

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

IN THE MATTER OF:)
)
Monroe Guaranty Insurance Company)
9025 River Road, Suite 300)
Indianapolis, IN 46240-6443)

Examination of: **Monroe Guaranty 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 Monroe Guaranty Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, 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 Monroe Guaranty 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.

6/21/2017
Date _____ Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7016 2070 0001 1479 8766

STATE OF INDIANA)
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COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
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Monroe Guaranty Insurance Company)
9025 River Road, Suite 300)
Indianapolis, IN 46240-6443)

Examination of: **Monroe Guaranty Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Monroe Guaranty Insurance Company (hereinafter "Company") for the time period January 1, 2013 through December 31, 2015.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on May 18, 2017.

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 June 6, 2017 and was received by the Company on June 8, 2017.

On June 16, 2017 pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2015.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance 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, as amended, 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, as amended. 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 21st day of
June, 2017.


Stephen W. Robertson
Insurance Commissioner

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.

A handwritten signature in black ink, appearing to read "Michael J. ...". The signature is written in a cursive style with a large initial "M" and a long horizontal stroke extending to the right.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

MONROE GUARANTY INSURANCE COMPANY

NAIC COMPANY CODE 32506

NAIC GROUP CODE 474

As of

December 31, 2015

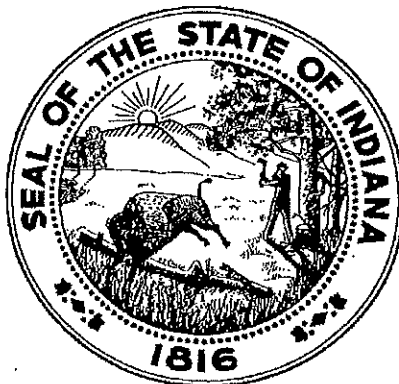


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STATE OF INDIANA

IDOI

ERIC HOLCOMB, Governor

Indiana Department of Insurance

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

May 18, 2017

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 3297, an examination has been made of the affairs and financial condition of:

Monroe Guaranty Insurance Company
9025 River Road, Suite 300
Indianapolis, Indiana 46240-6443

an Indiana domestic, stock, property and casualty insurance company hereinafter referred to as the "Company." The examination was conducted at the main administrative offices of the Company located at 6300 University Parkway, Sarasota, Florida 34240-8424.

The Report of Examination, showing the status of the Company as of December 31, 2015, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
1-800-622-4461

EXAMINATIONS/FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

COMPANY RECORDS
(317) 232-5692

STATE HEALTH INSURANCE PROGRAM
1-800-332-4674

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2012. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2013 through December 31, 2015, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by BDO USA, LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Robert Daniels, ACAS, MAAA of Merlinos & Associates, Inc., and Amy Peters, ACAS, MAAA, of Merlinos & Associates, Inc., conducted a review of the Company's Loss Reserves and Loss Adjustment Expenses as of December 31, 2015.

In accordance with the 2015 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Company has taken corrective action with respect to the comments and recommendations made in the prior Report of Examination.

HISTORY

The Company was formed in November 1971 as Northern Financial and Guaranty Company of Bermuda and solely provided product liability insurance for its parent, Cook Group, Inc., an international manufacturer and distributor of medical products. On June 21, 1974, the Company was reformed under the laws of the State of Indiana and its present name was adopted on July 2, 1975.

On October 7, 1991, Monroe Guaranty Companies, Inc. (MGCI) acquired the Company from Cook Group, Inc. At that time, the Company's employees owned 80% of MGCI through an Employee Stock Ownership Plan. In 2000, MGCI and the Company were acquired by FCCI Insurance Group, Inc. (FCCI), a Florida domiciled holding company. On October 1, 2003, MGCI merged into FCCI with FCCI being the surviving entity. FCCI is owned by FCCI Insurance Company, a Florida domiciled property and casualty insurer. The Company's ultimate parent is FCCI Mutual Insurance Holding Company (FCCI Mutual), a Florida corporation.

