

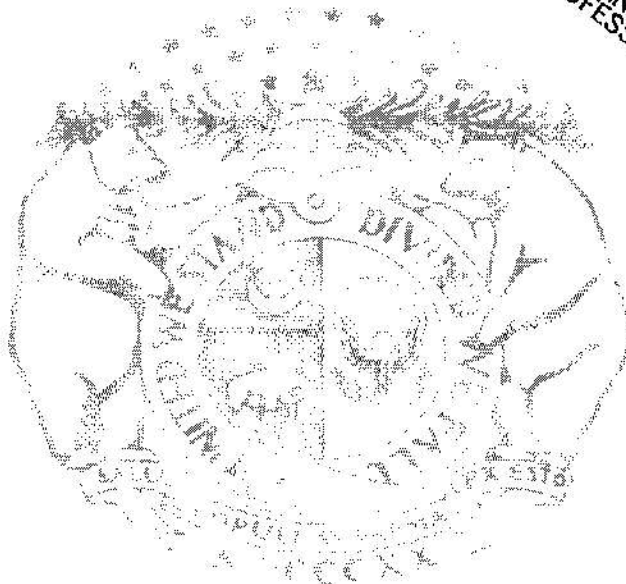
REPORT OF
FINANCIAL EXAMINATION

NATIONAL FIRE AND INDEMNITY EXCHANGE

As Of

December 31, 2008

FILED
JUL 16 2009
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

SCOPE OF EXAMINATION	1
Period Covered	1
COMMENTS PRIOR EXAMINATION.....	2
HISTORY.....	2
General	2
Capital Stock.....	2
Dividends.....	2
Management	3
Conflict of Interest.....	4
Corporate Records	4
Acquisitions, Mergers and Major Corporate Events.....	4
AFFILIATED COMPANIES.....	4
Holding Company, Subsidiaries and Affiliates	4
Attorney-In-Fact	5
FIDELITY BOND AND OTHER INSURANCE	5
EMPLOYEE BENEFITS	6
STATUTORY DEPOSITS	6
Deposits with the State of Missouri.....	6
Deposits with Other States.....	6
INSURANCE PRODUCTS AND PRACTICES.....	7
Territory and Plan of Operations	7
Policy Forms, Rates and Underwriting.....	7
Advertising	7
Treatment of Policyholders.....	7
REINSURANCE	7
General	7
Assumed	8
Regional Reciprocal Catastrophe Pool	8
Ceded.....	8
Umbrella Quota Share Agreement.....	8
Multiple Line Excess of Loss Agreement.....	8
Semi-Automatic Boiler and Machinery Agreement	8
Property Catastrophe Excess of Loss.....	8
ACCOUNTS AND RECORDS.....	9
General	9
Independent Accountant.....	9
Independent Actuary.....	9
Consulting Actuary.....	9
Information Systems.....	9
FINANCIAL STATEMENTS.....	10
ASSETS.....	11
LIABILITIES AND SURPLUS	12
STATEMENT OF INCOME.....	13
SURPLUS.....	13
EXAMINATION CHANGES	14
NOTES TO FINANCIAL STATEMENTS.....	14
GENERAL COMMENTS OR RECOMMENDATIONS	14
SUBSEQUENT EVENTS	14
ACKNOWLEDGEMENT.....	15
VERIFICATION	15
SUPERVISION	15

June 2, 2009
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
Chair of the NAIC Financial Condition (E) Committee

Honorable Merle Scheiber, Director
South Dakota Division of Insurance
Secretary of the Midwestern Zone, NAIC

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

Dear Gentlemen:

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

also referred to as "the Exchange." The examination was conducted at the Exchange's home office at 6030 Bancroft Street, Saint Louis, Missouri 63109, telephone number (314) 832-1118. This examination began on February 18, 2009 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope comprehensive financial examination of National Fire and Indemnity Exchange was performed as of December 31, 2004. That examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2004, through December 31, 2008. The examination was originally scheduled to cover the period from January 1, 2004 through December 31, 2007. As discussed more fully below in Accounts and Records, the examination was expanded to include operating results through year-end 2008. The examination was conducted by examiners from the

state of Missouri representing the Midwestern Zone of the NAIC. No other zones participated in this examination

COMMENTS PRIOR EXAMINATION

Listed below is the comment taken from the prior examination report as of December 31, 2004. The Company's response and the item's current status are also indicated.

