

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
American States Preferred Insurance Company)
175 Berkeley Street)
Boston, MA 02116)

Examination of: **American States Preferred Insurance Company**


NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of American States Preferred Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on July 2, 2020, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of American States Preferred Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

July 15, 2020
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7017 3040 0000 9294 9551

STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
American States Preferred Insurance Company)
175 Berkeley Street)
Boston, MA 02116)

Examination of: **American Insurance Preferred Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the American Insurance Preferred Insurance Company (hereinafter “Company”) for the time period January 1, 2014 through December 31, 2018.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on June 10, 2020.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on July 2, 2020 and was received by the Company on July 2, 2020.

The Company did not file any objections.

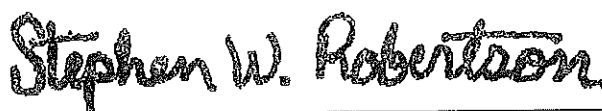
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the American Insurance Preferred Insurance Company as of December 31, 2018.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the American Insurance Preferred Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 15 day of
July, 2020.



Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

AMERICAN STATES PREFERRED INSURANCE COMPANY

NAIC Co. CODE 37214
NAIC GROUP CODE 0111

As of

December 31, 2018

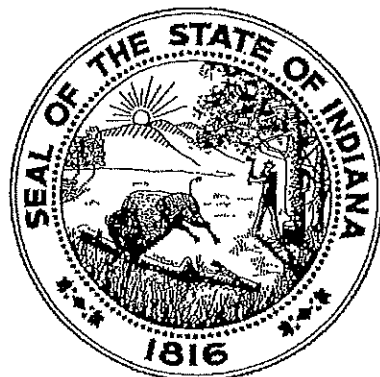


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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Stephen W. Robertson, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/idoi

June 10, 2020

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 4014, an examination has been made of the affairs and financial condition of:

American States Preferred Insurance Company
175 Berkeley Street
Boston, Massachusetts 02116

hereinafter referred to as the "Company", or "ASPIC", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Boston, Massachusetts.

The Report of Examination, reflecting the status of the Company as of December 31, 2018, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2389 COMPANY COMPLIANCE 317-232-3495 CONSUMER SERVICES 317-232-2395/1-800-622-4461 FINANCIAL SERVICES 317-232-2390 MEDICAL MALPRACTICE 317-232-2402 COMPANY RECORDS 317-232-5692 STATE HEALTH INSURANCE PROGRAM 1-800-452-4800

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI), and covered the period from January 1, 2010 through December 31, 2013. The present risk focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2014 through December 31, 2018, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The examination of the Massachusetts domestic insurance companies of the Liberty Mutual Group (LMG) was called by the Massachusetts Division of Insurance (Division) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The Division served as the lead state on the examination, and the INDOI served as a participant state.

Risk & Regulatory Consulting LLC, appointed by the Division, provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2018.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

ASPIC was incorporated under the laws of the state of Indiana on August 9, 1979, and commenced business on September 26, 1979. The Company was a wholly-owned subsidiary of American States Insurance Company (ASIC), which was 100% owned by American States Financial Corporation (ASFC), an insurance holding company. ASFC was controlled through an 83% ownership by Lincoln National until October 1, 1997, when Safeco Corporation (Safeco) completed the acquisition of ASFC. In 2000, ASFC was dissolved and 100% of the Company's outstanding shares were transferred to Safeco.

On April 23, 2008, Safeco agreed to a merger with a LMG subsidiary. As a result of the merger, Liberty Mutual Holding Company Inc. (LMHC), a Massachusetts holding company, became the new ultimate parent. LMHC was formed in 2001 as part of the mutual holding company reorganization of Liberty Mutual Insurance Company (LMIC).

CAPITAL AND SURPLUS

Safeco owned 100% of the Company's issued and outstanding stock as of the examination date. There were 1,000 authorized, issued, and outstanding shares of common stock throughout the examination period, with a par value of \$5,000 per share.

