

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Plaza Insurance Company

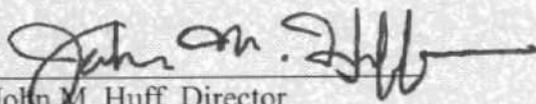
### ORDER

After full consideration and review of the report of the financial examination of Plaza Insurance Company for the period ended , 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 report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, 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 26<sup>th</sup> day of May, 2011.



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

REPORT OF THE  
FINANCIAL EXAMINATION OF  
**PLAZA INSURANCE COMPANY**  
AS OF  
DECEMBER 31, 2009



**FILED**  
JUN 06 2011  
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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Kansas City, MO  
April 26, 2011

Honorable Joseph Torti, III, Deputy Director and  
Superintendent of Banking and Insurance  
Rhode Island Department of Business Regulation  
Chair, NAIC Financial Condition (E) Committee

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
Midwestern Zone Secretary

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65102

Gentlemen:

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

**Plaza Insurance Company**

hereinafter referred to as such, as Plaza, or as the Company. Its administrative office is located at 700 West 47<sup>th</sup> Street, Suite 350, Kansas City, MO 64112, telephone number 816-412-1800. The fieldwork for this examination began on December 6, 2010, and concluded on the above date.

## SCOPE OF EXAMINATION

### Period Covered

We have performed our full scope association financial examination of Plaza Insurance Company. The last examination was completed as of December 31, 2006 and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zone participating. This examination covers the period of January 1, 2007 through December 31, 2009. This examination was conducted by examiners from the State of Missouri and was performed concurrently with the examinations of the Company's parent, Rockhill Insurance Company (Rockhill) by the Arizona Department of Insurance (AZ DOI), and two affiliates, American Compensation Insurance Company (ACIC) and Bloomington Compensation Insurance Company (BCIC), by the Minnesota Department of Commerce (MN DOC), collectively referred to as the Rockhill Group. The AZ DOI and the MN DOC both contracted with the accounting firm of RSM McGladrey, Inc. for the examinations of their respective companies. The examination also includes the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

### Procedures

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (the MO DIFP) and statutes of the State of Missouri prevailed. 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, inherent risks within the Company, and system controls and procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination approach. Key activities for Plaza included: Claims and Reserving, Investments, Premiums and Underwriting, Related Party Transactions, Reinsurance, and Federal Income Taxes.

### Reliance Upon Others

The examination relied heavily upon information provided by the Company and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP, of Kansas City, MO, for its audit covering the period from January 1, 2009 through December 31, 2009. Information relied upon included fraud risk analysis, tests of controls, and narrative descriptions of processes and controls.

The examination also relied upon information provided by the AZ DOI and MN DOC in conjunction with their examinations of Rockhill Insurance Company and the other companies within the Rockhill Group. This information included, but was not limited to, assessment of prospective risks, cash control testing, taxes control and substantive testing, underwriting control testing, and reinsurance control and substantive testing.

### **SUMMARY OF SIGNIFICANT FINDINGS**

Numerous occasions were noted where the Company was not in compliance with its intercompany agreements. It was also noted that intercompany loans and services were occurring between the Company and affiliates, which were not covered by intercompany agreements.

### **SUBSEQUENT EVENTS**

The Company, along with Rockhill, ACIC, and BCIC, entered into the State Automobile Mutual Reinsurance Pooling Agreement effective January 1, 2011. Under the agreement, Plaza will cede all net liabilities to State Automobile Mutual Insurance Company (State Auto Mutual). Plaza's participation percentage under the agreement shall be 0% and, in turn, Plaza shall receive a ceding commission equal to acquisition expenses associated with the unearned premium reserve. There were no other significant subsequent events noted from December 31, 2009 through the date of this report.

### **COMPANY HISTORY**

#### **General**

The Company operates as a stock property and casualty insurer in Missouri under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life). Plaza Insurance Company was originally organized on July 20, 1972 as a Georgia domestic property and casualty insurer known as Integon Mortgage Guaranty Corporation. During 1991, the Company re-domiciled from Georgia to Missouri, and changed its name to INGC National Insurance Company. The Company was renamed to USA National Insurance Company on November 16, 1992 and again to National Alliance Insurance Company (National Alliance) on March 31, 1993. As of May 15, 2002, the Company was 100% owned by Affinity Group Plans, Inc. (AGP), which was 100% owned by Motors Insurance Corporation (MIC). MIC was ultimately owned by General Motors Acceptance Corporation.

Effective July 2, 2007, Rockhill purchased the stock of AGP and AGP was merged with and into National Alliance, with National Alliance being the surviving entity. National Alliance was subsequently renamed Plaza Insurance Company. Plaza was ultimately controlled by HBK Management LLC, which in turn was equally owned by five members. On September 21, 2007, Rockhill Holding Company (Rockhill Holding), which wholly owns Rockhill and Plaza,

acquired all outstanding shares of RTW, Inc (RTW). RTW wholly owns ACIC and BCIC. Effective January 1, 2008, Rockhill, ACIC, BCIC, and Plaza entered into an Intercompany Pooling Arrangement. See the Reinsurance Section of this report for more information regarding the Intercompany Pooling Arrangement.

Effective February 9, 2009, State Automobile Mutual Insurance Company, an Ohio domiciled insurer, completed the acquisition of 100% of Rockhill Holding. Upon completion of this acquisition, State Auto Mutual became the ultimate controlling entity for Plaza Insurance Company. State Auto Mutual owns 64% of State Auto Financial Corporation (State Auto Financial) whose shares are traded on NASDAQ under the listing symbol STFC.

