

Report of Examination of

Owners Insurance Company
Lima, Ohio

As of December 31, 2007

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Columbus, Ohio
December 30, 2008

Honorable Sandy Praeger
Chair, Executive Committee
National Association of Insurance Commissioners (NAIC)
Commissioner
Kansas Department of Insurance
420 SW 9th Street
Topeka, KS 66612-1678

Honorable Kim Holland
Chair, Midwestern Zone, NAIC
Commissioner
Oklahoma Department of Insurance
2401 NW 23rd Street, Suite 28
Oklahoma City, OK 73107

Honorable Mary Jo Hudson
Director
Ohio Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madams:

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 property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s main administrative office, located at 6101 Anacapi Boulevard, Lansing, Michigan.

A report of this examination is hereby respectfully submitted.

The Department last examined the Company as of December 31, 2003. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2007. Concurrent with this examination, representatives of Michigan and Indiana examined affiliated insurance companies that are domiciled in their respective states.

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
James F. Anderton, IV	President and Chief Executive Officer, Summit Holding Corporation
Herman J. Arends	Retired Chairman and Chief Executive Officer, Auto-Owners Insurance Company
Stuart R. Birn	Senior Vice President, Secretary and General Counsel, Auto-Owners Insurance Company
Thaddeus J. Buda, Jr.	Retired First Vice President, Secretary and General Counsel, Auto-Owners Insurance Company
Gregg L. Cornell	Retired Treasurer, Auto-Owners Insurance Company
Phillip V. Frederickson	Retired President and Chief Executive Officer, The Christman Company
Jeffrey F. Harrold	Executive Vice President, Auto-Owners Insurance Company
Mark E. Hooper	Partner, Andrews, Hooper and Pavlik, PLC
Roger L. Looyenga	Chairman and Chief Executive Officer, Auto-Owners Insurance Company
Lori A. McAllister	Attorney, Dykema Gossett, PLLC
Rodney J. Rupp	Senior Vice President, Claims, Auto-Owners Insurance Company
Ronald H. Simon	President, Auto-Owners Insurance Company

Officers

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

Name	Title
Roger L. Looyenga	Chairman and Chief Executive Officer
Ronald H. Simon	President
Jeffrey F. Harrold	Executive Vice President
Stuart R. Birn	Senior Vice President, Secretary and General Counsel
Robert I. Buchanan	Senior Vice President, Information Systems
Eileen K. Phaner	Senior Vice President and Treasurer
Rodney J. Rupp	Senior Vice President, Claims
Kenneth R. Schroeder	Senior Vice President, Commercial Lines
Jeffrey S. Tagsold	Senior Vice President, Personal Lines
Daniel J. Thelen	Senior Vice President, Human Resources

Insurance Holding Company System

The Company is a member of a holding Company system as defined under Section 3901.32 of the ORC. An organizational chart as represented by the Company is below. All companies are wholly-owned unless otherwise indicated.

- Auto-Owners Insurance Company (Michigan)
 - Auto-Owners Life Insurance Company (Michigan)
 - Home-Owners Insurance Company (Michigan)
 - Owners Insurance Company, 99.96% owned (Ohio)
 - Property-Owners Insurance Company (Indiana)
 - Southern-Owners Insurance Company (Michigan)

Territory and Plan of Operations

The Company is licensed in thirty-one states and actively writes in twenty-four states. The top four states, Minnesota, Illinois, Georgia and Ohio, account for 41% of the direct premium written in 2007. The Auto-Owners Insurance Group is represented by a network of independent agencies and utilizes a decentralized approach with 20 full-service branch offices and 73 claims offices. The primary lines of business are commercial multiple peril, automobile, homeowners and workers' compensation.

