

Report of Examination of

**Owners Insurance Company**  
Lima, Ohio

As of December 31, 2013

## Table of Contents

Subject	Page
Salutation.....	1
Description of Company.....	1
Scope of Examination.....	1
Management and Control:	
Board of Directors .....	2
Officers .....	3
Insurance Holding Company System .....	4
Territory and Plan of Operations.....	4
Reinsurance .....	5
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus.....	6
Statement of Income.....	8
Statement of Changes in the Capital and Surplus Account.....	8
Notes to Financial Statements:	
Investments.....	9
Loss and Loss Adjustment Expense Reserves.....	9
Conclusion.....	9
Subsequent Events.....	9
Acknowledgement.....	10

Columbus, Ohio  
March 2, 2015

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

Dear Lt. Governor/Director:

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

**Owners Insurance Company**

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

**Scope of Examination**

The Department last examined the Company as of December 31, 2010. The Department’s current examination covers the period of January 1, 2011 through December 31, 2013.

Representatives of the Michigan Office of Financial and Insurance Regulation (“OFIR”), as the Coordinating State regulator of Auto-Owners Insurance Company (“Auto-Owners”) and its subsidiaries, led the multi-state coordinated examination. 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 corporate governance, identify and assess current and prospective risks, and evaluate the Company’s system of 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 Statements of Statutory Accounting Principles (“SSAPs”) 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 each year under examination, the Certified Public Accounting firm of PricewaterhouseCoopers, LLP provided an unqualified opinion on the financial statements of the Company based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors’ reports and supporting work papers 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 W. Abbott	President and Chief Executive Officer, Summit Community Bank
James F. Anderton, IV	Chief Executive Officer, Maple Grove Property Management, LLC
Herman J. Arends	Retired Chairman and Chief Executive Officer, Auto-Owners Insurance Company
Stuart R. Birn	Retired First Vice President, Secretary and General Counsel, Auto-Owners Insurance Company
Gregg L. Cornell	Retired Treasurer, Auto-Owners Insurance Company
Jeffrey F. Harrold	Chairman and Chief Executive Officer, Auto-Owners Insurance Company
Mark E. Hooper	Partner, Andrew, Hooper and Pavlic, PLC
Roger L. Looyenga	Retired Chairman and Chief Executive Officer, Auto-Owners Insurance Company
Lori A. McAllister	General Counsel, Dykemic, Gossett, PLLC
Katherine M. Noirot	First Vice President, Auto-Owners Insurance Company
Rodney J. Rupp	Executive Vice President, Auto-Owners Insurance Company

<b>Name</b>	<b>Principal Occupation</b>
Ronald H. Simon	Retired Chairman and Chief Executive Officer, Auto-Owners Insurance Company
Jeffrey S. Tagsold	President, Auto-Owners Insurance Company
Daniel J. Thelen	Senior Vice President, Human Resources and Life Operations, Auto-Owners Insurance Company
William F. Woodbury	Senior Vice President, Secretary and General Counsel, Auto-Owners Insurance Company

## **Officers**

As of the examination date, the following officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
Jeffrey F. Harrold	Chairman and Chief Executive Officer
Eileen K. Fhaner	Senior Vice President, Treasurer and CFO
William F. Woodbury	Senior Vice President, Secretary and General Counsel
Jeffrey S. Tagsold	President
Rodney J. Rupp	Executive Vice President
Katherine M. Noirot	First Vice President
Robert I. Buchanan	Senior Vice President and CIO – Information Systems and Technology
Carolyn B. Muller	Senior Vice President, Claims
Jonathan R. Riekse	Senior Vice President, Personal Lines Underwriting
Kenneth R. Schroeder	Senior Vice President, Commercial Lines Underwriting
James C. Schumacher	Senior Vice President, Information Systems and Technology
Daniel J. Thelen	Senior Vice President, Human Resources and Life Company Operations
Ian R. Ward	Senior Vice President, Investments and Operational Services

## Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The parent company, Auto-Owners, an insurance company domiciled in Michigan, owns 99.97% of the stock of the Company. Auto-Owners is the ultimate controlling person in the holding company system.

