Assistant Chief Examiner

10/7/14  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 7 day of October, 2014.

  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 7 day of October, 2014.

  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires