STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of National Fire and Indemnity Exchange for the period ended December 31, 2012

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, 2012, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, 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, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

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, 2012 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) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) 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 8th day of April, 2014.

John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

FILED

APR 18 2014

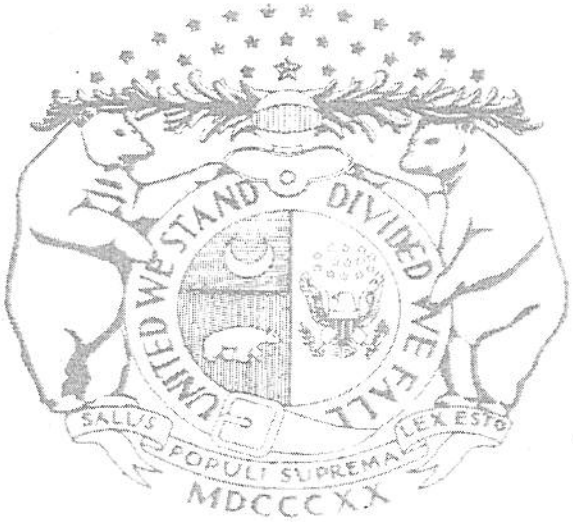
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

REPORT OF

FINANCIAL EXAMINATION

NATIONAL FIRE AND INDEMNITY EXCHANGE

As of:
DECEMBER 31, 2012



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

JEFFERSON CITY, MISSOURI

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February 10, 2014
St. Louis, MO

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

In accordance with your financial examination warrant, a comprehensive 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; St. Louis, MO 63109; telephone number (314) 832-1118. Examination fieldwork began on September 23, 2013 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of National Fire and Indemnity Exchange. The last examination was completed as of December 31, 2008. This examination covers the period of January 1, 2009 through December 31, 2012. This examination also included material transactions or events occurring subsequent to December 31, 2012.

Procedures

This examination was conducted as a full scope comprehensive examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key activities were: Investment and Cash Management, Underwriting and Premiums, Claims and Reserving, and Reinsurance.

The examiners relied upon information and workpapers provided by the Company's independent auditor Connor Ash P.C. for its audit covering the period from January 1, 2012 through December 31, 2012. Such reliance included taxes, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant issues identified during this examination. The Company continues to experience stable operations with adequate surplus and manageable losses.

SUBSEQUENT EVENTS

The Company received approval from the state of New Mexico to write medical malpractice insurance in that state beginning November 1, 2013. During December, the Company issued its first policies there. That business is 100% reinsured by PrimeOne Services, LLC.

COMPANY HISTORY

General

National Fire & 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. John L. Corley, Inc. was sold on October 27, 2011 to PrimeOne Services, LLC.

Capital Stock

The Company operates as a reciprocal exchange and is not authorized to issue capital stock.

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 of Insurance, Financial Institutions and Professional Registration (Department). Distributions made during the examination period were as follows:

Year	Amount
2009	$290,163
2010	$216,174
2011	$187,458
2012	$144,135
Total	$837,930

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

CORPORATE RECORDS

Corporate Documents

The Governance Rules and the Subscribers' Agreement were reviewed. No amendments were made to either document during the current examination period.

Meeting Minutes

The minutes from the annual subscriber meetings and the Advisory Committee meetings were reviewed for the current examination period. Those minutes adequately documented the deliberations 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. At December 31, 2012, they were:

Daniel G. Gibson Novi, MI *Representing John L. Corley*	Jeanne M. Wolf, Chairperson St. Louis, MO	Gary R. Dawson Belleair Bluffs, FL
Karen R. Thomas Alto, NM	Russell J. Petrozzi Niagara Falls, NY	Richard J. Miller Ft. Lauderdale, FL

Mark C. Rhee Laurelton, NY	Alan P. Johnson Corpus Christi, TX

Officers

The officers appointed and serving as of December 31, 2012 were:

Name	Office
Robert G. Aikin	President
Ann M. Hawkins	Vice President
Gloria J. Ransom	Secretary
Greg E. Mouldon	Treasurer

Committees

There is only one committee, the audit committee. Gary R. Dawson, Russell J. Petrozzi, and Richard J. Miller serve on that committee.

Conflict of Interest

Conflict of Interest disclosure statements are executed annually by all Advisory Committee members and company officers. A review of the conflict of interest disclosure statements for the period under current examination indicated no material conflicts.