CAPITAL AND SURPLUS

As of December 31, 2015, the Company reported \$52,017,216 in surplus, comprised of: \$3,000,000 of common stock with 1,000 shares issued and outstanding with no par value; \$31,200,000 gross paid in and contributed surplus; \$17,817,216 in unassigned funds. There were no shareholder dividends declared or paid during the examination period.

In compliance with Indiana statutes, the Company is required to maintain a surplus of not less than \$1,500,000. The NAIC has established risk-based capital (RBC) requirements to assist in monitoring the financial strength and stability of property and casualty insurers. The Company had a calculated RBC level of 31,003% as of December 31, 2015.

TERRITORY AND PLAN OF OPERATION

The Company is a property and casualty insurance company that writes various commercial lines of business in the Midwestern and Southeastern states. As of December 31, 2015, the Company is licensed to transact business in twenty (20) states and actively writing in seventeen (17) states. The Company wrote \$81,057,517 in direct business. The highest concentrations of premium are in Florida (\$27.9 million or 34% of total direct business), Georgia (\$12.4 million or 15%), Texas (\$7.7 million or 9%), South Carolina (\$5.5 million or 7%) and Indiana (\$4.6 million or 6%).

The Company is a member of the FCCI Insurance Group, Inc. group of companies which includes other insurers. FCCI Insurance Group, Inc. uses multiple companies to execute its tiered pricing structure. The sole means of product distribution is through an independent agency system. The Company cedes 100% of its business to an affiliate under a quota share agreement effective January 1, 2005.

GROWTH OF THE COMPANY

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

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Capital & Surplus</u> | <u>Net Premiums Earned</u> | <u>Net Income (Loss)</u> |
|-------------|----------------------------|--------------------|----------------------------------|------------------------------------|------------------------------|
| 2015 | \$49,676,878 | \$(2,340,338) | \$52,017,216 | \$0 | \$1,079,020 |
| 2014 | 48,137,043 | (2,737,001) | 50,874,044 | 0 | 1,114,072 |
| 2013 | 46,929,858 | (2,879,574) | 49,809,432 | 0 | 977,956 |

The negative liability as reported above is attributable to a reduction in ceded premiums payable for the uncollected portion of the ceded reinsurance premiums from the policyholders. The net premiums earned of zero, as reported in each year of the examination period, was a result of the 100% quota share agreement with FCCI Insurance Company.

MANAGEMENT AND CONTROL

Directors

The Company's Bylaws specify that except for actions of the corporation that must be authorized or approved by the shareholders of the corporation, all corporate powers shall be exercised by or under the authority of the Board of Directors, and the business and affairs of the corporation shall be managed pursuant to the policies of the Board of Directors.

The Bylaws specify that the number of directors shall at no time consist of less than five (5) persons. The number of directors may be increased or decreased by the affirmative vote of a majority of the directors. At all times, at least one (1) of the directors shall reside in the State of Indiana. At any meeting of the Board of Directors, a majority of the whole board shall constitute a quorum. The act of a majority of the directors present and voting at a meeting at which a quorum is present, shall be the act of the Board of Directors. The following is a listing of persons serving as directors as of December 31, 2015:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|--|
| Charles R. Baumann Sarasota, Florida | Owner/Consultant/Shareholder K.B. Support Services LLC. |
| John J. Cox III Sarasota, Florida | President Halfacre Construction Company |
| Robert W. Flanders Sarasota, Florida | President/Owner Quality Walls L.C. |
| Gordon W. Jacobs Sarasota, Florida | Former Insurance Executive |
| Craig A. Johnson Sarasota, Florida | President & CEO FCCI Insurance Group |
| Gregory L. Kramer Indianapolis, Indiana | Senior Vice President Monroe Guaranty Insurance Company |
| John T. Stafford* Sarasota, Florida | Former Banking Executive |
| Roy A. Yahraus Sarasota, Florida | Sales Manager Seacoast Supply |

*Chairman

There have been (2) changes in the Board of Directors of the Company during the examination period. Effective September 2, 2014, Gregory Kramer replaced Tracy Pfab as the Indiana Director. Effective September 24, 2014, Robert Benjamin was removed from the Board of Directors. The board did not elect

anyone to fill the vacancy created by Mr. Benjamin's departure during the period under examination. The board elected Lisa Krouse in 2016, which is noted within the "Subsequent Events" section of this report. John Stafford retired from the Board of Directors on October 19, 2016, which is also noted in the "Subsequent Events" section of this report.

