

Report of Examination of

**Miami Mutual Insurance Company**  
Celina, Ohio

As of December 31, 2009

## Table of Contents

Subject	Page
Salutation.....	1
Description of Company.....	1
Management and Control:	
Board of Directors.....	1
Officers.....	2
Insurance Holding Company System.....	3
Reinsurance:	
Ceded.....	3
Assumed.....	3
Pooling.....	3
Territory and Plan of Operations.....	4
Scope of Examination.....	4
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds.....	6
Statement of Operations.....	7
Statement of Changes in the Capital and Surplus Account.....	7
Notes to Financial Statements:	
Investments.....	8
Loss and Loss Adjustment Expense Reserves.....	8
Conclusion.....	8
Acknowledgement.....	9

Columbus, Ohio  
March 25, 2011

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

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

**Miami Mutual Insurance Company**

an Ohio domiciled, mutual, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 1 Insurance Square, Celina, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2004, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

**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>
Philip M. Fullenkamp	Senior Vice President, Chief Financial Officer and Treasurer Celina Insurance Group
Nancy M. Goldberg	Vice President Personnel Management Systems, Inc.

Kenneth R. Hockenheimer	President First Group Insurance Agency
Wesley M. Jetter	Chairman and Chief Executive Officer Fort Recovery Industries, Inc.
David T. Mellin	Part-time Physician Elkhart Clinic
Ted J. Mitchell	Director of Marketing Celina Insurance Group
William W. Montgomery	President and Chief Executive Officer Celina Insurance Group
Jeffrey M. Priest	President Wells & Priest, Inc. CPAs
James W. Stapleton	President, Chief Executive Officer and Director Home City Federal Savings Bank

## **Officers**

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

<b>Name</b>	<b>Title</b>
William W. Montgomery	Chairman of the Board and Chief Executive Officer
William R. Walters	President
Michael S. Kleinhenz	Secretary
Philip M. Fullenkamp	Senior Vice President, Chief Financial Officer and Treasurer
Robert M. Shoenfelt	Senior Vice President and Chief Information Officer
William R. Stapleton	Senior Vice President and Chief Operating Officer
Vincent M. Franz	Vice President and Chief Actuary
Suzanne L. Wells	Vice President and Assistant Treasurer
Theodore J. Wissman	Vice President
Mark C. Hardy	Vice President
Pamela K. Erbaugh	Vice President
Rita D. Barga	Vice President

## **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the holding company structure as of December 31, 2009:

The Celina Mutual Insurance Company\*  
The National Mutual Insurance Company\*  
    West Virginia Farmers Mutual Insurance Association#  
    First Ohio Financial Corporation  
        First Indiana Insurance Agency, Inc.  
Miami Mutual Insurance Company\*  
    Protective General Agency

\*Property and Casualty Pool

#Affiliated with The National Mutual Insurance Company by a Service Agreement

## **Reinsurance**

### **Ceded**

As of the examination date, the Company along with its affiliates, The Celina Mutual Insurance Company (“Celina”) and The National Mutual Insurance Company (“National”), maintained a multi-line excess of loss reinsurance contract with \$350,000 retention, with several layers up to \$5.0 million for multiple lines and \$10.0 million for workers' compensation. A 100% quota share agreement on mechanical breakdown was maintained up to \$15.0 million. A 100% quota share agreement was maintained for employment practices liability up to \$250,000. An all lines umbrella quota share was maintained covering 95% of the first \$1.0 million with a second layer of \$1.0 million provided with no company participation. The property catastrophe program provided protection in three layers up to \$22.0 million in excess of \$1.75 million retention.

All contracts examined contained all applicable clauses to meet the guidelines prescribed by the National Association of Insurance Commissioners (“NAIC”).

### **Assumed**

Aside from business assumed from affiliates, the Company does not assume a material amount of business.

### **Pooling**

The Company and Celina are participants in a Reinsurance Pooling Agreement with National. Under terms of this agreement, National assumes all business written by the participants and then retrocedes 30% to the Company and 36% to Celina, retaining 34%.

The contract contained all applicable clauses to meet the guidelines prescribed by the NAIC.

### **Territory and Plan of Operations**

The Company was licensed to transact business in the states of Indiana, Minnesota, Ohio and Tennessee.

The following illustrates the Company's percentage of net premiums written by line in 2009:

<u>Description</u>	<u>%</u>
Homeowners multiple peril	21.7
Private passenger auto liability	21.2
Farmowners multiple peril	18.1
Auto physical damage	15.7
Commercial multiple peril	7.9
Fire	5.2
Commercial auto liability	3.5
Other liability – occurrence	1.9
Inland marine	1.6
Workers' compensation	1.2
Allied lines	1.2
All other	0.8
Total	<u>100.00</u>

### **Scope of Examination**

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2009. 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 Buffamante Whipple Buttafaro, P.C. has 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 opining 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. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

### **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 Operations  
Statement of Changes in the Capital and Surplus Account