DIVIDENDS TO STOCKHOLDERS

The Company did not pay any dividends to its parent during the examination period. In addition, the Company did not make or receive any capital contributions during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to conduct business in forty (40) states and the District of Columbia, excluding Connecticut, Florida, Hawaii, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont. On January 19, 2018, the LMG announced the realignment of its businesses to enhance its ability to meet the changing demands of consumer and business customers, and conducts substantially all of its operations through two businesses: Global Retail Markets and Global Risk Solutions. Each business unit operates independently of the other and has dedicated actuarial, claims, financial, information technology, sales and underwriting resources. On a direct basis, the Company primarily writes auto liability and auto physical damage, with the three (3) largest states being California, Indiana and Maryland.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2018	\$ 23,779,762	\$ 1,195,533	\$ 22,584,228	\$ -	\$ 428,572
2017	23,479,857	1,173,202	22,306,656	-	313,345
2016	23,180,445	1,173,690	22,006,753	-	260,913
2015	22,822,518	1,110,119	21,712,398	-	534,306
2014	22,220,935	723,843	21,497,092	-	569,372

The financial results of the Company reflect the operating results of the Liberty Mutual Pool (the Pool). ASPIC cedes 100% of its direct written premium to the Pool and the participation percentage for the Company is 0% as of December 31, 2013.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of no less than five (5) and no more than twenty-one (21) directors. At least one (1) of the directors must be a resident of Indiana. Directors shall be elected at the first annual shareholders' meeting and at each annual meeting thereafter. A director need not be a shareholder.

The following is a listing of persons serving as directors as of December 31, 2018, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Matthew Paul Dolan Avon, Connecticut	President, North America Specialty Liberty Mutual Group Inc.
Alison Brooke Erbig Stoneham, Massachusetts	Senior Vice President and Comptroller Liberty Mutual Group Inc.
Michael Joseph Fallon Bedford, Massachusetts	President, National Insurance Liberty Mutual Group Inc.
Julie Marie Haase Boston, Massachusetts	Chief Financial Officer, Global Retail Markets Liberty Mutual Group Inc.
James Michael MacPhee Boston, Massachusetts	President and Chief Operating Officer, Global Retail Markets-U.S. Liberty Mutual Group Inc.
Sean Bulman McSweeney Ashland, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.
Elizabeth Julia Morahan Newtonville, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.
Francis William Robinson, Jr. North Andover, Massachusetts	Chief Financial Officer, Global Risk Solutions Liberty Mutual Group Inc.
Craig Kendall Sanford Carmel, Indiana	Underwriting Manager Liberty Mutual Group Inc.
Mark Charles Touhey Scituate, Massachusetts	Senior Vice President and Corporate Secretary Liberty Mutual Group Inc.

Officers

The Bylaws state that the elected officers of the Company shall consist of a President, a Secretary, and a Treasurer. Each of these officers is elected by the Board and shall hold office for one (1) year or until such time as they might be removed. The President or Chairman may appoint the number of Vice Presidents, Assistant Secretaries, Assistant Treasurers or any such officer as the President or Chairman may determine is required in the best interest of ASPIC.

The following is a list of key officers and their respective titles as of December 31, 2018:

<u>Name</u>	<u>Office</u>
James Michael MacPhee	President and Chief Executive Officer
Neeti Bhalla Johnson	Executive Vice President and Chief Investment Officer
James Francis Kelleher	Executive Vice President and Chief Legal Officer
Christopher Locke Peirce	Executive Vice President and Chief Financial Officer
Mark Charles Touhey	Senior Vice President and Secretary
Laurance Henry Soyer Yahia	Senior Vice President and Treasurer
Alison Brooke Erbig	Senior Vice President and Comptroller

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2018.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2018.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments made to the Bylaws during the examination period.

Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws require the annual meeting be held within five (5) months after the end of the fiscal year. For each year under review, the annual meeting of shareholders was held within five (5) months following the close of each fiscal year.

The committee meeting minutes for LMHC during the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Compensation Committee, Community Investment Committee, Executive Committee, Investment Committee, Nominating and Governance Committee, and Risk Committee.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the Company's parent and subsidiaries as of December 31, 2018:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
Liberty Mutual Holding Company Inc.		MA
LMHC Massachusetts Holdings Inc.		MA
Liberty Mutual Group Inc.		MA
Liberty Mutual Insurance Company	23043	MA
LM Property and Casualty Insurance Company	32352	IN
Ohio Casualty Corporation		OH
The Ohio Casualty Insurance Company	24074	NH
West American Insurance Company	44393	IN
Liberty Insurance Holdings, Inc.		DE
Liberty Mutual Agency Corporation		DE
Peerless Insurance Company	24198	NH
Liberty-USA Corporation		DE
The National Corporation		IN
National Insurance Association	27944	IN
Indiana Insurance Company	22659	IN
Consolidated Insurance Company	22640	IN
Safeco Corporation		WA
American States Insurance Company	19704	IN
General Insurance Company of America	24732	NH
Safeco Insurance Company of Indiana	11215	IN
American States Preferred Insurance Company	37214	IN
American Economy Insurance Company	19690	IN
American States Insurance Company of Texas	19712	TX

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

Intercompany Short-Term Borrowing Agreement

Effective November 1, 2007, American Economy Insurance Company, ASIC, ASPIC, and Safeco Insurance Company of Indiana entered into an Intercompany Short-Term Borrowing Agreement with Safeco. No funds were distributed under the Intercompany Short-Term Borrowing Agreement during 2018.

