



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

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

RE: Examination Report of National General Insurance Company for the period ended  
December 31, 2014

**ORDER**

After full consideration and review of the report of the financial examination of National General Insurance Company for the period ended December 31, 2014, 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, company history, management and control, fidelity bond and other insurance, pensions, stock ownership and insurance plans, territory and plan of operation, growth of company, loss experience, reinsurance, accounts and records, statutory deposits, financial statements, comments on the financial statements, subsequent events and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of National General Insurance Company as of December 31, 2014 be and is hereby ADOPTED as filed and for National General Insurance Company 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 the Financial Statements and/or Summary of Recommendations section of such report; and (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 23<sup>rd</sup> day of May, 2016.



A blue ink signature of John M. Huff, written in a cursive style, positioned above a horizontal line.

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



**REPORT OF  
FINANCIAL EXAMINATION**

**NATIONAL GENERAL INSURANCE  
COMPANY**

**As of:  
DECEMBER 31, 2014**



**FILED**  
**JUN 0 2 2016**  
**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 31, 2016  
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 General Insurance Company**

hereinafter referred to as "NGIC" or as the "Company." The Company's main office is located at 5630 University Parkway, Winston-Salem, North Carolina 27105, telephone number (336) 435-2000. Examination fieldwork began on September 28, 2015, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed a multi-state examination of NGIC. The last examination was completed as of December 31, 2009. This examination covers the period of January 1, 2010, through December 31, 2014. This examination also included material transactions or events occurring subsequent to December 31, 2014.

**Procedures**

This examination was conducted as a full scope comprehensive examination in accordance with 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 Missouri Department of Insurance, Financial Regulation and Professional Registration (MO DIFP) and statutes of the State of Missouri prevailed. Standard examination procedures were modified as deemed appropriate under the circumstances. The Handbook requires that we plan and perform the examination to evaluate the financial condition and to identify prospective risks of the Company. This process involves obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating the systems controls and procedures used by the Company to mitigate those risks. This examination also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

financial statement presentation, 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. The following key activities were identified: Pricing & Underwriting, Claims Handling, Reserving, Reinsurance Assumed, Reinsurance Ceded, Related Party Transactions and Investing & Capital.

This examination was conducted as a multi-state coordinated financial examination of seventeen (17) wholly-owned insurance company subsidiaries of National General Holdings Corporation (NGHC). The seventeen companies are referred to in this report as the "National General Subgroup". The National General Subgroup is part of NAIC Group #2538, which also includes the AmTrust Subgroup. The primary company in the National General Subgroup is Integon National Insurance Company (INIC), which assumes 100% of the net business written by 14 of the other 16 companies and is licensed in all 50 states and the District of Columbia. The National General Subgroup includes companies domiciled in the following states: North Carolina, Alabama, California, Louisiana, Michigan, Missouri, New Jersey, and Texas. North Carolina served as the lead state in this examination, and each of the other states were invited to participate in all aspects of the examination. In addition to lead state North Carolina, Missouri was the only other fully-participating state in this examination. All activity for the National General Subgroup of companies is administered by other non-insurance subsidiaries of NGHC. The National General Subgroup is comprised of the following legal entities:

| <u>Legal Entity</u>                          | <u>Abbreviation</u> | <u>State of Domicile</u> |
|--|---------------------|--------------------------|
| Integon National Insurance Company           | INIC                | NC                       |
| Integon Casualty Insurance Company           | ICIC                | NC                       |
| Integon General Insurance Company            | IGIC                | NC                       |
| Integon Indemnity Insurance Company          | IIC                 | NC                       |
| Integon Preferred Insurance Company          | IPIC                | NC                       |
| New South Insurance Company                  | NSIC                | NC                       |
| Agent Alliance Insurance Company             | AAIC                | AL                       |
| Personal Express Insurance Company           | PEIC                | CA                       |
| National Automotive Insurance Company        | NAIC                | LA                       |
| Imperial Fire and Casualty Insurance Company | IFAIC               | LA                       |
| MIC General Insurance Company                | MICG                | MI                       |
| National General Insurance Company           | NGIC                | MO                       |
| National General Assurance Company           | NGAC                | MO                       |
| National General Insurance Online, Inc.      | NGIO                | MO                       |
| New Jersey Skylands Insurance Association    | NJSIA               | NJ                       |
| New Jersey Skylands Insurance Company        | NJSIC               | NJ                       |
| National Health Insurance Company            | NHIC                | TX                       |

The examiners relied upon information and workpapers provided by the Company's independent auditor BDO USA LLP, New York office, for its audit covering the period from January 1, 2014 through December 31, 2014. BDO workpapers included fraud risk analysis, process narratives and substantive testing.