## Statement of Assets, Liabilities, Surplus and Other Funds

**December 31, 2009**

### **Admitted assets**

Cash and invested assets:	
Bonds	\$27,522,099
Preferred Stocks	299,353
Common Stocks	3,342,629
Properties occupied by the company	755,387
Cash and short-term investments	<u>1,452,637</u>
Total cash and invested assets	33,372,105
Accrued investment income	221,079
Uncollected premiums and agents' balances	2,474,935
Deferred premiums	4,051,825
Amounts recoverable from reinsurers	1,036,357
Other amounts receivable under reinsurance contracts	2,475
Net deferred tax asset	1,065,976
Electronic data processing equipment and software	17,585
Receivables from parent, subsidiaries and affiliates	157,434
Aggregate write-ins for other than invested assets	<u>595,955</u>
Total admitted assets	<u><u>\$42,995,727</u></u>

### **Liabilities, capital and surplus**

Liabilities:	
Losses	\$6,804,463
Reinsurance payable on paid losses and loss adjustment expenses	1,132,179
Loss adjustment expenses	2,087,700
Commissions payable	223,653
Other expenses	280,781
Taxes, licenses and fees	86,070
Current federal and foreign income taxes	40,503
Unearned premiums	11,661,015
Advance premium	159,428
Ceded reinsurance premiums payable	1,339,824
Amounts withheld or retained by company for account of others	1,091,552
Remittances and items not allocated	<u>5,936</u>
Total liabilities	24,913,104
Capital and surplus:	
Aggregate write-ins for other than special surplus funds	80,661
Unassigned funds	<u>18,001,962</u>
Total capital and surplus	<u>18,082,623</u>
Total liabilities, capital and surplus	<u><u>\$42,995,727</u></u>

## Statement of Operations

**For the Year Ended  
December 31, 2009**

Premiums earned	\$22,148,975
Losses incurred	12,990,155
Loss adjustment expenses incurred	2,105,759
Other underwriting expenses incurred	8,097,723
Underwriting loss	<u>(1,044,663)</u>
Net investment income earned	1,324,475
Net realized capital losses	<u>(81,254)</u>
Net investment gain	1,243,221
Net loss from agents' or premium balances charged off	(34,704)
Finance and service charges not included in premiums	373,626
Aggregate write-ins for miscellaneous income	<u>(56)</u>
Total other income	<u>338,865</u>
Income before federal Income taxes	537,423
Federal income taxes	199,840
Net income	<u><u>\$337,583</u></u>

## Statement of Changes in the Capital and Surplus Account

(In thousands)

	2005	2006	2007	2008	2009
Capital and surplus December 31, previous year	<u>\$8,469</u>	<u>\$7,825</u>	<u>\$9,359</u>	<u>\$17,320</u>	<u>\$16,430</u>
Net income	385	945	1,810	843	338
Net unrealized capital gains (losses)	(137)	312	(410)	(1,275)	600
Change in net deferred income tax	1,478	(373)	(124)	23	(32)
Change in nonadmitted assets	(1,209)	650	(195)	(481)	667
Aggregate write-ins for gains and losses in surplus	<u>(1,161)</u>				<u>80</u>
Net change in capital and surplus	<u>(644)</u>	<u>1,534</u>	<u>1,081</u>	<u>(890)</u>	<u>1,653</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$7,825</u></u>	<u><u>\$9,359</u></u>	<u><u>\$10,440</u></u>	<u><u>\$16,430</u></u>	<u><u>\$18,083</u></u>

The two most recent years of this exhibit have been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, *Accounting Changes and Correction of Errors*.

## Notes to Financial Statements

### Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

### Loss and Loss Adjustment Expense Reserves

The Company had an outside actuary, Peter G. Wick, FCAS, MAAA of Milliman, Inc., opine on the reasonableness of the total reserves for the last three years covered by the examination. Another outside actuary, Joseph L. Petrelli, ACAS, MAAA of Demotech, Inc., opined on the reasonableness of the total reserves for the first two years covered by the examination. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

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, 2009.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

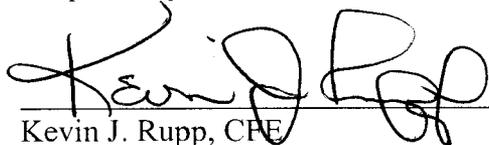
Total Admitted Assets	<u>\$42,995,727</u>
Liabilities	\$24,913,104
Surplus as Regards Policyholders	<u>18,082,623</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$42,995,727</u>

### 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 the undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CIDM, CISA, CISSP; Aaron R. Hibbs, CPA, FLMI, ChFC; Floyd D. Meeks, AES, CFE, CIDM, CISA, CPA, MBA; Leroy J. Moster, CFE, CPA; and Louis F. Radecky, CPA.

Respectfully,



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



William C. Harrington, CFE  
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, 2009.

Kevin J. Rupp  
Examiner-In-Charge

5/16/11  
Date

William C. Harrington  
Assistant Chief Examiner

5/16/11  
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 16 day of May, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
**MY COMMISSION EXPIRES MAY 22, 2012**  
My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named William C. Harrington, 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 16 day of May, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
**MY COMMISSION EXPIRES MAY 22, 2012**  
My Commission Expires