Investment Management Agreement

Effective July 1, 2011, ASPIC entered into an Investment Management Agreement with Liberty Mutual Group Asset Management Inc. (LMGAM). The Agreement was filed with the INDOI on May 18, 2011 and was not disapproved on July 1, 2011. Pursuant to this Agreement, ASPIC paid management fees to LMGAM of \$40,953 in 2018.

Management Services Agreement

Effective January 1, 2013, ASPIC entered into a Management Services Agreement with LMIC under which LMIC provides risk underwriting, claims processing, claims adjustments, policyholder services, contract management, administration, and other services determined to be reasonably necessary or desirable. The Management Services Agreement was submitted to the INDOI on November 13, 2012 and was not disapproved on December 27, 2012. Pursuant to the terms of this Agreement, ASPIC paid no fees in 2018.

Cash Management Agreement

Effective January 1, 2016, ASPIC entered into a Cash Management Agreement with LMIC whereby LMIC will provide short-term cash liquidity pool management services to the Company. A Form D was filed with the INDOI on October 7, 2015 and was not disapproved on December 21, 2015. Pursuant to the terms of this Agreement, ASPIC paid no fees in 2018.

Federal Tax Sharing Agreement

Effective September 22, 2008, ASPIC entered into a Federal Tax Sharing Agreement, as amended by Amendment Number 4, with LMHC and affiliates. Under this Agreement, the method of allocation is based upon separate return allocation with credit applied for losses as appropriate. ASPIC has the enforceable right to recoup prior year payments in the event of future losses. The Agreement may be terminated for any party when that entity is no longer a member of the consolidated group for tax filing purposes. Amendment Number 4 was filed with the INDOI on or about September 25, 2008 and not disapproved on October 22, 2008.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Colonial American Casualty and Surety Company. The bond has a single loss coverage limit of \$15 million, with a \$50 million deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2018, including but not limited to automobile liability, commercial general liability, financial institution bond, miscellaneous professional liability, specialty risk, and umbrella liability.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company does not have any direct employees, and therefore does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences, or other postretirement benefit plans. Services for the operation of the Company are provided under provisions of the Management Services Agreement.

SPECIAL AND STATUTORY DEPOSITS

The Company reported the following deposits as of December 31, 2018:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Illinois	\$ 1,531,011	\$ 1,521,852
Indiana	2,725,244	2,699,892
All Other Special Deposits:		
Georgia	199,692	193,046
New Mexico	319,217	315,582
North Carolina	348,342	346,637
Oregon	515,659	509,786
Total Deposits	<u>\$ 5,639,165</u>	<u>\$ 5,586,795</u>

REINSURANCE

Reinsurance Pool

Prior to January 1, 2013, LMIC was organized with two (2) separate and distinct intercompany reinsurance pools: the Liberty Mutual Pool and the Peerless Pool. Effective January 1, 2013, the Peerless Pool was merged into the Liberty Mutual Pool and thus dissolved.

Effective January 1, 2013, ASPIC entered into the Second Amended and Restated Intercompany Reinsurance Agreement (Intercompany Reinsurance Agreement) covering all of its direct writings with participation being the percentage indicated in the table on page 9 of this Report of Examination. The Agreement was filed with the INDOI on November 13, 2012 and was not disapproved on December 27, 2012.

Per the terms of the Intercompany Reinsurance Agreement, each affiliated member company, other than Wausau Business Insurance Company, Wausau General Insurance Company, and Wausau Underwriters Insurance Company, cedes to LMIC and LMIC accepts 100% of each company's risks arising out of its policies. LMIC cedes to each affiliated member company and each of the companies accepts its respective share of the Liberty Mutual Pool risks. Each company shall reimburse the ceding company for its share of the assessments, expenses, losses, policyholder dividends, and taxes. Also, each company shall maintain reserves for its share of the ceding company's liabilities.