## SUMMARY OF SIGNIFICANT FINDINGS

The Company cedes 100% of its net business to lead affiliate INIC. As result of this reinsurance arrangement the Company does not retain any underwriting risk and its surplus is adequate with no solvency concerns.

The Company did not file amendments with the Director of the MO DIFP to add new parties to related party agreements in a timely manner as required by Section 382.195.1(4) RSMo (Prohibited transactions, exceptions). The Company should notify the Director of the MO DIFP of amendments to related party agreements at least 30 days prior to the effective date pursuant to the Section 382.195.1(4) RSMo.

The Company did not file its Audited Financial Reports with the Director of the MO DIFP on or before June 1<sup>st</sup> for each filing year from 2010 to 2014 as required by 375.1030.1 RSMo (Annual audit required, report filed, when). The Company should file its Audited Financial Reports with the Director of the MO DIFP on or before June 1 for the year ended December 31<sup>st</sup> immediately preceding pursuant to 375.1030.1 RSMo.

## COMPANY HISTORY

### General

NGIC was incorporated on November 2, 1966, and commenced business as a stock property and casualty insurer in Missouri under Chapter 379 RSMo (Insurance other than life) on September 13, 1967. At its inception, NGIC was owned by NAVCO Corporation, which was owned by Crum & Forster, Inc. and ultimately by the Xerox Corporation.

In 1984, NGIC was purchased by Motors Insurance Corporation, which was owned by GMAC Insurance Holdings, Inc. The ultimate ownership was General Motors Acceptance Corporation (GMAC), part of the General Motors (GM) organization.

On March 1, 2010, American Capital Acquisition Corporation (ACAC) acquired NGAC and affiliates' U.S. personal lines private passenger auto business from GMAC. ACAC, formed solely for purposes of the acquisition, was owned 79% by individual, Michael Karfunkel, and 21% by AmTrust Financial Services, Inc.

ACAC changed its name to National General Holdings Corporation in April 2013. In February 2014, NGHC became publicly-traded on the NASDAQ Global Market under the symbol "NGHC". Currently, NGHC's ownership includes: Mr. Karfunkel 13.5%, the Karfunkel Family Trust 35.3%, and AmTrust Financial Services, Inc. 13.2%.

### Capital Stock

The Company has 240,000 shares of \$25.00 par value common stock authorized with 80,000 shares issued and outstanding. All shares are owned by NGHC. At December 31, 2014, common capital stock was \$2,000,000. The Company also has 200,000 shares of \$50.00 par value preferred stock authorized with 50,000 shares issued and outstanding.

Those shares are also owned by NGHC. At December 31, 2014, preferred capital stock was \$2,500,000. Gross paid in and contributed surplus totaled \$2,044,039 at December 31, 2014.

**Dividends**

The Company declared and paid the following dividends to stockholders during the examination period:

| <u>Year</u>  | <u>Amount</u>        |
|--------------|----------------------|
| 2010         | \$ -                 |
| 2011         | -                    |
| 2012         | 25,000,000           |
| 2013         | 9,015,218            |
| 2014         | -                    |
| <b>Total</b> | <b>\$ 34,015,218</b> |

The 2012 dividend was an extraordinary dividend that was approved by the MO DIFP. The 2013 dividend was treated as a return of capital.

**Acquisitions, Mergers and Major Corporate Events**

The Company was not involved in any direct acquisitions or mergers during the examination period. However the Company's parent, NGHC, did acquire eight additional insurance entities. As of December 31, 2014, NGHC owned seventeen insurers, referred to as the "National General Subgroup".

In 2014, an affiliate of NGHC, ACP Re, Ltd, acquired the Tower International Group. Subsequent to this affiliate's acquisition, NGHC received the renewal rights of the personal lines operations of the Tower International Group. This transaction, although separate from the National General Subgroup reinsurance arrangement, significantly increased NGHC's overall premium volume.

**Surplus Debentures**

The Company had no outstanding surplus debentures during the examination period.

**MANAGEMENT AND CONTROL**

**Corporate Documents**

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to either document during the examination period. Subsequent to the period under exam, the Company's articles of incorporation and bylaws were amended to reflect a change in its statutory home address.

**Meeting Minutes**

Minutes of the meetings of the Board of Directors for NGIC were reviewed for the years under examination. The minutes of the shareholder, NGHC, and relevant committees



acting on behalf of NGIC were also reviewed. All minutes appear to properly support and approve the corporate transactions and events for the period under examination.