Officers

The Company's Bylaws specify that the officers of the corporation shall be a Chairman of the Board, a President, a Secretary, and a Treasurer and, in addition, at the discretion of the Board of Directors, one (1) or more Vice Presidents, other officers and assistants, all of whom shall be elected by the initial Board of Directors and annually by the Board of Directors at its first meeting held after the annual meeting of shareholders. One (1) person may simultaneously hold more than one (1) office. The Company's daily operations were managed by the following key officers as of December 31, 2015:

| <u>Name</u> | <u>Position</u> |
|-------------------------|---|
| Craig A. Johnson | President and CEO |
| Christopher S. Shoucair | Executive Vice President, CFO, and Treasurer |
| Thomas A. Koval | Senior Vice President, General Counsel, and Secretary |
| Lisa P. Weiland | Executive Vice President |
| Joseph A. Keene | Executive Vice President |
| Gregory L. Kramer | Senior Vice President |
| Lisa A. Krouse | Executive Vice President |
| Michelle M. Jalbert | Vice President |

There has been one change in the senior officers of the Company during the examination period. In September 2014, Gregory Kramer replaced Tracy Pfab as the Indiana Officer. Effective July 8, 2016, Joseph Keene, EVP of Claims, retired from FCCI which is also noted in the "Subsequent Events" section of this report.

Corporate Governance

The Company's Bylaws specify that the Board of Directors shall appoint a Nominating Committee, which consists of three (3) members of the Board of Directors, other than its chairman. The Nominating Committee shall be responsible for nominating directors. The board may appoint such other committees as it shall determine from time to time. The committees and the member directors that were elected to serve as of December 31, 2015, were as follows:

Nominating Committee:

| | |
|--------------------|----------|
| Gordon W. Jacobs | Chairman |
| Robert W. Flanders | |
| Roy A. Yahraus | |

Audit Committee:

| | |
|--------------------|----------|
| Gordon W. Jacobs | Chairman |
| Charles R. Baumann | |
| Robert W. Flanders | |
| Roy A. Yahraus | |

Investment Committee:

| | |
|--------------------|----------|
| Gordon W. Jacobs | Chairman |
| Charles R. Baumann | |
| John J. Cox III | |
| Robert W. Flanders | |

The Company also receives oversight from its other committees that were comprised of, but not limited to, Budget, Regional Marketing & Underwriting, Internal Operations (Home Office Support and Finance), Compensation, Claims & Reserving, Long Range Planning and Executive Committees.

CONFLICT OF INTEREST

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any one (1) director, officer or key employee, which is likely to conflict with their official duties. From a review of the officers and directors signed statements, there was no conflict of interest reported by any of the officers or directors.

OATH OF OFFICE

Indiana Code (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 corporation and will not knowingly violate any of the laws applicable to such corporation. Each director signed an "Oath of Office" statement for 2015 and previous years.

CORPORATE RECORDS

Articles of Incorporation

The Company's Articles of Incorporation were not amended or restated during the period under examination.

Bylaws

On August 1, 2014, the Amended and Restated Code of Bylaws were filed with INDOI. The Company revised all of the companies' Bylaws in the FCCI Insurance Group to make them as consistent as possible.

Minutes

The Board of Directors and Shareholders Meeting minutes were reviewed for the period under examination

through the fieldwork completion date and significant actions taken during each meeting were noted. It was noted that the Annual Board Meetings and other regular board meetings were held in accordance with the Company's Bylaws. However, from a review of the shareholders' minutes, it was noted that the Annual Shareholders Meetings in 2013 and 2014 were not held within the first five (5) months of each fiscal year, contrary to the provisions of IC 27-1-7-7(b), which requires the Annual Shareholders Meeting to be held within five (5) months of the fiscal close which is December 31 for the Company. (Please see the "Other Significant Findings" section of this report regarding this issue.)