Comment: Fidelity Bond and Other Insurance

"The minimum amount of fidelity coverage recommended by the national Association of Insurance Commissioners (NAIC) for an insurer equivalent in size to the Exchange is \$225,000. Corley should increase its fidelity bond coverage to meet the NAIC recommended minimum of \$225,000."

Company Response

"We agree with this recommendation and have increased our fidelity bond coverage to \$225,000 effective May 26, 2006."

Current Finding:

At year-end 2008, the Exchange was covered by a \$225,000 fidelity bond which met the NAIC recommended minimum coverage.

HISTORY

General

National Fire and Indemnity Exchange was formed and commenced business in 1915 as a reciprocal inter-insurance exchange, providing coverage related to cleaning and dyeing operations. Originally titled "The National Association of Dyers and Cleaners Inter-Insurance Exchange," the Exchange changed its name to "National Fire Insurance Exchange" in 1924. As a result of a merger with another exchange, on December 31, 1968, the Exchange adopted its present name. The Exchange is licensed by the Department to write property and liability insurance under Section 379 RSMo (Insurance other than life).

Capital Stock

The Exchange does not issue capital stock. The Exchange is not incorporated nor does it have stockholders.

Dividends

The Exchange's subscriber dividend policy provides incentives for and rewards policyholder loyalty. Dividend participation factors are based upon subscriber persistency. In April 1995, the Advisory Committee revised the dividend policy, authorizing up to fifty percent (50%) of pre-tax profit to be distributed to policyholders. In July 2001, the Advisory Committee again revised the dividend policy, allowing up to one hundred percent (100%) of pre-tax profit to be declared as dividends or subscriber savings account contributions.

Following are the subscriber dividends incurred during the examination period:

<u>Year</u>	<u>Amount</u>
2005	\$ 3,388
2006	245,916
2007	150,700
2008	<u>(2,836)</u>
Total	<u>\$ 397,168</u>

Management

Through the Subscribers' Agreement, Exchange members appoint an attorney-in-fact to manage the daily operations of the Exchange. From its inception the Exchange has had one attorney-in-fact, John L. Corley, Inc., (f/k/a John L. Corley). The Exchange has no employees; services are provided by employees of John L. Corley, Inc.

An Advisory Committee chosen by the subscribers advises the attorney-in-fact. Advisory Committee members are elected at the annual Subscribers' Meeting. The Advisory Committee consists of seven (7) subscribers and a representative of the attorney-in-fact, who only votes in the event of a tie. In June 2007, the Advisory Committee amended the Governance rules to change the term of Advisory Committee members from one year to three years. The 2008 Advisory Committee election was structured to stagger the terms of the Advisory Committee members. The members elected and serving on the Advisory Committee at December 31, 2008, were as follows:

<u>Director</u>	<u>Affiliation</u>
Aikin, Robert G. Ballwin, MO	President John L. Corley, Inc.
Barron, Jack El Paso, TX	Owner Coronado Cleaners
Dawson, Gary Largo, FL	Owner Belleair Bluffs Cleaners
Miller, Richard Fort Lauderdale, FL	President Barton & Miller Cleaners
Petrozzi, Russell Niagara Falls, NY	Vice-President Petrozzi Enterprises, Inc.
Soukup, Leo Jr. Hastings, NE	Owner C.D. Hoff, Inc.
Wolf, Jeanne St. Louis, MO	President Morgenthaler Drapery Cleaners

The officers of the Exchange serving as of December 31, 2008, were as follows:

<u>Name</u>	<u>Office</u>
Aikin, Robert G.	President
Hawkins, Ann	Vice-President
Mouldon, Greg E.	Treasurer
Walter, Carol A.	Secretary

Conflict of Interest

The Exchange requires Advisory Committee members and officers to complete conflict of interest statements annually. Signed conflict of interest statements were reviewed for each year under examination. None of the statements indicated any material conflicts.