**Board of Directors**

The management of the Company is vested in a board of directors that, per the Articles of Incorporation and bylaws, consist of not less than nine or more than twenty-five members. The Company had nine Directors serving at December 31, 2014, as follows:

| <u>Name</u>                               | <u>Principal Occupation and Business Affiliation</u>   |
|---|--|
| Byron W. Storms<br>Winston-Salem, NC      | President, NGIC<br>(Resigned effective July 15, 2015)  |
| Jeffrey A. Weissmann<br>Clifton, NJ       | Secretary, NGIC  |
| Peter A. Rendall<br>New York, NY          | Treasurer, NGIC  |
| Berta A. Castellano<br>Pembroke Pines, FL | Vice President, NGIC   |
| George H. Hall, Jr.<br>Oak Ridge, NC      | Vice President & Chief Claims Officer, NGIC  |
| Thomas E. Newgarden<br>New York, NY       | Senior Vice President, NGIC  |
| Barry S. Karfunkel<br>Rockaway Park, NY   | Executive Vice President & Chief Marketing Officer, NGHC<br>(Became President of NGIC effective July 15, 2015) |
| Robert M. Karfunkel<br>Brooklyn, NY       | Vice President, National General Mgt Corp.   |
| Michael H. Weiner<br>New York, NY         | Chief Financial Officer, NGIC  |

**Officers**

Officers serving as of December 31, 2014, were as follows:

| <u>Name</u>          | <u>Position</u>  |
|----------------------|--|
| Byron W. Storms      | President, resigned July 15, 2015, replaced by Barry Karfunkel |
| Donald J. Bolar      | Vice President & Chief Accounting Officer                      |
| Jeffrey A. Weissmann | Secretary  |
| Berta A. Castellano  | Vice President   |
| Peter A. Rendall     | Treasurer  |
| George H. Hall, Jr.  | Vice President & Chief Claims Officer                          |
| Michael H. Weiner    | Chief Financial Officer  |

**Committees**

The following committees were in place as of December 31, 2014:

**Audit Committee**

The Company has an Audit Committee at the NGHC level, established by the NGHC Board of Directors, which serves as the Audit Committee for all the subsidiaries.

**Finance Committee**

The Company has a Finance Committee at the NGHC level, established by Integon National Insurance Company's Board of Directors. This Committee serves all the NGHC subsidiaries.

