



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

After full consideration and review of the report of the financial examination of National Fire and Indemnity Exchange for the period ended December 31, 2017, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, territory and plan of operation, growth of company, loss experience, reinsurance, accounts and records, financial statements, analysis of examination changes, comments on financial statements, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of National Fire and Indemnity Exchange as of December 31, 2017 be and is hereby ADOPTED as filed and for National Fire and Indemnity Exchange to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 5th day of April, 2019.



Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

National Fire and Indemnity Exchange

As of:
DECEMBER 31, 2017

FILED
APR 11 2019
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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March 7, 2019
St. Louis, MO

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs and financial condition of

National Fire and Indemnity Exchange

hereinafter referred to as “NFIE” or as the “Company.” The Company's main office is located at 6030 Bancroft Avenue, St. Louis, MO 63109; telephone number (314) 832-1118. Examination fieldwork began on December 3, 2018 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of National Fire and Indemnity Exchange. The last examination was completed as of December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2017. This examination also included material transactions or events occurring subsequent to December 31, 2017.

Procedures

This full-scope examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (Department or DIFP) or statutes of the state of Missouri prevailed. 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes 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 is documented separately following the Company's financial statements. The following key activities were identified: Claims and Reserving, Investments and Treasury, Premiums and Underwriting, and Reinsurance.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues or material changes to the balance sheet or income statement identified during the examination.

SUBSEQUENT EVENTS

There were no significant subsequent events since the examination date.

COMPANY HISTORY

General

National Fire and Indemnity Exchange was originally formed and commenced business in 1915 as a reciprocal inter-insurance exchange operating pursuant to Chapter 379 of the Revised Statutes of Missouri (Insurance other than life) under the name of National Association of Dyers and Cleaners Inter-Insurance Exchange. The Company provided insurance coverage exclusively to owners of cleaning and dyeing operations. In 1924, the name was changed to National Fire Insurance Exchange, and on December 31, 1968 the Company's current name was adopted as a result of a merger with another exchange.

As a reciprocal inter-insurance exchange, the Company is not incorporated and therefore has not authorized or issued any capital stock. The subscribers, through the approval of the Subscriber Agreement, have each appointed John L. Corley, Inc. (Corley) as the attorney-in-fact and manager of the company. Corley receives a portion of the premiums as compensation for services provided. Corley was sold on October 27, 2011 to PrimeOne Services, LLC (PrimeOne). On September 22, 2014, PrimeOne sold Corley to Bob Aikin and Greg Mouldon, officers of NFIE.

Dividends

The Company is not authorized to issue stock, therefore it pays no dividends. However, as a reciprocal exchange, its members can build equity through a subscribers' savings plan. Distributions from this plan are made at the discretion of the Advisory Committee subject to approval from the Department. Distributions made during the examination period were as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 82,652
2014	89,072
2015	106,743
2016	53,003
2017	<u>48,025</u>
Total	<u>\$379,495</u>

Acquisitions, Mergers and Major Corporate Events

There were no mergers or acquisitions during the examination period.

CORPORATE RECORDS

Corporate Documents

No changes were made to the Governance Rules or Subscribers' Agreement during the current examination period.

Meeting Minutes

The minutes from the annual subscriber meeting and the Advisory Committee meetings were reviewed for the current examination period. The minutes adequately documented the discussions and resolutions of those meetings.

MANAGEMENT AND CONTROL

Advisory Committee

The Company's Governance Rules and the Subscribers' Agreement both call for eight members to serve on the Advisory Committee. Seven members are to be subscribers and the eighth member is to be a representative of the attorney-in-fact. As of year-end 2017, the Company temporarily had seven members on the Advisory Committee after the attorney-in-fact's representative stepped down and was replaced by a fellow Committee member. The open position was filled in early 2018. At December 31, 2017, the following individuals comprised the Advisory Committee:

<u>Name</u>	<u>Principal Occupation</u>
Gary Dawson Largo, FL	Owner Belleaire Bluffs Cleaners
Alan Johnson Corpus Christi, TX	Owner Peerless Cleaners, Inc.
Richard Miller, Ex-Officio Wilton Manors, FL	President Barton & Miller, Inc.
Russell Petrozzi Niagara Falls, NY	Vice-President Petrozzi Enterprises, Inc.
Mark Rhee Whitestone, NY	President Daisy Fresh Dry Cleaners, Inc.
Karen Thomas Alto, NM	Owner Catalina Cleaners
Jeanne Wolf, Chairperson Glendale, MO	Owner Morgenthaler's Drapery Cleaners

Officers

The officers appointed and serving as of December 31, 2017 were:

Robert Aikin	President
Ann Hawkins	Vice President
Gloria Ransom	Secretary
Greg Mouldon	Treasurer

Committees

The only committee formed is the Audit Committee. As of December 31, 2017, Russell Petrozzi, Gary Dawson, and Richard Miller comprised the Audit Committee.