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. The Company is wholly owned by FCCI Insurance Group, a Florida domiciled holding company. FCCI Mutual is the ultimate controlling entity.

The group, includes six (6) insurance companies, five (5) of which are reinsured by their indirect parent, FCCI Insurance Company, under a 100% quota share agreement. The following organizational chart depicts the Company's relationship within the holding company system:

- FCCI Mutual Insurance Holding Company (Parent Company)
 - FCCI Group, Inc. (FL) (100%)
 - FCCI Services, Inc. (100%)
 - FCCI Agency, Inc. (100%)
 - FCCI Insurance Company (FL) (NAIC 10178) (100%)
 - FCCI Insurance Group, Inc. (FL) (100%)
 - FCCI Commercial Insurance Company (FL) (NAIC 33472) (100%)
 - FCCI Advantage Insurance Company (FL) (NAIC 12842) (100%)
 - Brierfield Insurance Company (MS) (NAIC 10993) (100%)
 - National Trust Insurance Company (IN) (20141) (100%)
 - Monroe Guaranty Insurance Company (IN) (NAIC 32506) (100%)
 - FCCI Tax Credit, LLC (62% FCCI, National 22% and Monroe 16%)

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B Holding Company Registration Statement and were filed and not disapproved with the INDOI in accordance with IC 27-1-23-4.

Management Services Agreement

A Management Services Agreement (effective January 1, 2007) between the Company and FCCI Services, Inc., and all the affiliates of FCCI Services, Inc. The agreement identifies insurance and general management services to be provided among the entities. The Company has filed two amendments to the original agreement. The first amendment to the Management Services Agreement was made to comply with the changes to the Statement of Statutory Accounting Principles in the NAIC Accounting Practices and Procedures Manual. In 2016, an amended and restated agreement was filed, which is noted in the

“Subsequent Events” section of this report. Amounts incurred in 2015 under this agreement were \$11,749,984.

Federal and State Tax Allocation Agreement

The Company is party to a Federal and State Tax Allocation Agreement to file a consolidated tax return with FCCI Insurance Company and other affiliates. The method of allocation between 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 within 90 days of the filing of the Consolidated Federal Income Tax Return.

Operating Agreement

Effective November 23, 2010, the Company, National Trust Insurance Company and FCCI Insurance Company entered into an Operating Agreement for FCCI Tax Credit, LLC, a newly formed entity with the primary purpose of indirectly investing in low income housing properties in order to obtain low income housing tax credits for its members. The agreement will be in effect until amended or terminated by the parties or until FCCI Tax Credit, LLC is dissolved. As of December 31, 2015, the Company owned 16%, FCCI Insurance Company owned 62%, and National Trust owned 22%. FCCI Insurance Company acts as a manager under this agreement.

The first amendment to the Operating Agreement of FCCI Tax, LLC, effective June 22, 2015 was entered to conform to changes in Florida law regarding limited liability companies.

Capital Maintenance Agreements

As a condition of authorization to write workers’ compensation coverage under the Longshore and Harbor Workers’ Compensation Act and its extensions, the Department of Labor, Office of Workers’ Programs, and Division of Longshore and Harbor Workers’ Compensation, required the Company and its affiliate, Brierfield Insurance Company, to enter into Capital Maintenance Agreements with FCCI Insurance Company. The agreements require FCCI Insurance Company, to maintain specified capital levels in the Company and Brierfield Insurance Company. Any potential capital contributions are contingent upon any necessary regulatory approval.

Reinsurance Agreements

Please refer to the “Reinsurance” section of the report for this intercompany quota share reinsurance agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company’s ultimate parent, FCCI Mutual, was protected by a fidelity bond for losses up to \$5,000,000 per occurrence and \$10,000,000 aggregate limits as of December 31, 2015. The amount of coverage met the suggested minimum coverage as recommended by the NAIC.