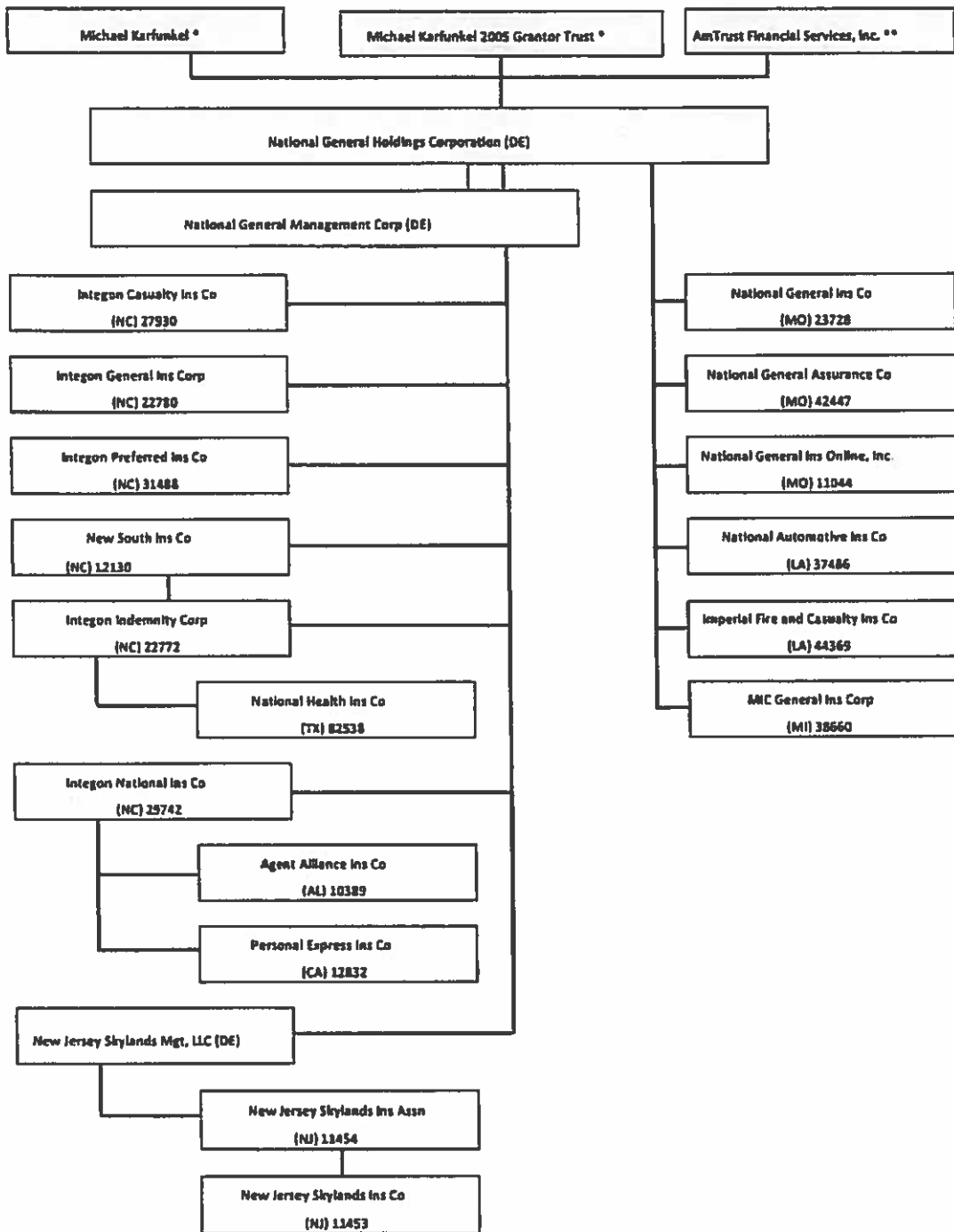
**Risk Management Committee**

The Company has a Risk Management Committee at the NGHC level, established by the NGHC Board of Directors. This Committee serves all the NGHC subsidiaries.

**Organizational Chart**

The Company is a member of an insurance holding company system as defined by Chapter 382 RSMo (Insurance Holding Companies).

The following organizational chart depicts an abbreviated portion of the ultimate holding company system at December 31, 2014. All companies are wholly owned unless otherwise noted. All members of the National General Subgroup are included. A complete list of all companies within the holding company system is included within the annual statement.



\* Michael Karfunkel (13.5%) and the Michael Karfunkel 2005 Grantor Trust (GRAT) (35.3%) collectively own 48.8% of NGHC's common stock. Leah Karfunkel, the wife of Michael Karfunkel, is the sole trustee of the GRAT.

\*\* AmTrust Financial Services, Inc. (AmTrust) controls 13.2% of the outstanding common stock of NGHC. AmTrust is a publicly-traded insurance holding company system controlled by Michael Karfunkel; Leah Karfunkel; George Karfunkel, Michael Karfunkel's brother; and Barry Zyskind, son-in-law of Michael Karfunkel.

**Intercompany Transactions**

The Company was a party to the following affiliated agreements at December 31, 2014:

**Reinsurance Agreement**

**Affiliates:** National General Management Corporation (NGMC) and NGHC subsidiaries  
**Effective:** March 1, 2010, restated January 1, 2012. The last amendment was approved July 16, 2014.  
**Terms:** Under the restated agreement, affiliate Integon National Insurance Company assumes 100% of each NGHC subsidiaries' net liability on all policies and all assumed reinsured business outstanding and in force.  
**Rate(s):** Each subsidiary will pay and transfer to INIC, its net unearned premium reserves, loss and loss adjustment expense reserves, and unpaid policyholder dividends with subsequent settlement of net balances occurring no later than 60 days following the end of each calendar month.

**Management Services Agreement**

**Affiliates:** NGMC and NGHC subsidiaries  
**Effective:** March 1, 2010. The last amendment was approved July 16, 2014.  
**Terms:** NGMC provides underwriting duties, claims services, actuarial services, policyholder services, accounting, information technology and other administrative functions to the NGHC subsidiaries.  
**Rate(s):** Each subsidiary pays a quarterly administrative fee of 2% of their respective aggregate gross written premiums for that quarter.

**Asset Management Agreement**

**Affiliates:** NGHC and its subsidiaries, and affiliate All Insurance Mgt Limited (AIM)  
**Effective:** March 1, 2010. The last amendment was approved July 16, 2014.  
**Terms:** AIM provides investment management services to the Company in accordance with each company's investment guidelines.  
**Rate(s):** Fees are computed from a set fee schedule and settled quarterly

**Tax Allocation Agreement**

**Affiliates:** NGHC and its subsidiaries  
**Effective:** March 1, 2010. The last amendment was approved July 16, 2014.  
**Terms:** NGHC and its subsidiaries consolidate their federal income tax returns. Amounts due are based on liability as calculated on a separate return basis. Amounts are due at the time of legal obligation. Any refunds due are to be submitted to the applicable party within 30 days of the end of the calendar quarter in which the refund is received by ACAC.  
**Rate(s):** Tax liability as calculated on a separate return basis.