Holding Company, Subsidiaries, and Affiliates

The Company is not a member of an insurance holding company system as defined by Chapter 382, RSMo. However, Statement of Statutory Accounting Principles (SSAP) 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

John L. Corley, Inc. is a privately-held corporation owned by PrimeOne Services LLC.

In addition to being the Company's attorney-in-fact, Corley is also an insurance agency. As an insurance agency, Corley places coverage, including workers' compensation, boiler, commercial auto and umbrella, with other insurance carriers. These policies supplement the commercial multi-peril package policy sold by the Company. This supplemental coverage is combined in a portfolio of policies offered by NIE Insurance. NIE Insurance is a fictitious name owned by Corley and registered with the Missouri Secretary of State.

As authorized in the Subscribers' Agreement, Corley receives twenty-five percent (25%) of gross written premium, less amounts written off, as compensation for its services. Corley pays all expenses related to the exchange 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.

The Company pays the following expenses: license fees; taxes; audit fees; legal fees; Advisory Committee expenses; claim adjustment expenses; expenses or fees mandated by individual states; National Association of Insurance Commissioners fees; Federal Insurance Administration fees; rating bureaus for services and the Company's statistical response; underwriting reports; surveys; and advertising expenses.

The Company has authorized Corley to pay claims adjusting expenses and advertising expenses on its behalf. The Company reimburses Corley up to 2.5% of written premium for claims adjusting expenses and up to 2.5% of written premium for advertising expenses.

The Company incurred attorney-in-fact fees for the years under examination as follows:

Year	Fee
2009	$ 1,159,893
2010	$ 1,074,031
2011	$ 1,033,016
2012	$ 1,079,039
Total	$ 4,345,979

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a $550,000 financial institution bond issued to the attorney-in-fact, John L. Corley, Inc. The amount of coverage meets the suggested minimum amount recommended by the NAIC. The Company is also a named insured on a directors and officers liability policy. All other coverages are maintained on behalf of the attorney-in-fact.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees; therefore, it has no pension plan or insurance benefits for employees. All staffing needs are met by the attorney-in-fact, John L. Corley, Inc.

TERRITORY AND PLAN OF OPERATION

Territory and Plan of Operations

The Company is licensed by the Department as a multiple-line property and casualty insurance carrier under Sections 379.650 through 379.790 RSMo (Reciprocal Exchanges or Interinsurers). The Company provides multi-peril coverage for fabric care businesses under Commercial Package Policies (CPP) and Business Owner Policies (BOP). A small amount of business is written for commercial auto and the hospitality (restaurant and bar) business. The Company writes most of its business directly or through insurance brokers.

Policy Forms, Rates and Underwriting

The Company underwrites its business either internally, with authority restricted to the underwriting supervisor, or externally through inspections contracted to Insurance Service Office (ISO) Commercial Risk Services. The Exchange subscribes to the ISO for rates and policy forms. Deviations from standard forms or rates are applied in accordance with individual state filings.

GROWTH OF COMPANY

As shown in the table below, the Company has been fairly stable during the examination period. Policyholder surplus has remained strong even with income that has varied during this timeframe. *All dollar amounts are in thousands.*

	2012	2011	2010	2009	2008
Total Net Admitted Assets	$11,535	$10,966	$12,140	$11,111	$10,964
Policyholders Surplus	$5,348	$5,238	$5,233	$4,821	$5,001
Net Income	$1	$250	$489	$30	($331)
Direct Premiums Written	$4,330	$4,148	$4,318	$4,683	$5,282

LOSS EXPERIENCE

The Company has maintained favorable loss experience throughout the examination period. The reserves were stable while two year loss development was reasonable. *All dollar amounts are in thousands.*

	2012	2011	2010	2009	2008
Total Loss & LAE Reserves	$3,575	$3,221	$3,222	$3,418	$2,941
Total Loss & LAE Reserves to Policyholders Surplus	66.9%	61.5%	61.6%	70.9%	58.8%
Two year development as a % to 2nd Prior Year Policyholders Surplus	8.7%	16.1%	19.0%	23.3%	9.3%

REINSURANCE

General

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

	2009	2010	2011	2012
Direct Written	$4,682,968	$4,318,088	$4,148,259	$4,330,121
Reinsurance Assumed	82,366	62,527	63,655	76,040
Reinsurance Ceded	(1,259,135)	(1,253,485)	(1,208,113)	(1,144,743)
Net Written Premiums	$3,506,199	$3,127,130	$3,003,801	$3,261,418

Assumed

The Company is one of 51 carriers that participates in the Regional Reciprocal Catastrophe Pool (Pool) managed by Mutual Reinsurance Bureau. Each Pool participant is liable for a pro-rata share of each loss covered by the Pool, with maximum coverage of $40,000,000 per participant per occurrence. The Exchange assumes .75% of the Pool risk (and premium), or a maximum of $300,000 risk per participant per occurrence.