Holding Company, Subsidiaries, and Affiliates

The Company has no subsidiaries or affiliates, and is not a member of an insurance holding company system as defined by Chapter 382 RSMo (Insurance Holding Company Laws). However, Statement of Statutory Accounting Principles No. 25 (Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties) defines the attorney-in-fact of a reciprocal reporting entity as a related party.

Attorney-In-Fact

In addition to being the Company's attorney-in-fact, Corley is also an insurance agency. Corley writes business with other carriers for lines of business that the Company does not offer or in states the Company is not authorized to write. Pursuant to the Subscribers' Agreement, Corley receives twenty-five percent (25%) of gross written premium as compensation for its services. Corley pays all expenses related to the issuance of insurance contracts. Corley is also responsible for purchasing the necessary books, supplies, records and equipment, which remain the property of the attorney-in-fact.

TERRITORY AND PLAN OF OPERATION

The Company is licensed by the Department as a reciprocal insurance exchange to write multiple lines of property and casualty insurance under Sections 379.650 through 379.800 RSMo (Reciprocals or Interinsurance Exchanges). The Company provides multi-peril coverage for fabric care businesses under Commercial Package Policies and Business Owner Policies. The Company is licensed to write business in thirty-four (34) states. NFIE writes business directly through the attorney-in-fact and through independent agents.

The Company subscribes to the Insurance Service Office for rates and policy forms. NFIE underwrites its business internally. All applications are reviewed by the Company prior to binding coverage.

GROWTH OF COMPANY

The table below shows various indicators of the Company's growth over the past five (5) years.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Net Admitted Assets	\$10,556,519	\$10,695,111	\$12,208,383	\$11,625,937	\$11,839,904
Policyholder Surplus	5,722,151	5,804,781	5,612,164	6,210,958	6,143,771
Net Income	(98,504)	290,131	(240,862)	241,331	942,305
Direct Premiums Written	4,093,533	4,075,730	4,691,321	4,367,147	4,387,248

Premiums have declined from 2015 to 2017 mainly due to the Company discontinuing some coverage options. Surplus declined in 2015 due to some unfavorable loss development, but has been fairly stable since that time.

LOSS EXPERIENCE

The following exhibit illustrates NFIE's underwriting results for each of the last five years.

	2017	2016	2015	2014	2013
Premiums Earned	\$3,664,063	\$ 3,252,493	\$2,887,705	\$3,029,740	\$3,168,688
Losses Incurred	1,772,722	854,634	1,368,366	1,054,852	488,226
LAE Incurred	500,985	269,039	542,483	464,815	198,111
Net Underwriting Gain (Loss)	(345,036)	273,530	(744,533)	(107,084)	815,563

Losses have fluctuated during the exam period resulting in underwriting losses in three of the five years of the examination period. These losses are primarily the result of adverse reserve development on old claims, and losses attributed to recent hurricanes in the Gulf States.

REINSURANCE

General

Premiums written by National Fire and Indemnity Exchange during the examination period were as follows:

	2017	2016	2015	2014	2013
Direct Written	\$4,093,533	\$4,075,730	\$4,691,321	\$4,367,147	\$4,367,248
Assumed	0	0	0	0	1,398
Ceded	(415,297)	(1,116,123)	(1,541,969)	(1,494,451)	(1,195,858)
Net Written Premium	<u>\$3,678,236</u>	<u>\$2,959,607</u>	<u>\$3,149,352</u>	<u>\$2,872,696</u>	<u>\$3,172,788</u>

Assumed

National Fire and Indemnity Exchange assumed a small amount of premium in 2013 as a participant in the Regional Reciprocal Catastrophe Pool (Pool) managed by the Mutual Reinsurance Bureau. The Company ceased participating in the Pool in 2013.