The following schedule illustrates the premium written in 2007 by line of business, reported in thousands:

	Direct	Assumed	Ceded	Net	Percent of Net Premium
Commercial multiple peril	\$ 266,697	264,469	291,940	239,226	22.9%
Auto physical damage	207,525	207,525	223,874	191,176	18.3%
Homeowners multiple peril	208,177	210,903	231,380	187,700	18.0%
Private passenger auto liability	175,080	175,072	188,907	161,245	15.4%
Workers' compensation	124,525	123,013	134,026	113,512	10.9%
Commercial auto liability	93,522	93,523	100,995	86,050	8.2%
Inland marine	36,381	36,204	40,335	32,250	3.1%
Other liability – occurrence	32,775	23,476	34,645	21,606	2.1%
All other lines	<u>12,541</u>	<u>12,086</u>	<u>13,715</u>	<u>10,912</u>	<u>1.1%</u>
Totals	<u>\$ 1,157,223</u>	<u>\$ 1,146,271</u>	<u>\$ 1,259,817</u>	<u>\$ 1,043,677</u>	<u>100.0%</u>

Reinsurance

The Company cedes 100% of its written premium to Auto-Owners Insurance Company (Auto-Owners) under the terms of an inter-company quota share reinsurance agreement. Auto-Owners retains all of the business classified as umbrella, equipment breakdown, mine substance, sinkhole insurance and/or certified Terrorism. All other classes of insurance are 100% retroceded to the Company. Any losses retroceded to the Company by the Reinsurer are limited to a maximum of \$950,000 per risk in any one property loss occurrence; \$8,500,000 per catastrophe property loss occurrence; and \$600,000 per liability or fidelity loss occurrence.

Scope of Examination

The purpose of the examination was to make an assessment of the financial condition of the Company as of December 31, 2007. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting (CPA) firm of PricewaterhouseCoopers, LLP, provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm during its annual audit of the Company was reviewed during the examination and incorporated into the examination workpapers.

The Department's property and casualty actuary reviewed the relevant work performed by the opening actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. loss experience and growth of Company;
5. pending litigation;
6. Articles of Incorporation/Bylaws.

Significant Operating Results

The Company reported the following net underwriting results during the examination period. Revenues and expenses are reported in thousands.

	2007	2006	2005	2004
Premiums earned	<u>\$ 1,022,709</u>	<u>\$ 983,019</u>	<u>\$ 892,841</u>	<u>\$ 767,797</u>
Losses incurred	627,579	564,885	473,317	427,106
Loss adjustment exp. incurred	107,604	98,240	94,741	91,958
Underwriting expenses incurred	<u>261,098</u>	<u>257,825</u>	<u>236,439</u>	<u>213,769</u>
Total underwriting deductions	<u>996,281</u>	<u>920,950</u>	<u>804,497</u>	<u>732,833</u>
Net underwriting gain	<u>\$ 26,428</u>	<u>\$ 62,069</u>	<u>\$ 88,344</u>	<u>\$ 34,964</u>
Pure loss ratio	61.4%	57.5%	53.0%	55.6%
Loss adjustment expense ratio	<u>10.5%</u>	<u>10.0%</u>	<u>10.6%</u>	<u>12.0%</u>
Loss ratio	71.9%	67.5%	63.6%	67.6%
Underwriting expense ratio	<u>25.0%</u>	<u>25.1%</u>	<u>24.6%</u>	<u>25.8%</u>
Combined ratio	<u>96.9%</u>	<u>92.6%</u>	<u>88.2%</u>	<u>93.4%</u>

Financial Statements

The financial condition as reported by the Company, and the results of its operations for the four-year period under examination, 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, 2007

Admitted Assets

Bonds	\$ 1,861,713,143
Preferred stocks	71,433
Common stocks	153,627,358
Cash and short-term investments	18,106,962
Other invested assets	<u>2,046,463</u>
Subtotal, cash and invested assets	2,035,565,359
Investment income due and accrued	23,741,969
Premiums in course of collection	13,354,465
Deferred premiums booked, but not yet due	215,804,242
Amounts recoverable from reinsurers	7,534,260
Net deferred tax asset	45,587,197
Guaranty funds receivable or on deposit	550,610
Receivables from parent, subsidiary and affiliates	303,489
Miscellaneous assets	<u>28,778,616</u>
Total admitted assets	<u>\$2,371,220,207</u>

**Statement of Assets, Liabilities, Surplus and Other Funds
(continued)**

December 31, 2007

Liabilities

Losses	\$ 603,017,328
Loss adjustment expense	229,433,646
Commission payable, contingent commission	33,285,427
Other expenses	2,205,223
Taxes, licenses and fees	15,509,765
Current federal and foreign income taxes	6,560,778
Unearned premiums	508,700,724
Advance premium	9,532,558
Ceded reinsurance premiums payable	19,653,240
Amount withheld by company for accounts of others	25,851,947
Payable to parent, subsidiaries and affiliates	66,506,013
Aggregate write-ins for liabilities	<u>482</u>
Total liabilities	<u>1,520,257,131</u>