Ceded

Umbrella Quota Share Agreement

The Company was covered under an umbrella quota share agreement with Endurance Reinsurance Corporation of America ("Endurance"). Under the agreement, the Company cedes 95% of the first $1 million of its net liability for contracts classified as Commercial Umbrella Liability to Endurance. Endurance then provides a second layer of coverage for $1 million in excess of the first $1 million in coverage. The Company receives a ceding commission of 30% of gross written premiums.

Multiple Line Excess of Loss Agreement

The Company was party to a multiple line excess of loss agreement with Endurance. The agreement, which covers policies classified as property and casualty, has three layers. The Company only retains the first $300,000 before the first reinsurance layer of $200,000. The second reinsurance layer covers $500,000 in excess of $500,000. The third reinsurance layer begins at $1,000,000. The reinsurer's per-occurrence limit for the third layer is $1 million for casualty and $1.5 million for property.

Semi-Automatic Boiler and Machinery Agreement

The Company was party to a semi-automatic boiler and machinery agreement with The Travelers Indemnity Company. Under the agreement the Company cedes 100% of its equipment breakdown coverage. The reinsurer has a $15 million limit of liability. The agreement also allows the Company to cede risk on a facultative basis. The Company receives a 32% ceding commission. The Company is also eligible for a yearly incentive payment if certain premium growth and loss ratio targets are met.

Property Catastrophe

Layer One

The Company was party to a property catastrophe treaty with Endurance. Under this treaty, the Company retains the first $500,000 of each catastrophe and cedes the next $4.5 million of each catastrophe to Endurance.

Layer Two

The Company receives protection through its participation in the Regional Reciprocal Catastrophe Pool. The agreement covers losses classified as Property or Commercial Auto Physical Damage. The Company pays a minimum premium of $79,500 and retains $5 million of exposure while the Pool provides coverage up to $3 million per occurrence with an aggregate limit of $6 million per year.

Retrocession

The Company was party to a retrocession agreement with Mutual Reinsurance Bureau. Under this agreement the Company retains the first $600,000 of risk it assumes from the Pool. The Mutual Reinsurance Bureau then provides coverage of $600,000 each for the per occurrence and the aggregate limit. The premium for this retrocession is based on the premium the Company assumes from the Pool. Retrocession premium is 10% of assumed premium for the per occurrence portion and 20% of assumed premium for the aggregate portion.

ACCOUNTS AND RECORDS

General

National Fire and Indemnity Exchange maintains its financial records on a statutory accounting basis. Accounting entries are recorded using QuickBooks accounting software. The Company uses AMS Services AFW policy management software.

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.

Consulting actuary Gregory S. Wilson, FCAS, MAAA, with the actuarial firm of Lewis & Ellis, Inc., was retained by the Department to review the adequacy of reserves and other related liabilities. His report concluded that the Company's reserves, as of the examination date, were adequate.

Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department as of December 31, 2012, as shown below, were sufficient to meet the $1,200,000 deposit requirement for the State of Missouri per Section 397.098 RSMo (Security deposit).

Type of Security	Par Value	Book Value	Fair Value
US Treasury Note	$125,000	$125,434	$129,718
US Treasury Note	50,000	50,107	51,780
US Treasury Note	725,000	726,431	785,269
Livingston County School District Bond	100,000	101,860	101,496
St. Louis County Special Obligation Bond	20,000	20,874	20,951
Columbia, Missouri School District Bond	20,000	20,000	20,443
Columbia, Missouri School District Bond	225,000	225,000	232,061
Total	$1,265,000	$1,269,706	$1,341,718

Deposits with Other States

The Company has funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. Those funds on deposit as of December 31, 2012, are shown below:

State	Type of Security	Par Value	Book Value	Fair Value
Arkansas	Certificate of Deposit	$70,000	$70,000	$70,000
Florida	Certificate of Deposit	200,000	200,000	200,000
Georgia	Evergreen Institutional Money Market Fund	40,507	40,507	40,507
Massachusetts	Massachusetts State Bond	100,000	101,649	106,100
North Carolina	US Treasury Note	425,000	426,627	443,496
Ohio	US Treasury Note	260,000	260,902	269,812
South Carolina	US Treasury Note	150,000	150,295	153,206
Virginia	US Treasury Note	225,000	225,862	234,792
Total		$1,470,507	$1,475,842	$1,517,913

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2012, 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," which follow the financial statements.

There may have been additional differences found in the course of this examination, which 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.

BALANCE SHEET
As of December 31, 2012

Line	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$7,331,272	$0	$7,331,272
Common stocks (stocks)	2,245,632	0	2,245,632
Cash and short-term investments	639,996	0	639,996
Investment income due and accrued	47,726	0	47,726
Uncollected premiums and agents' balances	1,123,495	0	1,123,495
Amounts recoverable from reinsurers	30,988	0	30,988
Current federal income tax recoverable	29,497	0	29,497
Net deferred tax asset	86,224	0	86,224
Totals	$11,534,830	$0	$11,534,830

Losses	$2,755,430
Loss adjustment expenses	819,815
Commissions payable	135,466
Other expenses	39,738
Taxes, licenses and fees	37,910
Unearned premiums	2,285,551
Provision for reinsurance	8,400
Reinsurer overpayment on ceded losses	86,000
Escheat funds	18,642
Total liabilities	6,186,952
Unassigned funds (surplus)	5,347,878
Surplus as regards policyholders	5,347,878
Totals	$11,534,830

INCOME STATEMENT
For Year Ending December 31, 2012

Premiums earned		$3,140,481
Losses incurred	1,269,588	
Loss adjustment expenses incurred	394,315	
Other underwriting expenses incurred	1,746,376	
Total underwriting deductions		3,410,279
Net underwriting gain (loss)		(269,798)
Net investment income earned	240,642	
Net realized capital gains (losses)	28,185	
Net investment gain (loss)		268,827
Net gain (loss) from agents' or premium balances charged off	(13,966)	
Aggregate write-ins for miscellaneous income	(1,120)	
Total other income		(15,086)
Net income before all other federal and foreign income taxes		(16,057)
Federal and foreign income taxes incurred		(17,402)
Net income		$1,345

RECONCILIATION OF SURPLUS
Changes from December 31, 2008 to December 31, 2012

	2008	2009	2010	2011	2012
Surplus as regards policyholders; December 31 prior year	$6,135,319	$5,001,098	$4,820,604	$5,233,234	$5,238,137
Net income	(330,866)	30,306	488,577	249,689	1,345
Net unrealized capital gains or (losses)	(333,544)	85,596	90,509	(16,585)	170,331
Change in net deferred income tax	(3,701)	18,626	(110,626)	(56,452)	18,290
Change in nonadmitted assets		(3,859)	140,144	(42,091)	53,910
Change in provision for reinsurance	(65,400)	(21,000)	20,200	57,800	-
Cumulative effect of changes in accounting principles	-	-	-	-	10,000
Aggregate write-ins for gains and losses in surplus	(400,710)	(290,163)	(216,174)	(187,458)	(144,135)
Change in surplus as regards policyholders for the year	(1,134,221)	(180,494)	412,630	4,903	109,741
Surplus as regards policyholders; December 31 current year	$5,001,098	$4,820,604	$5,233,234	$5,238,137	$5,347,878

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 Company's financial statements.

SUMMARY OF RECOMMENDATIONS

There are no recommendations as a result of this examination.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and staff of National Fire and Indemnity Exchange during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Andy Balas, CFE, CPA, examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration, and Gregory S. Wilson, FCAS, MAAA, of the actuarial firm, Lewis & Ellis, Inc., participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Robert P. Jordan, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Robert P. Jordan

Robert P. Jordan, CFE
Examiner-in-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 25th day of March 2014
My commission expires:
May 11, 2016

Andrea V. Moffatt
Notary Public

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.

ANDREA V. MOFFATT
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: May 11, 2016
Commission Number: 12552590

Michael Shadowens

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