Effective July 1, 2017, ASPIC is party to Addendum 1 to the Intercompany Reinsurance Agreement. Addendum 1 amends the Agreement to add two new affiliates, Ironshore Specialty Insurance Company and Ironshore Indemnity Inc., which were acquired on May 1, 2017. A Form D was filed with the INDOI on April 29, 2017 and was not disapproved on May 26, 2017.

Following is a list of the companies within LMG receiving a share of the Liberty Mutual Pool and its respective contract percentage:

Name of Pool Members	Percentage of Pool	Domiciliary State
Liberty Mutual Insurance Company	50.0%	MA
Peerless Insurance Company	20.0%	NH
Employers Insurance Company of Wausau	8.0%	WI
Liberty Mutual Fire Insurance Company	8.0%	WI
The Ohio Casualty Insurance Company	8.0%	NH
Safeco Insurance Company of America	6.0%	NH
American Economy Insurance Company ^A	0.0%	IN
American States Insurance Company ^A	0.0%	IN
American States Preferred Insurance Company ^A	0.0%	IN
Consolidated Insurance Company ^A	0.0%	IN
Indiana Insurance Company ^A	0.0%	IN
National Insurance Association ^A	0.0%	IN
Safeco Insurance Company of Indiana ^A	0.0%	IN
West American Insurance Company ^A	0.0%	IN
Total	<u>100.0%</u>	

^A Indiana domiciled insurers that are party to the Intercompany Reinsurance Agreement, but do not participate in the retrocession of pool business.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2017 and December 31, 2018, were agreed to the respective Annual Statements. The combined Annual Statements of the Pool for the years ended December 31, 2014 through December 31, 2018, were agreed to each year's independent audit report of the Pool without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

FINANCIAL STATEMENTS

AMERICAN STATES PREFERRED INSURANCE COMPANY

Assets

As of December 31, 2018

	<u>Per Examination*</u>
Bonds	\$ 21,856,079
Cash, cash equivalents and short-term investments	540,183
Securities lending reinvested collateral assets	<u>1,175,069</u>
Subtotals, cash and invested assets	23,571,331
Investment income due and accrued	112,056
Current federal and foreign income tax recoverable and interest thereon	96,353
Receivables from parent, subsidiaries and affiliates	<u>22</u>
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	23,779,762
Totals	<u>\$ 23,779,762</u>

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

AMERICAN STATES PREFERRED INSURANCE COMPANY
 Liabilities, Surplus and Other Funds
 As of December 31, 2018

	Per Examination*
Net deferred tax liability	\$ 17,000
Payable to parent, subsidiaries and affiliates	3,464
Payable for securities lending	1,175,069
Total liabilities excluding protected cell liabilities	1,195,533
Total liabilities	1,195,533
Common capital stock	5,000,000
Gross paid in and contributed surplus	13,232,251
Unassigned funds (surplus)	4,351,977
Surplus as regards policyholders	22,584,228
Totals	\$ 23,779,761

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts, including immaterial rounding adjustments.

AMERICAN STATES PREFERRED INSURANCE COMPANY
Statement of Income
For the Year Ended December 31, 2018

	Per Examination*
INVESTMENT INCOME	
Net investment income earned	\$ 468,681
Net realized capital gains (losses) less capital gains tax	(22,205)
Net investment gain (loss)	446,476
OTHER INCOME	
Aggregate write-ins for miscellaneous income	(1)
Total other income	(1)
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	446,475
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	446,475
Federal and foreign income taxes incurred	17,903
Net income	\$ 428,572

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

AMERICAN STATES PREFERRED INSURANCE COMPANY
Capital and Surplus Account Reconciliation

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31 prior year	\$ 22,306,656	\$ 22,006,753	\$ 21,712,398	\$ 21,497,092	\$ 21,026,396
Net income	428,572	313,345	260,913	534,306	569,372
Change in net deferred income tax	(109,000)	(58,000)	33,000	(325,000)	(437,000)
Change in nonadmitted assets	(42,000)	44,558	442	6,000	338,324
Change in surplus as regards policyholders for the year	<u>277,572</u>	<u>299,903</u>	<u>294,355</u>	<u>215,306</u>	<u>470,696</u>
Surplus as regards policyholders, December 31 current year *	<u>\$ 22,584,228</u>	<u>\$ 22,306,656</u>	<u>\$ 22,006,753</u>	<u>\$ 21,712,398</u>	<u>\$ 21,497,092</u>

* Exhibit includes immaterial rounding adjustments.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2018, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

Reinsurance

LMG is not in compliance with SSAP No. 62R Revised Property and Casualty Reinsurance and SSAP No. 63 Underwriting Pools for recording reinsurance balances on a gross basis at the individual LMIC Pool member levels, other than LMIC. LMG is incorrectly recording nonaffiliated external assumed reinsurance contracts for certain LMIC Pool members, other than LMIC, directly to LMIC, which is the lead company in the LMIC Pool. LMG's accounting practices also create an inaccurately reported Schedule F in the Annual Statement.