The Company and Auto-Owners entered into an Administrative Services Agreement (“Agreement”) effective January 1, 2003 whereby Auto-Owners provides administrative, cash management and claims adjusting services to the Company. The Agreement was filed with, and approved by, the Department.

The Company’s federal income tax return is consolidated with Auto-Owners and its affiliates. The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled annually.

## Territory and Plan of Operations

The Company is licensed to operate in thirty-one states and the Company is actively writing business in twenty-five states. The Company writes property and casualty insurance in both personal and commercial lines. The Company’s products and services are distributed exclusively through the independent agency system. The Company reported the following underwriting results during the examination period:

	2013	2012	2011
Loss and LAE Ratio	67.5	70.3	78.1
Expense Ratio	28.2	27.0	26.1
Policyholder Dividend Ratio	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Combined Ratio	<u>95.8</u>	<u>97.4</u>	<u>104.3</u>

During 2013, the largest five states in terms of direct premium written were as follows: Minnesota \$254.8 million (14.2%); Georgia \$219.4 million (12.2%); Illinois \$158.3 million (8.8%); North Carolina \$112.6 million (6.3%); Ohio \$101.5 million (5.7%). The following schedule illustrates the Company’s direct premium written in 2013, in thousands, by line of business:

Line of Business	Direct	Assumed	Ceded	Net	Net%
Homeowners multiple peril	\$ 408,818	\$ 1,103	\$ 47,415	\$ 362,506	22.4%
Commercial multiple peril	364,998	1,382	40,911	325,469	20.1%
Auto physical damage	307,381	-	15,066	292,315	18.1%
Private passenger auto liability	306,059	-	15,070	290,989	18.0%
Commercial auto liability	141,732	1	6,841	134,892	8.3%
Workers’ compensation	136,898	-	8,342	128,556	8.0%
All other lines	<u>127,180</u>	<u>410</u>	<u>45,287</u>	<u>82,303</u>	<u>5.1%</u>
Totals	<u>\$ 1,793,066</u>	<u>\$ 2,896</u>	<u>\$ 178,932</u>	<u>\$ 1,617,030</u>	<u>100.0%</u>

## **Reinsurance**

The Company cedes certain lines of insurance to Auto-Owners pursuant to a Reinsurance Agreement effective January 1, 2013. In addition, Auto-Owners provides catastrophic and large loss protection to the Company with specific retentions. The Reinsurance Agreement was filed with, and approved by, the Department.

## **Financial Statements**

The financial condition and the results of its operations for the 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, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus**  
**December 31, 2013**

Bonds	\$2,703,904,913
Preferred stocks	3,298,816
Common stocks	305,934,845
Cash, cash equivalents, and short term investments	64,848,937
Other invested assets	<u>28,432,305</u>
Subtotal, cash and invested assets	3,106,419,816
Investment income due and accrued	23,511,188
Uncollected premiums and agents' balances	8,630,886
Deferred premiums	306,547,905
Amounts recoverable from reinsurers	5,579,937
Net deferred tax asset	48,124,688
Guaranty funds receivable or on deposit	329,065
Equities and deposits in pools and associations	4,937,865
Miscellaneous assets	4,876,984
Group annuity	1,435,399
IGA special assessment	<u>418,648</u>
Total admitted assets	<u><u>\$3,510,812,381</u></u>

