

Report of Examination of

Motorists 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
3rd 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 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.

Name	Principal Occupation
John J. Bishop	Chairman of the Board, Retired President and Chief Executive Officer, Motorists Insurance Group
Yvette M. Brown	Partner, Jones Day
Larry L. Forrester	Independent Consultant
Archie M. Griffin	President and Chief Executive Officer, The Ohio State University Alumni Association, Inc.
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

Officers

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

Name	Title
John J. Bishop	Chairman of the Board
David L. Kaufman	President and Chief Executive Officer
Michael L. Wiseman	Senior Vice President, Treasurer and Chief Financial Officer
Susan E. Haack	Senior Vice President, Assistant Treasurer, Chief Risk Officer and Secretary
Grady B. Campbell	Senior Vice President, Chief Marketing Officer
Charles R. Gaskill	Senior Vice President, General Counsel and Assistant Secretary
Charles D. Stapleton	Senior Vice President, Chief Operating Officer
Charles A. Wickert	Senior Vice President, Chief of Staff

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC.

Territory and Plan of Operations

The Company is licensed to transact business in Indiana, Kentucky, Michigan, Ohio, Pennsylvania, and West Virginia. During 2013, approximately 55% of the direct premium was written in Ohio. The Company's products are distributed through a network of appointed insurance agents.

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

Line of Business	Direct	Assumed	Ceded	Net	Net %
Auto physical damage	\$ 78,879	\$ 33,142	\$ 34,505	\$ 77,516	16.2
Homeowners multiple peril	84,953	52,487	44,589	92,850	19.3
Private passenger auto liability	79,888	27,405	31,835	75,458	15.7
Commercial auto liability	44,160	21,765	19,617	46,308	9.6
Commercial multiple peril	41,417	33,909	25,827	49,499	10.3
Other liability – occurrence	48,421	22,082	22,028	48,475	10.1
Workers' compensation	22,089	41,567	19,132	44,523	9.3
Inland marine	11,604	7,778	6,638	12,744	2.7
All other lines	<u>15,097</u>	<u>33,514</u>	<u>16,002</u>	<u>32,611</u>	<u>6.8</u>
Totals	<u>\$426,508</u>	<u>\$ 273,649</u>	<u>\$ 220,173</u>	<u>\$479,984</u>	<u>100.0</u>

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

	2013	2012	2011	2010	2009
Loss and loss adjustment expense ratio	66.8	70.9	77.9	73.5	73.2
Expense ratio	35.4	35.4	34.8	35.4	34.6
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>107.5</u>	<u>114.1</u>	<u>110.2</u>	<u>108.7</u>

Reinsurance

Effective January 1, 1993, the Motorists Insurance Group (“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	\$ 670,103,810
Common stocks	202,275,482
Mortgage loans on real estate	270,120
Properties occupied by the company	26,579,010
Properties held for the production of income	686,026
Cash and short term investments	12,842,172
Other invested assets	114,680,304
Receivable for securities	<u>588</u>
Subtotal, cash and invested assets	1,027,437,512
Investment income due and accrued	6,758,526
Uncollected premiums in course of collection	22,248,066
Deferred premiums and installments booked but deferred	103,998,918
Amounts recoverable from reinsurers	11,700,511
Funds held by or deposited with reinsured companies	81,031,669
Net deferred tax asset	37,917,147
Electronic data processing equipment and software	1,886,700
Receivable from parent, subsidiaries and affiliates	1,870,434
Aggregate write-ins for other than invested assets	<u>40,983,528</u>
Total assets	<u>\$ 1,335,833,011</u>

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

Liabilities

Losses	\$ 295,320,063
Reinsurance payable on paid losses and loss adjustment expenses	13,627,139
Loss adjustment expenses	77,154,980
Commissions payable	15,827,440
Other expenses	4,892,436
Taxes, licenses and fees	5,747,136
Current federal income taxes on realized capital gains	2,262,739
Unearned premiums	216,607,599
Advance premium	3,577,170
Dividends declared and unpaid to policyholders	5,322,234
Ceded reinsurance premiums payable	21,416,621
Funds held by company under reinsurance treaties	53,053,130
Amounts withheld or retained by company for account of others	4,149,663
Remittances and items not allocated	720,056
Provision for reinsurance	52,182
Payable to parent, subsidiaries and affiliates	2,840,394
Aggregate write-ins for liabilities	<u>44,477,738</u>
Total liabilities	<u>767,048,720</u>

Capital and Surplus

Unassigned funds	<u>568,784,291</u>
Total capital and surplus	<u>568,784,291</u>
Total liabilities, capital and surplus	<u>\$ 1,335,883,011</u>

Statement of Income
For the Year Ended December 31, 2013

Premiums earned	<u>\$ 467,186,555</u>
Losses incurred	251,667,599
Loss adjustment expenses incurred	60,613,712
Other underwriting expenses incurred	169,898,505
Aggregate write-ins for underwriting deductions	<u>(1,340)</u>
Total underwriting deductions	<u>482,178,476</u>
Net underwriting loss	<u>(14,991,921)</u>
Net investment income earned	30,488,521
Net realized capital gains	<u>16,627,338</u>
Net investment gain	<u>47,115,859</u>
Net loss from premium balances charged off	(563,911)
Finance and service charges not included in premiums	2,972,529
Aggregate write-ins for miscellaneous income	<u>4,755,319</u>
Total other income	<u>7,163,937</u>
Net income before federal income taxes and dividends to policyholders	39,287,875
Dividends to policyholders	<u>5,816,505</u>
Net income before federal income taxes	33,471,370
Federal income taxes incurred	<u>(4,446,482)</u>
Net income	<u>\$ 37,917,852</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	\$ 480,561	\$ 460,847	\$ 503,322	\$ 487,488	\$ 409,270
Net income (loss)	37,918	7,275	(20,830)	724	1,214
Change in net unrealized capital gains (losses)	14,006	14,232	(6,462)	19,734	35,132
Change in non-admitted assets	(1,256)	15,862	5,808	(15,566)	20,892
Change in provision for reinsurance	128	(19)	(126)	351	(68)
Aggregate write-ins for gains (losses) in surplus	24,549	(21,318)	(21,717)	10,727	22,957
Other gains (losses) to surplus	<u>12,878</u>	<u>3,682</u>	<u>852</u>	<u>(136)</u>	<u>(1,909)</u>
Net change in capital and surplus	<u>88,223</u>	<u>19,714</u>	<u>(42,475)</u>	<u>15,834</u>	<u>78,218</u>
Capital and surplus, current year end	<u>\$ 568,784</u>	<u>\$ 480,561</u>	<u>\$ 460,847</u>	<u>\$ 503,322</u>	<u>\$ 487,488</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 A. 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>\$ 1,335,833,011</u>
Liabilities	\$ 767,048,720
Capital and Surplus	<u>568,784,291</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,335,833,011</u>

Acknowledgement

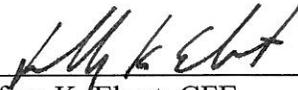
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

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,



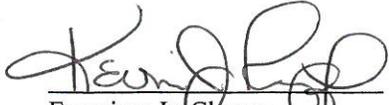
Kevin J. Rupp, CFE
Examiner-in-Charge
Ohio Department of Insurance



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

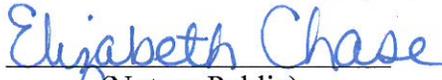

Assistant Chief Examiner

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.

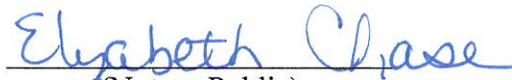

(Notary Public)

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