The Company was also insured under a commercial umbrella liability policy, workers’ compensation policy, property portfolio protection policy, storage tank third party liability policy, and corrective acts and clean up policy.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposit as of December 31, 2015:

| <u>State</u> | <u>Book Value</u> | <u>Fair Value</u> |
|--|---------------------|---------------------|
| For the Benefit of all Policyholders: | | |
| Florida | \$ 220,066 | \$ 219,388 |
| Georgia | 99,240 | 97,985 |
| Indiana | 2,198,280 | 2,248,799 |
| All Other Special Deposits: | | |
| North Carolina | 638,820 | 667,933 |
| Virginia | 403,862 | 403,566 |
| U.S. Department of Labor | 551,304 | 561,044 |
| Total Deposits | <u>\$ 4,111,572</u> | <u>\$ 4,198,715</u> |

REINSURANCE

Reinsurance Assumed

As a direct writer of insurance, the Company is required by certain states to participate in underwriting pools. These pools require that all insurers share proportionally in providing insurance coverage for certain high-risk insureds. As of December 31, 2015, the Company was participating in the underwriting pools of fourteen (14) states with the largest of these states being Indiana, Georgia, Michigan, South Carolina, and North Carolina.

Reinsurance Ceded

FCCI Insurance Company reinsures 100% of the exposures in excess of the Company's retention. The quota share reinsurance contracts include a provision for assumed commission equal to 100% of subsidiaries' operating expenses incurred. Additionally, FCCI Insurance Company has various excess loss and quota share agreements providing coverage on various segments of their property and casualty lines of business. Incurred loss and loss adjustment expenses were \$0 in 2015, which reflects the 100% quota-share agreement with FCCI Insurance Company.

RESERVES

Russell H Grieg, Jr., FCAS, MAAA, CFA of Willis Towers Watson was the Company's Appointed Actuary in 2015. Mr. Grieg was appointed by the Board of Directors of the Company on August 26, 2004, to render an opinion on the reserves of the Company.

The scope of the opinion stated the Actuary examined the reserves as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials as of December 31, 2015. In forming the opinion, information prepared by the Company was relied upon. The provided data was evaluated for reasonableness and consistency. The data was reconciled to Schedule P - Part 1 of the Company's Annual Statement as of December 31, 2015. The examination included such review of the actuarial assumptions

and methods and such tests of the calculations as considered necessary.

The 2015 opinion stated the balances of reserves; 1) meet the requirements of the insurance laws of Indiana, 2) are consistent with amounts computed in accordance with the Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and relevant standards of practice promulgated by the Actuaries Standards Board, and 3) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2015, was agreed to the Annual Statement without exception. The Annual Statement totals for Admitted Assets, Liabilities, Surplus, Premiums Written and Net Income for the years ending December 31, 2013 through December 31, 2015, were agreed to each year's trial balance with no exceptions noted.

The Company's independent auditors issued unqualified opinions on the Company's audited Statutory Statements for each year during the examination period. The audited financial statements were agreed to the Annual Statement for the year ending December 31, 2015, with no exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers which were reviewed during the examination. From a review of the internal controls and the Company's disaster recovery plan, it was determined that the Company's current information systems possess many of the physical and internal controls as prescribed by the NAIC.

The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

FINANCIAL EXHIBITS

Comparative Exhibit – Statutory Statement of Assets
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds
Comparative Exhibit - Statutory Statement of Income
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

