

Report of Examination of

MICO Insurance Company
Columbus, Ohio

As of December 31, 2013

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Columbus, Ohio
August 15, 2014

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd 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

MICO 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, 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, Retired President and Chief Executive Officer, Motorists Insurance Group
David L. Kaufman	President and Chief Executive Officer, Motorists Insurance Group
Susan E. Haack	Secretary and Senior Vice President, Motorists Insurance Group
Michael L. Wiseman	Treasurer and Chief Financial Officer, Motorists Insurance Group

Officers

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

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

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 a subsidiary of Motorists Mutual Insurance Company, a mutual, property and casualty company.

Territory and Plan of Operations

The Company was licensed to transact business in Indiana, Kentucky, Ohio, Pennsylvania, and West Virginia.

The following schedule illustrates the Company's premium written in 2013 by line of business:

Line of Business	Direct	Assumed	Ceded	Net
Private passenger auto liability	\$265,323	\$ 0	\$ 265,323	\$ 0
Auto physical damage	<u>81,900</u>	<u>0</u>	<u>81,900</u>	<u>0</u>
Total	<u>\$347,223</u>	<u>\$ 0</u>	<u>\$ 347,223</u>	<u>\$ 0</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. MICO was incorporated into the arrangement effective January 1, 2009. 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 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	\$ 10,479,319
Common stocks	2,726,846
Cash and short term investments	205,018
Other invested assets	909,963
Receivable for securities	<u>5</u>
Subtotal, cash and invested assets	14,321,151
Investment income due and accrued	72,457
Deferred premiums and installments booked but deferred	6,778
Amounts recoverable from reinsurers	30,040
Current federal income tax recoverable	5,751
Receivable from parent, subsidiaries, and affiliates	30,628
Aggregate write-ins for other than invested assets	<u>11,769</u>
Total assets	<u>\$ 14,478,574</u>

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

Liabilities

Other expenses	\$ 7,165
Net deferred tax liability	252,960
Dividends declared and unpaid to stockholders	1,338,251
Ceded reinsurance premiums payable	6,163
Funds held by company under reinsurances treaties	6,754
Remittances and items not allocated	11,720
Payable to parent, subsidiaries, and affiliates	26,759
Aggregate write-ins for liabilities	<u>4,274</u>
Total liabilities	<u>1,654,046</u>

Capital and Surplus

Common capital stock	2,252,000
Gross paid-in and contributed surplus	1,126,000
Unassigned funds	<u>9,446,528</u>
Surplus as regards policyholders	<u>12,824,528</u>
Total liabilities, capital and surplus	<u>\$ 14,478,574</u>

Statement of Income
For the Year Ended December 31, 2013

Net investment income earned	\$ 324,628
Net realized capital gains	<u>329,349</u>
Net investment gain	<u>653,977</u>
Aggregate write-ins for miscellaneous expense	<u>(11)</u>
Total other expense	<u>(11)</u>
Net income before federal income taxes	653,966
Federal income taxes incurred	<u>99,517</u>
Net income	<u>\$ 554,449</u>

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, prior year end	\$ <u>13,387</u>	\$ <u>13,983</u>	\$ <u>15,103</u>	\$ <u>15,986</u>	\$ <u>14,860</u>
Net income	554	554	636	645	978
Change in net unrealized capital gains (losses)	220	206	(266)	60	1,324
Change in net deferred income tax	(16)	(19)	3	25	(393)
Change in nonadmitted assets	17	60	16	(15)	702
Dividends to stockholders	<u>(1,338)</u>	<u>(1,397)</u>	<u>(1,509)</u>	<u>(1,598)</u>	<u>(1,485)</u>
Net change in capital and surplus	<u>(563)</u>	<u>(596)</u>	<u>(1,120)</u>	<u>(883)</u>	<u>1,126</u>
Capital and surplus, current year end	\$ <u>12,824</u>	\$ <u>13,387</u>	\$ <u>13,983</u>	\$ <u>15,103</u>	\$ <u>15,986</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 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:

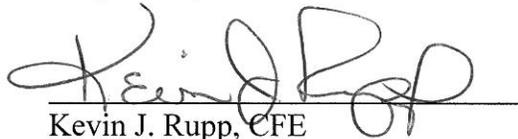
Total Admitted Assets	<u>\$14,478,574</u>
Liabilities	\$ 1,654,046
Capital and Surplus	<u>12,824,528</u>
Total Liabilities, Capital and Surplus	<u>\$14,478,574</u>

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.

Kevin J. Rupp
Examiner-In-Charge

10/7/14
Date

Jeffrey K. Ebert
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.

Elizabeth Chase
(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.

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

My Commission Expires