Surplus and Other Funds

Common capital stock	6,500,000
Gross paid in and contributed surplus	220,998,592
Unassigned funds	<u>623,464,484</u>
Total surplus and other funds	<u>850,963,076</u>
Total liabilities, surplus and other funds	<u>\$ 2,371,220,207</u>

Statement of Income

As of December 31, 2007

Underwriting Income

Premiums earned	<u>\$ 1,022,709,202</u>
Losses incurred	627,579,137
Loss adjustment expenses incurred	107,603,893
Other underwriting expenses incurred	<u>261,097,965</u>
Total underwriting expenses incurred	<u>996,280,995</u>
Net underwriting gain	<u>26,428,207</u>

Investment Income

Investment income earned	86,601,133
Net realized capital gain	<u>958,393</u>
Net investment gain	<u>87,559,526</u>

Other Income

Net gain (loss) from agents' balances or premium charged off	(1,155,905)
Finance and service charges not included in premiums	4,190,076
Miscellaneous income and expense	<u>(71,275)</u>
Total other income	<u>2,962,896</u>

Net income before dividends and federal income taxes	116,950,629
Dividends to policyholders	315,011
Federal income taxes incurred	<u>29,541,500</u>
Net income	<u>\$ 87,094,118</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital and surplus, January 1 st	\$ <u>760,342</u>	\$ <u>644,476</u>	\$ <u>538,197</u>	\$ <u>464,365</u>
Net income	87,094	100,753	106,390	59,159
Net unrealized capital gains (losses)	3,758	7,798	(794)	5,189
Change in net deferred income tax	5,719	5,125	3,756	8,610
Change in non-admitted assets	(5,950)	2,190	1,831	(1,252)
Prior period adjustment	<u> -</u>	<u> -</u>	<u> (4,904)</u>	<u> 2,126</u>
Net change in surplus	<u> 90,621</u>	<u> 115,866</u>	<u> 106,279</u>	<u> 73,832</u>
Capital and surplus, December 31 st	<u>\$ <u>850,963</u></u>	<u>\$ <u>760,342</u></u>	<u>\$ <u>644,476</u></u>	<u>\$ <u>538,197</u></u>

Notes to Financial Statements

Investments

The Company's diversified investment portfolio consists primarily of investment grade bonds and equity securities and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

Christopher Walker, FCAS, MAAA, FCAS, Principle with PricewaterhouseCoopers, LLP, opined on the loss and loss adjustment expense reserves at year end 2007. Mary Miller, FCAS, MAAA, Assistant Director, Office of Product Regulation and Actuarial Services with the Department, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2007.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2007.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2007, and is summarized as follows:

Total Assets	<u>\$2,371,220,207</u>
Liabilities	\$1,520,257,131
Surplus and Other Funds	<u>850,963,076</u>
Total Liabilities, Surplus and Other Funds	<u>\$2,371,220,207</u>

Subsequent Events

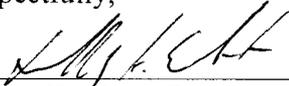
Effective July 1, 2008, Mr. Roger Looyenga resigned as Chief Executive Officer but continues in the role of Chairman of the Board. Mr. Ronald Simon and Mr. Jeffrey Harrold were elected Chief Executive Officer and President, respectively. In addition, Mr. Jeffrey Tagsold was elected to the Company's Board of Directors effective May 12, 2008.

Acknowledgement

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

In addition to the undersigned, Ryan S. Gibson, CFE; Mary D. Miller, FCAS, MAAA and Patricia A. Severs, CPA, participated in this examination.

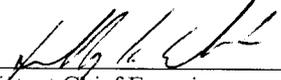
Respectfully,



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, 2007.


Assistant Chief Examiner

12/30/08
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 30 day of December, 2009.



(Notary Public)

ELIZABETH CHASE

NOTARY PUBLIC, STATE OF OHIO

MY COMMISSION EXPIRES MAY 22, 2012

My Commission Expires