MONROE GUARANTY INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2015

| | Per Annual Statement | Exam Adjustments | Per Examination | December 31, Prior Year |
|--|-----------------------------|---------------------|-----------------------------|-----------------------------|
| Assets: | | | | |
| Bonds | \$ 48,727,124 | \$ - | \$ 48,727,124 | \$ 46,806,811 |
| Cash, cash equivalents and short-term investments | 194,423 | - | 194,423 | 628,863 |
| Other invested assets | <u>185,574</u> | <u>-</u> | <u>185,574</u> | <u>179,982</u> |
| Subtotals, cash and invested assets | <u>\$ 49,107,121</u> | <u>\$ -</u> | <u>\$ 49,107,121</u> | <u>\$ 47,615,656</u> |
| Investment income due and accrued | \$ 424,722 | \$ - | \$ 424,722 | \$ 437,297 |
| Amounts recoverable from reinsurers | 174 | - | 174 | 5,177 |
| Funds held by or deposited with reinsured companies | 8,640 | - | 8,640 | 7,710 |
| Net deferred tax asset | 135,355 | - | 135,355 | 71,203 |
| Aggregate write-ins for other than invested assets | <u>866</u> | <u>-</u> | <u>866</u> | <u>-</u> |
| Total Assets | <u><u>\$ 49,676,878</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 49,676,878</u></u> | <u><u>\$ 48,137,043</u></u> |

MONROE GUARANTY INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

As of December 31, 2015

| | Per Annual Statement | Exam Adjustments | Per Examination | December 31, Prior Year |
|---|---------------------------------|-----------------------------|------------------------|------------------------------------|
| Liabilities: | | | | |
| Reinsurance payable on paid losses and loss adjustment expenses | \$ 1,216,449 | \$ - | \$ 1,216,449 | \$ 995,771 |
| Commissions payable, contingent commissions and other similar charges | 1,865,684 | - | 1,865,684 | 1,586,668 |
| Taxes, licenses and fees | 1,788,415 | - | 1,788,415 | 1,395,180 |
| Current federal and foreign income taxes | 311,047 | - | 311,047 | 180,476 |
| Advance premiums | 238,457 | - | 238,457 | 236,259 |
| Ceded reinsurance premiums payable | (8,557,731) | - | (8,557,731) | (7,974,085) |
| Amounts withheld or retained by company for account of others | 788,196 | - | 788,196 | 824,652 |
| Remittances and items not allocated | 3,789 | - | 3,789 | 14,349 |
| Aggregate write-ins for liabilities | 5,356 | - | 5,356 | 3,729 |
| Total liabilities | \$ (2,340,338) | \$ - | \$ (2,340,338) | \$ (2,737,001) |
| Common capital stock | \$ 3,000,000 | \$ - | \$ 3,000,000 | \$ 3,000,000 |
| Gross paid in and contributed surplus | 31,200,000 | - | 31,200,000 | 31,200,000 |
| Unassigned funds (surplus) | 17,817,216 | - | 17,817,216 | 16,674,044 |
| Surplus as regards policyholders | \$ 52,017,216 | \$ - | \$ 52,017,216 | \$ 50,874,044 |
| Total Liabilities, Surplus and Other Funds | \$ 49,676,878 | \$ - | \$ 49,676,878 | \$ 48,137,043 |

MONROE GUARANTY INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2015

| | Per Annual Statement | Exam Adjustments | Per Examination | December 31, Prior Year |
|---|---------------------------------|-----------------------------|------------------------|------------------------------------|
| Underwriting Income | | | | |
| Other underwriting expenses incurred | \$ 186,148 | \$ - | \$ 186,148 | \$ (1,067) |
| Total underwriting deductions | \$ 186,148 | \$ - | \$ 186,148 | \$ (1,067) |
| Net underwriting gain (loss) | \$ (186,148) | \$ - | \$ (186,148) | \$ 1,067 |
| Investment Income | | | | |
| Net investment income earned | \$ 1,321,006 | \$ - | \$ 1,321,006 | \$ 1,268,391 |
| Net realized capital gains (losses) less capital gains tax | 71,727 | - | 71,727 | 36,344 |
| Net investment gain (loss) | \$ 1,392,733 | \$ - | \$ 1,392,733 | \$ 1,304,735 |
| Other Income | | | | |
| Net gain (loss) from agents' or premium balances charged off | \$ (77,376) | \$ - | \$ (77,376) | \$ (120,753) |
| Finance and service charges not included in premium | 233,384 | - | 233,384 | 99,481 |
| Aggregate write-ins for miscellaneous income | \$ 84 | \$ - | \$ 84 | \$ 93 |
| Total Other Income | \$ 156,092 | \$ - | \$ 156,092 | \$ (21,179) |
| Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | \$ 1,362,677 | \$ - | \$ 1,362,677 | \$ 1,284,623 |
| Dividends to policyholders | 13,928 | - | 13,928 | 13,928 |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | \$ 1,348,749 | \$ - | \$ 1,348,749 | \$ 1,270,695 |
| Federal and foreign income taxes incurred | 269,729 | - | 269,729 | 156,623 |
| Net Income | \$ 1,079,020 | \$ - | \$ 1,079,020 | \$ 1,114,072 |