The Company did not file amendments with the Director of the MO DIFP to add new parties to related party agreements in a timely manner as required by Section 382.195.1(4) RSMo (Prohibited transactions, exceptions). The Company filed the amendments after the effective date for following parties acquired during the period under examination: National Health Insurance Company, Personal Express Insurance Company, Imperial Fire and Casualty Insurance Company, National Automotive Insurance Company and Agent Alliance Insurance Company. The Company should notify the Director of the MO DIFP of amendments to related party agreements at least 30 days prior to the effective date pursuant to the Section 382.195.1(4) RSMo.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company's insurance coverage is administered through its parent, National General Holding Corporation, which purchases insurance coverage for itself and its subsidiaries. The Company is included on a Financial Institution Bond issued by Federal Insurance Company that has a limit of liability of \$5,000,000 with a \$100,000 deductible. The \$5,000,000 fidelity coverage exceeds the suggested minimum amount of fidelity insurance prescribed by the NAIC.

The Company is also a named insured on policies that provide the following liability coverages: directors and officers liability, commercial and general liability, automobile liability, umbrella and excess liability, workers compensation and employers' liability, errors and omissions and building. The Company's insurance coverage appears adequate.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company has no employees. Services are provided by affiliate NGMC under the Management Services Agreement described under "Related Party Transactions". NGMC's qualified employees, determined by number of hours worked per week, are provided benefits typical of the industry including group health and welfare services, medical, dental, vision, life and disability insurance, paid time off and participation in the defined contribution savings plan sponsored by NGMC. Employees may contribute up to 90% of salary to the plan, subject to IRS guidelines. The first 6% of employee contributions are eligible for a 50% match by NGMC. The match is funded quarterly and allocated to the Company through the Management Services Agreement. Employee benefit costs, including retirement costs, are included in intercompany charges from affiliates.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance other than life) to write property, liability and miscellaneous insurance. The Company is licensed in all 50 states and the District of Columbia and writes business in 46 states. The Company's business is comprised of standard and preferred auto and RV business that is



marketed principally to members of affinity groups and associations on a direct response basis. The Company partners with the affinity groups and membership organizations to deliver insurance products tailored to the needs of the affinity customers under the affinity partners' brand name or label.

The Company is a member of the National General Subgroup of companies. Beginning in 2012 the Company, along with eight other National General Subgroup affiliates, began ceding 100% of its business to lead affiliate INIC without receiving any assumed business in return. Consequently the Company has had zero earned premiums and incurred losses since 2011. At year-end 2014 the number of companies in the Subgroup ceding 100% of their business to INIC had grown to sixteen.

### GROWTH OF COMPANY

The Company's net premium was negative in 2012 as a result of the commutation of the pooling agreement with INIC that was in effect since 2010. At the same time as the pooling agreement was commuted, the Company entered into a 100% quota share agreement with INIC in which the Company ceded 100% of its net underwriting results to INIC without receiving any assumed business in return. The new reinsurance arrangement resulted in significant reductions in premiums written and earned after 2011 and in reductions in assets and liabilities, but only had a small impact on policyholder surplus. The reductions in policyholder surplus in 2012 and 2013 resulted from dividends paid to the Company's parent, NGHC.

|                         | 2010           | 2011           | 2012           | 2013           | 2014           |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| Direct Premiums Written | \$ 190,321,931 | \$ 179,560,385 | \$ 180,295,927 | \$ 163,989,738 | \$ 151,612,340 |
| Premiums Assumed        | 93,051,119     | 58,603,387     | (21,537,973)   | 4,360,361      | 2,551,504      |
| Premiums Ceded          | 192,875,918    | 184,115,001    | 196,341,476    | 168,350,098    | 154,163,844    |
| Net Premiums Written    | 90,497,132     | 54,048,771     | (37,583,522)   | -              | -              |
| Premiums Earned         | 62,606,928     | 49,899,016     | -              | -              | -              |
| Net Admitted Assets     | 137,314,213    | 136,019,474    | 65,931,386     | 55,608,815     | 58,391,769     |
| Total Liabilities       | 86,249,490     | 81,044,830     | 31,161,075     | 29,808,966     | 30,469,104     |
| Policyholder Surplus    | 51,064,723     | 54,974,644     | 34,770,311     | 25,799,849     | 27,922,665     |

### LOSS EXPERIENCE

As reflected by the following, the Company has experienced very little underwriting gain or loss since the implementation in 2012 of the 100% quota share agreement with INIC discussed in the previous section.

|                          | 2010          | 2011          | 2012    | 2013     | 2014    |
|--------------------------|---------------|---------------|---------|----------|---------|
| Premiums Earned          | \$ 62,606,928 | \$ 49,899,016 | \$ -    | \$ -     | \$ -    |
| Underwriting Deductions  | 54,283,170    | 53,736,128    | (2,653) | 44,131   | 1,606   |
| Underwriting Gain (Loss) | 8,323,758     | (3,837,112)   | 2,653   | (44,131) | (1,606) |