**Statement of Assets, Liabilities, Capital and Surplus**  
**December 31, 2013**

Losses	\$ 864,672,034
Loss adjustment expenses	255,394,616
Commissions payable, contingent commissions and other charges	54,770,329
Other expenses	3,807,489
Taxes, licenses and fees	16,980,743
Current federal and foreign income taxes	15,206,454
Unearned premiums	805,790,472
Advance premium	24,162,049
Ceded reinsurance premiums payable	30,707,305
Amounts withheld or retained by company for accounts of others	5,514,039
Payable to parent, subsidiaries and affiliates	139,157,441
Miscellaneous liabilities	<u>2,582,579</u>
Total liabilities	<u>2,218,745,550</u>
Common capital stock	6,500,000
Gross paid in and contributed surplus	220,998,592
Unassigned funds	<u>1,064,568,239</u>
Total capital and surplus	<u>1,292,066,831</u>
Total liabilities, capital and surplus	<u>\$3,510,812,381</u>

**Statement of Income**  
**As of December 31, 2013**

Premiums earned	<u>\$1,572,321,069</u>
Losses incurred	933,006,060
Loss adjustment expenses incurred	127,987,994
Other underwriting expenses incurred	<u>456,618,059</u>
Total underwriting deductions	<u>1,517,612,113</u>
Net underwriting gain	<u>54,708,956</u>
Net investment income earned	89,385,558
Net realized capital gains (losses)	<u>12,565,813</u>
Net investment gain	<u>101,951,371</u>
Net gain (loss) from agents' or premium balances charged off	(2,642,890)
Miscellaneous income	<u>3,912,489</u>
Total other income	<u>1,269,599</u>
Net income before federal income taxes	157,929,926
Dividends to policyholders	1,019,707
Federal income taxes incurred	<u>36,349,775</u>
Net income	<u>\$ 120,560,444</u>

**Statement of Changes in the Capital and Surplus Account**  
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital and surplus, beginning of the year	<u>\$ 1,139,303</u>	<u>\$ 1,016,698</u>	<u>\$ 990,822</u>
Net income	120,560	92,506	28,236
Change in net unrealized cap. gains (losses)	34,570	15,499	(6,818)
Change in net deferred income tax	(1,023)	3,051	7,839
Change in non-admitted assets	(1,343)	11,549	(10,788)
Aggregate write-ins for gains and losses	<u>-</u>	<u>-</u>	<u>7,407</u>
Change in surplus during the year	<u>152,764</u>	<u>122,605</u>	<u>25,876</u>
Capital and surplus, end of the year	<u>\$ 1,292,067</u>	<u>\$ 1,139,303</u>	<u>\$ 1,016,698</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 Reserves

The Company's Board of Directors appointed Mark Wenger, FCAS, MAAA, Assistant Vice President and Chief P&C Actuary to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Wenger prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Owners Insurance Company December 31, 2013 Annual Statement.

The Michigan OFIR retained Lee Smith, FCAS, MAAA, of Paradigm Actuaries, to review the Opining Actuary's work and issue an opinion on the adequacy of actuarially determined assets and liabilities of Auto-Owners and its subsidiaries as of December 31, 2013. Based on his analysis, Mr. Smith concluded that the Company's carried reserves make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

Thomas Botsko, FCAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report provided by Mr. Wenger and the Paradigm reserve analysis. Based on this review, Mr. Botsko determined the conclusions reached by Mr. Smith are appropriate and reasonable.

### 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 Assets	<u>\$ 3,510,812,381</u>
Liabilities	2,218,745,550
Capital and Surplus	<u>1,292,066,831</u>
Total Liabilities, Capital and Surplus	<u>\$ 3,510,812,381</u>

### Subsequent Events

The Department is not aware of any subsequent events that would have a material impact on the financial position of the Company.

### **Acknowledgement**

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

In addition to the undersigned, Thomas Botsko, FCAS, and Bryan Radecky, CPA, CFE, of the Department, participated in this examination.

Respectfully,

A handwritten signature in black ink, appearing to read "Jeffrey K. Ebert", written over a horizontal line.

Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
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.

Jeffrey K. Ebert      3/2/2015  
Assistant Chief Examiner      Date

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/her knowledge and belief.

Subscribed and sworn to before me this 2 day of March, 2015.

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