MONROE GURANTY INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|----------------------|
| Capital and Surplus Account: | | | |
| Surplus as regards policyholders, December 31, prior year | \$ 50,874,044 | \$ 49,809,432 | \$ 48,814,990 |
| Net income | \$ 1,079,020 | \$ 1,114,072 | \$ 977,956 |
| Change in net deferred income tax | 3,892 | (38,766) | 56,153 |
| Change in nonadmitted assets | <u>60,260</u> | <u>(10,694)</u> | <u>(39,667)</u> |
| Change in surplus as regards policyholders for the year | <u>\$ 1,143,172</u> | <u>\$ 1,064,612</u> | <u>\$ 994,442</u> |
| Surplus as regards policyholders, December 31, current year | <u>\$ 52,017,216</u> | <u>\$ 50,874,044</u> | <u>\$ 49,809,432</u> |

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2015, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

Annual Shareholders Meeting

The previous Report of Examination identified that the Company's 2011 to 2012 Annual Shareholders meetings weren't held until after the first five (5) months of each fiscal year. Additionally, it was noted in the current examination that the Company's 2013 and 2014 Annual Shareholders Meetings were not held until after the first five (5) months of each year. For 2013 and 2014 this is in violation of IC 27-1-7-7(b), which requires the Annual Shareholders Meeting to be held within five (5) months of the fiscal close for each year.

The Company held their 2015 Annual shareholder's Meeting within the first five (5) months of 2015. It is recommended that the Company continue to hold their Annual Shareholders Meeting within five (5) months of the previous fiscal close in accordance with IC 27-1-7-7(b).

SUBSEQUENT EVENTS

Changes in Management

There have been changes in the Board of Directors and the senior officers of the Company subsequent to the examination date. Effective May 26, 2016, Lisa Krouse was added as a member of the Board of Directors. Lisa Krouse also functions as the Executive Vice President and Chief Human Resources Officer. Effective October 19, 2016, John Stafford retired from the Board of Directors and Craig Johnson was named Chairman of the Board. Effective July 8, 2016, Joe Keene, EVP of Claims retired from FCCI.

Management Services Agreement

An Amended and Restated Management Services Agreement was filed in October 2016. It clarifies when loans or advances made by a reporting entity insurer to its parent are to be submitted for approval and conforms to regulatory requirements.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., performed an examination of the **Monroe Guaranty Insurance Company** as of **December 31, 2015**.

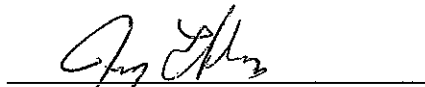
The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2015 NAIC *Financial Condition Examiner's 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 standard 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 the **Monroe Guaranty Insurance Company** as of **December 31, 2015**, as determined by the undersigned.



David Daulton, CFE
The Thomas Consulting Group, Inc.

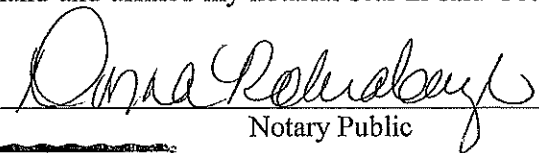


Jerry Ehlers, CFE, CPA
Indiana Department of Insurance

State of:
County of:

On this 1 day of June, 2017, before me personally appeared, David Daulton, 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 05/06/2018 
Notary Public