**REINSURANCE**

**General**

The Company made a major revision to its reinsurance program in 2012, as described in the Ceded section below. The Company's reinsurance activity during the examination period is summarized in the following table:

|                        | 2010                 | 2011                 | 2012                   | 2013          | 2014          |
|------------------------|----------------------|----------------------|------------------------|---------------|---------------|
| Direct Written         | \$190,321,931        | \$179,560,385        | \$180,295,927          | \$163,989,738 | \$151,612,340 |
| Assumed Affiliates     | 87,188,024           | 54,048,764           | (37,583,522)           | -             | -             |
| Assumed Non-Affiliates | 5,863,095            | 4,554,623            | 16,045,549             | 4,360,361     | 2,551,504     |
| Ceded Affiliates       | 171,624,308          | 182,676,769          | 194,857,201            | 165,916,595   | 152,354,394   |
| Ceded Non-Affiliates   | 21,251,610           | 1,438,232            | 1,484,275              | 2,433,504     | 1,809,450     |
| Net Written Premiums   | <u>\$ 90,497,132</u> | <u>\$ 54,048,771</u> | <u>\$ (37,583,522)</u> | <u>\$ -</u>   | <u>\$ -</u>   |

**Assumed**

The Company has not assumed any premium from affiliates since the implementation of the current 100% quota share agreement with INIC, discussed in the Ceded section below.

The vast majority of premiums assumed from non-affiliates results from a treaty with Home State County Mutual Insurance Company (Home State). This treaty is a fronting arrangement under which Home State writes private passenger automobile business in Texas and the Company assumes 100% of that business.

**Ceded**

Prior to January 1, 2012, the Company participated in an intercompany pooling agreement in which 100% of its net underwriting results were ceded to affiliate INIC. INIC then retroceded 10% of the pooled business to the Company. Effective January 1, 2012, the Company entered into a 100% quota share agreement with INIC that provided for the Company to cede 100% of its net underwriting results to INIC without receiving any assumed business in return. The replacement of the pooling agreement with the 100% quota share agreement resulted in negative net premium written in 2012 as a result of the commutation, and zero net premiums written in 2013 and 2014.

Premium ceded to non-affiliates consists of business ceded to the mandatory private passenger auto pool in Michigan. This accounts for approximately 1% of premiums.

## ACCOUNTS AND RECORDS

### **General**

The Company's financial statements are prepared using Oracle E - Business Suite general ledger software. Systems developed internally by affiliate AmTrust Financial Services, Inc. are used for policy administration and producer management. The NPS system is used for policy administration and the ANA Producer system is used for producer management. Claims are processed on the EPIC system, which was purchased and customized. Investment functions are performed on the PAM system.

### **Independent Auditor**

BDO, USA, LLP, an independent accounting firm, audits the Company annually. The workpapers and reports of the most recent audit were reviewed and used in the course of this examination as deemed appropriate.

All audits during the examination period were performed as combined audits of all insurance subsidiaries of NGHC. In addition to the Company, the combined 2014 audit included 13 other affiliates, including two Missouri companies, National General Assurance Company and National General Insurance Online, Inc. The Company filed requests to be allowed to file combined audited financial statements during each year of the examination period. The MO DIFP granted approval for each year.

The Company did not file its Audited Financial Reports with the Director of the MO DIFP on or before June 1<sup>st</sup> for each filing year from 2010 to 2014 as required by 375.1030.1 RSMo (Annual audit required, report filed, when). The Company should file its Audited Financial Reports with the Director of the MO DIFP on or before June 1<sup>st</sup> for the year ended December 31<sup>st</sup> immediately preceding pursuant to 375.1030.1 RSMo.

### **Independent Actuaries**

Reserves and related actuarial accounts reported in the financial statements were reviewed and certified by Robert T. Kuehn, FCAS, MAAA, CERA, CPCU, ARM, FCA, Consulting Actuary with the firm of Huggins Actuarial Services, Inc. His review concluded the Company's actuarial items meet the requirements of the insurance laws of Missouri, are consistent with reserves computed with accepted loss reserving standards and principles, and make reasonable provision in the aggregate for all unpaid loss and loss adjustment expense obligations of the Company under the terms of their contracts and agreements.

Rick Kohan, FCAS, MAAA, Actuary for the state of North Carolina reviewed the adequacy of the Company's loss and loss adjustment expense reserves. His review of the Company's reserves concluded the gross and net reserves carried were adequate.

### **Information Systems**

In conjunction with this examination, Uso Sayers, IT Specialist, and Ciara Brown, IT Examiner, both with Johnson Lambert LLP, representing the North Carolina Department of Insurance, conducted a review of the Company's information systems. Their evaluations did not identify any significant weaknesses and concluded that IT controls

were deemed to be effective. Andy Balas, CFE, AES, CPA, Information Systems Financial Examiner with the MO DIFP, also reviewed the Company's information systems. His review did not identify any significant weaknesses.