Ceded

Multiple Line Excess of Loss Agreement

The Company is party to a multiple line excess of loss agreement distributed among a pool of reinsurers. The agreement, which covers policies classified as property and casualty, has two layers. The first layer covers \$600,000 of losses in excess of the Company's retention of \$400,000. The second reinsurance layer covers \$2,000,000 of losses in excess of a \$1,000,000 retention.

Property Catastrophe Excess of Loss Agreement

The Company is party to a property catastrophe excess of loss agreement distributed among a pool of reinsurers. The agreement provides three layers of coverage during a catastrophe. The first layer covers \$500,000 of losses in excess of the Company's retention of \$500,000. The second layer covers \$2,000,000 of losses in excess of a \$1,000,000 retention. The third layer covers \$2,000,000 of losses in excess of a \$3,000,000 retention.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

Independent Auditor

The Company is audited by the accounting firm of Connor Ash P.C. A review was made of the workpapers of the most recent audit. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuaries

Reserves and related actuarial items reported in the financial statements were certified by Robert Scott, FCAS, MAAA, of Casualty Actuaries, Inc.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2017, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements" section, which follow the financial statements.

There may have been additional differences found in the course of this examination that are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

Assets

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 7,783,308	\$ 0	\$ 7,783,308
Common stocks	278,432	0	278,432
Cash, cash equivalents, and short-term investments	1,133,398	0	1,133,398
Investment income due and accrued	61,556	0	61,556
Uncollected premiums and agents' balances	461,065	0	461,065
Amounts recoverable from reinsurers	670,003	0	670,003
Current federal and foreign income tax recoverable	76,147	0	76,147
Net deferred tax asset	92,610	0	92,610
TOTAL ASSETS	\$ 10,556,519	\$ 0	\$ 10,556,519

Liabilities, Surplus and Other Funds

Losses	\$ 1,836,939
Loss adjustment expenses	551,300
Commissions payable, contingent commissions and other similar charges	58,334
Other expenses	10,411
Taxes, licenses and fees	15,350
Unearned premiums	2,115,539
Provision for reinsurance	138,400
Reinsurer overpayment on ceded losses	105,356
Escheat funds	2,739
TOTAL LIABILITIES	\$ 4,834,368
Unassigned funds (surplus)	\$ 5,722,151
SURPLUS AS REGARDS POLICYHOLDERS	\$ 5,722,151
TOTAL LIABILITIES AND SURPLUS	\$10,556,519

Statement of Income

Underwriting Income:

Premiums earned		\$ 3,664,063
Deductions:		
Losses incurred	\$ 1,772,722	
Loss adjustment expenses incurred	500,985	
Other underwriting expenses incurred	<u>1,735,392</u>	
Total underwriting deductions		<u>4,009,099</u>
Net underwriting gain (loss)		\$ (345,036)

Investment Income:

Net investment income earned	\$ 162,167	
Net realized capital gains (losses)	<u>34,158</u>	
Net investment gain (loss)		\$ 196,325

Other Income:

Net loss from agents' or premium balances charged off	\$ (15,241)	
Aggregate write-ins for miscellaneous income	<u>(25)</u>	
Total other income		\$ (15,266)

Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes

\$ (163,977)

Federal and foreign income taxes incurred

(65,473)

Net income

\$ (98,504)

Reconciliation of Surplus

	2013	2014	2015	2016	2017
Surplus: Prior year	\$ 5,347,878	\$ 6,143,771	\$ 6,210,958	\$ 5,612,164	\$ 5,804,781
Net income	942,305	241,331	(240,862)	290,131	(98,504)
Change in:					
Net unrealized gains/losses	(4,184)	(71,504)	(138,807)	46,058	7,117
Net deferred income tax	(3,576)	(13,568)	12,575	(30,526)	(54,218)
Nonadmitted assets			(19,357)	19,357	
Provision for reinsurance	(56,000)		(105,600)	(79,400)	111,000
Write-in for gains/losses	(82,652)	(89,072)	(106,743)	(53,003)	(48,025)
Change in surplus	\$ 795,893	\$ 67,187	\$ (598,794)	\$ 192,617	\$ (82,630)
Surplus: Current year	\$ 6,143,771	\$ 6,210,958	\$ 5,612,164	\$ 5,804,781	\$ 5,722,151

ANALYSIS OF EXAMINATION CHANGES

There are no changes in the financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the financial statements.

SUMMARY OF RECOMMENDATIONS

There are no recommendations as a result of this examination.

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial
Institutions and Professional Registration