Corporate Records

The Governance Rules, which provide guidelines for regulating the internal affairs of the Exchange, were reviewed. There were four amendments to the Governance Rules during the current examination period. In June 2005 the principal office of the Exchange was designated. Also in June 2005 the amendment process was changed to align with the provisions of the Subscribers' Agreement. In June 2006 membership on the Advisory Committee was restricted to a maximum of two members from the same state. In June 2007 the term of membership on the Advisory Committee was changed from one year to three years and the 2008 election was structured to stagger the terms.

The Subscribers' Agreement was also reviewed. As of January 1, 2008, the Subscribers' Agreement was amended to change the term of membership on the Advisory Committee from one year to three years and to stagger the terms in the 2008 election.

The minutes of the Advisory Committee meetings were reviewed for the period under examination. The minutes appear to properly reflect and approve corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

No major events took place during the examination period.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Department has determined that the Exchange is not a member of an Insurance Company Holding System as defined by Section 382.010 RSMo (Definitions). 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.

John L. Corley, Inc. ("Corley"), attorney-in-fact, manages the affairs of the Exchange. The Exchange's subscribers have appointed Corley as the attorney-in-fact in their Subscribers' Agreement.

Attorney-In-Fact

Corley is a privately-held corporation. Robert G. Aikin, President of National Fire & Indemnity Exchange, is the majority stockholder.

In addition to being the Exchange'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 Exchange. 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 Exchange 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 Exchange's statistical response; underwriting reports; surveys; and advertising expenses.

The Exchange has authorized Corley to pay claims adjusting expenses and advertising expenses on its behalf. The Exchange 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 Exchange incurred attorney-in-fact fees for the years under examination as follows:

<u>Year</u>	<u>Fee</u>
2005	\$ 1,709,259
2006	\$ 1,644,615
2007	\$ 1,484,430
2008	\$ 1,306,703
Total	<u>\$ 6,145,008</u>

FIDELITY BOND AND OTHER INSURANCE

The Exchange is a named insured on a \$225,000 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 Exchange is also a named insured on a directors and officers liability policy.

The attorney-in-fact maintains the following coverage: property and liability, workers' compensation and employers' liability, directors' and officers' liability, professional liability and catastrophe liability. The coverage appears to adequately protect the attorney-in-fact's operations.

EMPLOYEE BENEFITS

The Exchange has no employees. The attorney-in-fact, John L. Corley, Inc. provides personnel services as authorized in the Subscribers' Agreement. John L. Corley, Inc. employees receive a variety of benefits including paid time off, medical insurance, dental insurance, group life insurance, accidental death or dismemberment insurance, a profit sharing plan and tuition reimbursement.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department as of December 31, 2008, as reflected below, were deemed sufficient to meet the \$1,200,000 deposit requirement for the State of Missouri per Section 379.098 RSMo (Securities deposit).

<u>Security</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
U.S. Treasury Note	\$ 240,000	\$ 252,710	\$ 263,794
U.S. Treasury Note	125,000	125,122	128,507
U.S. Treasury Note	50,000	50,334	51,240
St. Louis County Bond	400,000	403,931	409,104
Ladue Missouri School District	240,000	240,827	241,625
Missouri State Envir. Bond	240,000	241,168	245,585
Total	\$ 1,295,000	\$ 1,314,092	\$ 1,339,855

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, 2008, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Arkansas	Certificate of Deposit	\$ 70,000	\$ 70,000	\$ 70,000
Florida	Certificate of Deposit	200,000	200,000	200,000
Louisiana	Certificate of Deposit	20,000	20,000	20,000
Georgia	Evergreen Inst. MM	40,507	40,507	40,507
North Carolina	First American TO	425,000	425,000	425,000
South Carolina	U.S. Treasury Note	150,000	151,638	159,422
Massachusetts	MA State Bond	100,000	106,139	110,851
Ohio	U.S. Treasury Note	255,000	255,969	262,091
Virginia	VA State Bond	200,000	200,000	200,000
Totals		\$ 1,460,507	\$ 1,469,253	\$ 1,487,871