### STATUTORY DEPOSITS

#### Deposits with the State of Missouri

The funds on deposit with the MO DIFP as of December 31, 2014, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 379.098 RSMo (Securities to be deposited by all companies, kind and amount).

| <u>Type of Security</u> | <u>Par Value</u> | <u>Market Value</u> | <u>Statement Value</u> |
|-------------------------|------------------|---------------------|------------------------|
| US Treasury Bond        | \$ 2,600,000     | \$ 3,467,880        | \$ 2,567,273           |

#### Deposits with Other States

The Company also has funds on deposit with other states to satisfy their statutory deposit requirements. Those funds on deposit as of December 31, 2014, were as follows:

| <u>State</u>   | <u>Type of Security</u> | <u>Par Value</u> | <u>Market Value</u> | <u>Statement Value</u> |
|----------------|-------------------------|------------------|---------------------|------------------------|
| Arkansas       | US Treasury Bond        | \$ 52,000        | \$ 69,358           | \$ 51,345              |
| Florida        | US Treasury Bond        | 77,000           | 102,703             | 76,031                 |
| Georgia        | US Treasury Bond        | 50,000           | 66,690              | 49,371                 |
| New Mexico     | US Treasury Bond        | 300,000          | 400,140             | 296,224                |
| North Carolina | US Treasury Bond        | 310,000          | 413,478             | 306,098                |
| Virginia       | US Treasury Bond        | 52,000           | 69,358              | 51,345                 |
| Totals         |                         | \$ 841,000       | \$ 1,121,727        | \$ 830,414             |

### FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2014, 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 "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements and were therefore only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

**ASSETS**

|  | <u>Assets</u>               | <u>Non<br/>Admitted</u>    | <u>Net Admitted<br/>Assets</u> |
|--|-----------------------------|----------------------------|--------------------------------|
| Bonds  | \$ 28,516,583               | \$ -                       | \$ 28,516,583                  |
| Cash and short-term investments                | 53,253                      | -                          | 53,253                         |
| Investment income due and accrued              | 398,154                     | -                          | 398,154                        |
| Uncollected premiums and agents' balances      | 2,198,540                   | 113,233                    | 2,085,307                      |
| Deferred premiums and agents' balances not due | 18,207,555                  | -                          | 18,207,555                     |
| Amounts recoverable from reinsurers            | 9,096,336                   | -                          | 9,096,336                      |
| EDP equipment and software                     | 1,106,939                   | 1,106,939                  | -                              |
| Miscellaneous Receivables                      | 28,025                      | -                          | 28,025                         |
| Taxes; licenses; fees receivable               | 6,556                       | -                          | 6,556                          |
| <b>Total Assets</b>                            | <b><u>\$ 59,611,941</u></b> | <b><u>\$ 1,220,172</u></b> | <b><u>\$ 58,391,769</u></b>    |

**LIABILITIES, SURPLUS AND OTHER FUNDS**

|  |                             |
|--|-----------------------------|
| Current federal and foreign income taxes       | \$ 484,058                  |
| Net deferred tax liability                     | 1,335,660                   |
| Ceded reinsurance premiums payable             | 26,796,389                  |
| Payable to parent; subsidiaries and affiliates | 1,852,997                   |
| <b>Total Liabilities</b>                       | <b><u>\$ 30,469,104</u></b> |
| Common capital stock                           | \$ 2,000,000                |
| Preferred capital stock                        | 2,500,000                   |
| Gross paid in and contributed surplus          | 2,044,039                   |
| Unassigned funds (surplus)                     | 21,378,626                  |
| <b>Surplus As Regards Policyholders</b>        | <b><u>\$ 27,922,665</u></b> |
| <b>Total Liabilities and Surplus</b>           | <b><u>\$ 58,391,769</u></b> |



**STATEMENT OF INCOME**

|  |                |                   |
|--|----------------|-------------------|
| <b>Underwriting Income:</b>                        |                |                   |
| Premiums earned                                    |                | \$ -              |
| <b>Deductions:</b>                                 |                |                   |
| Losses incurred                                    | \$ -           |                   |
| Loss expenses incurred                             | -              |                   |
| Other underwriting expenses incurred               | 1,606          |                   |
| Total underwriting deductions                      | <u>1,606</u>   | <u>1,606</u>      |
| Net underwriting gain (loss)                       |                | \$ (1,606)        |
| <b>Investment Income:</b>                          |                |                   |
| Net investment income earned                       | \$ 1,064,256   |                   |
| Net realized capital gains                         | <u>(4,646)</u> |                   |
| Net investment gain (loss)                         |                | \$1,059,610       |
| <b>Other Income:</b>                               |                |                   |
| Total other income                                 |                | <u>\$ -</u>       |
| Net income before federal and foreign income taxes |                | \$1,058,004       |
| Federal and foreign income taxes incurred          |                | <u>\$ 531,469</u> |
| Net income   |                | <u>\$ 526,535</u> |