As a result, certain LMIC Pool participants (other than LMIC) are not correctly recording all of their assumed underwriting results on a gross basis whereby the participant's portion of premiums, losses, expenses (including intercompany related expenses), and other operations of the pools are recorded separately in each participant's financial statements rather than netted against each other within LMIC.

It is recommended that LMG correct its current reinsurance accounting practices to comply with SSAP No. 62R and SSAP No. 63 requirements for recording reinsurance balances on a gross basis for each affected individual pool member.

In addition, it is recommended LMG:

- Document its amended accounting practice in a formal reinsurance accounting policy memo.
- Review its reinsurance process narratives / flowcharts and controls and update such, as necessary, for any changes in its reinsurance accounting practice and processes.
- Evaluate and amend the Liberty Mutual Second Amended and Restated Reinsurance Agreement for any provisions that are not in compliance with SSAP No. 62R and SSAP No. 63.
- Prospectively correct Schedule F for the revised gross reporting basis for each individual pool member as necessary.

Related Party Transactions

LMG's related party documentation supporting its internal controls, monthly calculations and recording of related party fees/expenses, settlement of intercompany receivables/payables, and evaluation of non-admitted intercompany receivables should be significantly enhanced.

It is recommended that LMG ensure appropriate key controls and documentation are in place associated with the different agreement types, monthly calculations and recording of related party fees/expenses, settlement of intercompany receivables/payables, and evaluation of non-admitted intercompany receivables. In addition, LMG should reevaluate all related party investment agreements and other related party contracts that are based on a method other than a cost-allocation to ensure compliance with SSAP No. 25 Affiliates and Other Related Parties.

SUBSEQUENT EVENTS

On April 15, 2019, LMG announced the acquisition of the global surety and credit reinsurance operations of AmTrust Financial Services, Inc. LMG will acquire four AmTrust businesses: AmTrust Surety which provides contract, commercial, and subdivision bonds primarily in the western U.S.; AmTrust Insurance Spain which offers surety bonds in Spain and Latin America; Nationale Borg which provides surety, worker disability, and home purchase bonds in the Netherlands and Belgium; and Nationale Borg Reinsurance, a global provider of surety, trade credit and political risk reinsurance. On May 31, 2019, LMG completed the acquisition of the business and operations of AmTrust Surety, the U.S. surety operations of AmTrust Financial Services, Inc. On October 2, 2019, LMG completed the AmTrust Insurance Spain, Nationale Borg, and Nationale Borg Reinsurance portion of the acquisition.

On November 5, 2019, LMIC entered into a reinsurance transaction with National Indemnity Company on a combined aggregate excess of loss agreement for certain Global Retail Markets U.S. Business Lines and Global Risk Solutions National Insurance workers compensation liabilities, commercial auto liability and general liability excluding umbrella and warranty. The first layer of the contract attaches at \$0.3 billion below applicable held reserves at inception of approximately \$8.3 billion of combined aggregate reserves. The second layer of the contract provides adverse development coverage for \$1 billion above a retention equal to approximately \$8.7 billion. The contract includes a sublimit of \$0.1 billion for certain general liability liabilities. The contract will be accounted for as retroactive reinsurance.

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The INDOI will continue to monitor how the pandemic might impact the Company.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Risk and Regulatory Consulting LLC, performed an examination of American States Preferred Insurance Company, as of December 31, 2018.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of American States Preferred Insurance Company as of December 31, 2018, as determined by the undersigned.

Nadine Treon
Nadine Treon, CFE
Noble Consulting Services, Inc.

Under the Supervision of:

Jerry Ehlers
Jerry Ehlers, CFE, AES
Examinations Manager
Indiana Department of Insurance

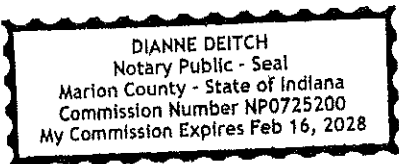
State of: Indiana
County of: Marion

On this 13 day of July, 2020, before me personally appeared, Nadine Treon and Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: Feb. 16, 2028

Dianne Deitch
Notary Public



Dianne Deitch
Notary Public

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