**RECONCILIATION OF CAPITAL AND SURPLUS**

**Changes from December 31, 2010 to December 31, 2014**

|   | <u>2010</u>                | <u>2011</u>                | <u>2012</u>                | <u>2013</u>                | <u>2014</u>                |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>Capital and Surplus:</b>                                     |                            |                            |                            |                            |                            |
| <b>December 31 prior year</b>                                   | <b>\$45,334,684</b>        | <b>\$51,064,723</b>        | <b>\$54,974,644</b>        | <b>\$34,770,311</b>        | <b>\$25,799,849</b>        |
| Net income  | 3,185,579                  | 4,638,842                  | 12,573,763                 | 4,498,270                  | 526,535                    |
| Chg net deferred income tax                                     | (567,566)                  | 120,780                    | (3,032,160)                | (1,775,843)                | 123,238                    |
| Chg nonadmitted assets  | 3,112,026                  | (849,701)                  | (2,514,751)                | 1,058,677                  | 1,473,043                  |
| Paid in surplus   |                            |                            |                            | (9,015,218)                |                            |
| Dividends to stockholders                                       |                            |                            | (25,000,000)               |                            |                            |
| Prior Year Adjustment   |                            |                            | (2,231,185)                | (3,736,348)                |                            |
| <b>Change surplus as regards<br/>policyholders for the year</b> | <u><b>5,730,039</b></u>    | <u><b>3,909,921</b></u>    | <u><b>(20,204,333)</b></u> | <u><b>(8,970,462)</b></u>  | <u><b>2,122,816</b></u>    |
| <b>Capital and Surplus:</b>                                     |                            |                            |                            |                            |                            |
| <b>December 31 current year</b>                                 | <u><b>\$51,064,723</b></u> | <u><b>\$54,974,644</b></u> | <u><b>\$34,770,311</b></u> | <u><b>\$25,799,849</b></u> | <u><b>\$27,922,665</b></u> |

### **EXAMINATION CHANGES**

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

### **COMMENTS ON FINANCIAL STATEMENTS**

There are no comments on the Company's financial statements.

### **SUBSEQUENT EVENTS**

The President of the Company, Byron W. Storms, resigned effective July 15, 2015. He was replaced by Barry S. Karfunkel, who was appointed President on the same date.

### **SUMMARY OF RECOMMENDATIONS**

#### **Intercompany Transactions (Page 9)**

The Company did not file amendments with the DIFP to add new parties to related party agreements in a timely manner as required by Section 382.195.1(4) RSMo, which requires at least 30 days prior to the effective date. The Company should notify the DIFP of amendments to related party agreements at least 30 days prior to the effective date.

#### **Independent Auditor (Page 12)**

The Company did not file its Audited Financial Reports during the examination period with the DIFP on or before June 1 as required by 375.1030.1 RSMo. The Company should file its Audited Financial Reports on or before June 1<sup>st</sup> each year.





May 19, 2016

State of Missouri Department of Insurance, Financial Institutions and Professional Registration  
301 West High Street, Room 530, P.O. Box 690  
Jefferson City, Missouri 65102-0690  
Attn: Ms. Leslie Nehring, Chief Financial Examiner

**RE: Reports of the Examinations of National General Insurance Company ("NGIC"), National General Assurance Company ("NGAC") and National General Insurance Online, Inc. ("NGIO")**

Dear Ms. Nehring,

Thank you for your letter dated April 21, 2016 regarding the captioned reports. We have carefully considered your examination findings and recommendations. Set forth below is our response with respect to each of the examination findings numbered to correspond to the finding set forth in each report. Please include our response in each report as a public document.

Report of NGIC:

1. Intercompany Transactions: NGIC will use its best efforts to notify DIFP of any amendments to add new parties to related party agreements 30 days prior to the effective date.
2. Independent Auditor: NGIC will file its Audited Financial Reports on or before June 1<sup>st</sup> each year.

Report of NGAC:

1. Intercompany Transactions: NGAC will use its best efforts to notify DIFP of any amendments to add new parties to related party agreements 30 days prior to the effective date.
2. Independent Auditor: NGAC will file its Audited Financial Reports on or before June 1<sup>st</sup> each year.

Report of NGIO:


1. Intercompany Transactions: NGIO will use its best efforts to notify DIFP of any amendments to add new parties to related party agreements 30 days prior to the effective date.
2. Independent Auditor: NGIO will file its Audited Financial Reports on or before June 1<sup>st</sup> each year.



We trust that you will find the foregoing to be responsive to your comments.

Sincerely,

National General Holdings Corp.

By:   
Name: Jeffrey Weissmann  
Title: General Counsel