### **Capital Distributions and Contributions**

A net capital distribution of \$36,207,406 occurred in 2007 as part of the quasi-reorganization adjustment to unassigned surplus in conjunction with the 2007 acquisition by Rockhill. The quasi-reorganization adjustment was necessary to adjust surplus to the estimated acquisition price. There was no impact on net income or surplus as regards to policyholders as a result of this transaction.

A \$642,368 capital contribution was made in 2009 related to reimbursements by Rockhill for Plaza's share of accelerated vesting expenses of the Rockhill Holding Restricted Stock Plan. No other capital distributions or contributions were made during the examination period.

### **Dividends**

An \$11,000,000 extraordinary dividend was paid to Motors Insurance Corporation in 2007 prior to the acquisition of Plaza by Rockhill, as approved by the MO DIFP. No dividends were paid by Plaza since its acquisition in July 2007 through the end of the examination period.

### **Mergers and Acquisitions**

As described above in the General Section of Company History, Rockhill purchased the stock of AGP effective July 2, 2007 and AGP was merged with and into National Alliance, with National Alliance being the surviving entity. National Alliance was subsequently renamed Plaza Insurance Company. Plaza was ultimately controlled by HBK Management LLC, which in turn was equally owned by five members. Effective February 9, 2009, State Auto Mutual completed the acquisition of 100% of Rockhill Holding, which wholly owns Plaza.

## CORPORATE RECORDS

A review was made of the Articles of Incorporation and Bylaws for the examination period. The Articles of Incorporation were amended and restated effective July 17, 2007, changing the name of the Company to Plaza Insurance Company and updating its address. The Bylaws were amended and restated effective July 2, 2007 to reflect the Company's name and address change.

The minutes of the Board of Directors' meetings, committee meetings, and stockholder's meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

## MANAGEMENT AND CONTROL

### Board of Directors

The management of the Company is vested in a Board of Directors that is elected by the shareholder. The Articles of Incorporation specify that the number of directors shall not be less than nine (9) nor more than twenty-five (25). Unless otherwise noted, the titles noted for all directors are those positions held by the officer within the State Automobile Mutual Insurance Company. The Board of Directors elected and serving, as of December 31, 2009, was as follows:

<u>Name</u>	<u>Address</u>	<u>Title</u>
Robert P. Restrepo, Jr.	Columbus, OH	Chairman, President & Chief Executive Officer Chairman of the Board for the Rockhill Group
Terry L. Younghanz*	Kansas City, MO	President & Chief Executive Officer for the Rockhill Group
Mark A. Blackburn	Galena, OH	Executive Vice President & Chief Operating Officer
James A. Yano	Columbus, OH	Vice President, Secretary, & General Counsel
Steven E. English	Dublin, OH	Vice President and Chief Financial Officer
Clyde H. Fitch, Jr.	Columbus, OH	Senior Vice President and Chief Sales Officer
Paul J. Otte	Westerville, OH	Executive Director, President Emeritus, Franklin University
Jessica E. Buss	Kansas City, MO	Chief Financial Officer, Chief Operating Officer, & Treasurer of the Rockhill Group
Richard T. Parks**	Leawood, KS	President, Specialty Lines of the Rockhill Group

\* Mr. Younghanz did not renew his employment agreement and will retire from all positions effective February 2011.

\*\* Plaza senior officer and director Richard Parks resigned from all positions late in 2010 and his positions are currently vacant.

All but one member of the Board of Directors as indicated above are either Officers of Plaza or State Auto Mutual, indicating a lack of independence in the Company's governance. This is not unusual given the ownership structure of the Company as a subsidiary within a major corporation. To ascertain independence and prudent corporate governance standards, the composition of the Board of Directors of State Auto Mutual was reviewed. State Auto Mutual's Board is composed of twelve directors of which eight are reported as independent.

### Senior Officers

The Bylaws state that the Board of Directors shall elect a Chairman of the Board, a President, and a Chief Financial Officer annually. Additionally, the Bylaws indicate the officers of the Company shall be those stated above plus a Treasurer and a Secretary, which may be appointed by the President. The President may also appoint, subject to no objections from the Board, other officers as required to conduct the business of the Company. The senior officers elected by the Board of Directors and serving as of December 31, 2009, were as follows:

<u>Name</u>	<u>Address</u>	<u>Title – Area of Responsibility</u>
Terry L Younghanz	Kansas City, MO	Chief Executive Officer, President
Jerry Brumfield	Lee's Summit, MO	Secretary/General Counsel
Jessica E. Buss	Kansas City, MO	Chief Financial Officer, Chief Operating Officer, & Treasurer
Thomas V. Warthen	Stanley, KS	Chief Actuary
Rodney J. Kirk	Lee's Summit, MO	Vice President, Director of Accounting
Richard T. Parks	Leawood, KS	President, Specialty Lines
Roland J. Hamik	Blue Springs, MO	Controller

### Committees

Plaza's Bylaws do not require committees. The full Board acts as the audit and investment committees, with all transactions and information presented to the Board of Directors. Currently, the Company has one active committee, which is the Internal Risk Committee. Management indicates there is no set membership but attendance consists generally of 12 individuals within the Rockhill Group organization. Per a review of the 2009 and 2010 minutes, the committee primarily focuses on insurance reserving, pricing and underwriting risks by specific lines of business.

The State Auto Mutual Audit Committee (SAM Audit Committee) effectively functions as the Company's independent audit committee through the selection of the auditor for the entire organization and by review of the audit findings and final report from the external auditor. The Company's Board will subsequently review and approve the actions of the SAM Audit Committee. The SAM Audit Committee is composed of four independent members of the State Auto Mutual Board of Directors.

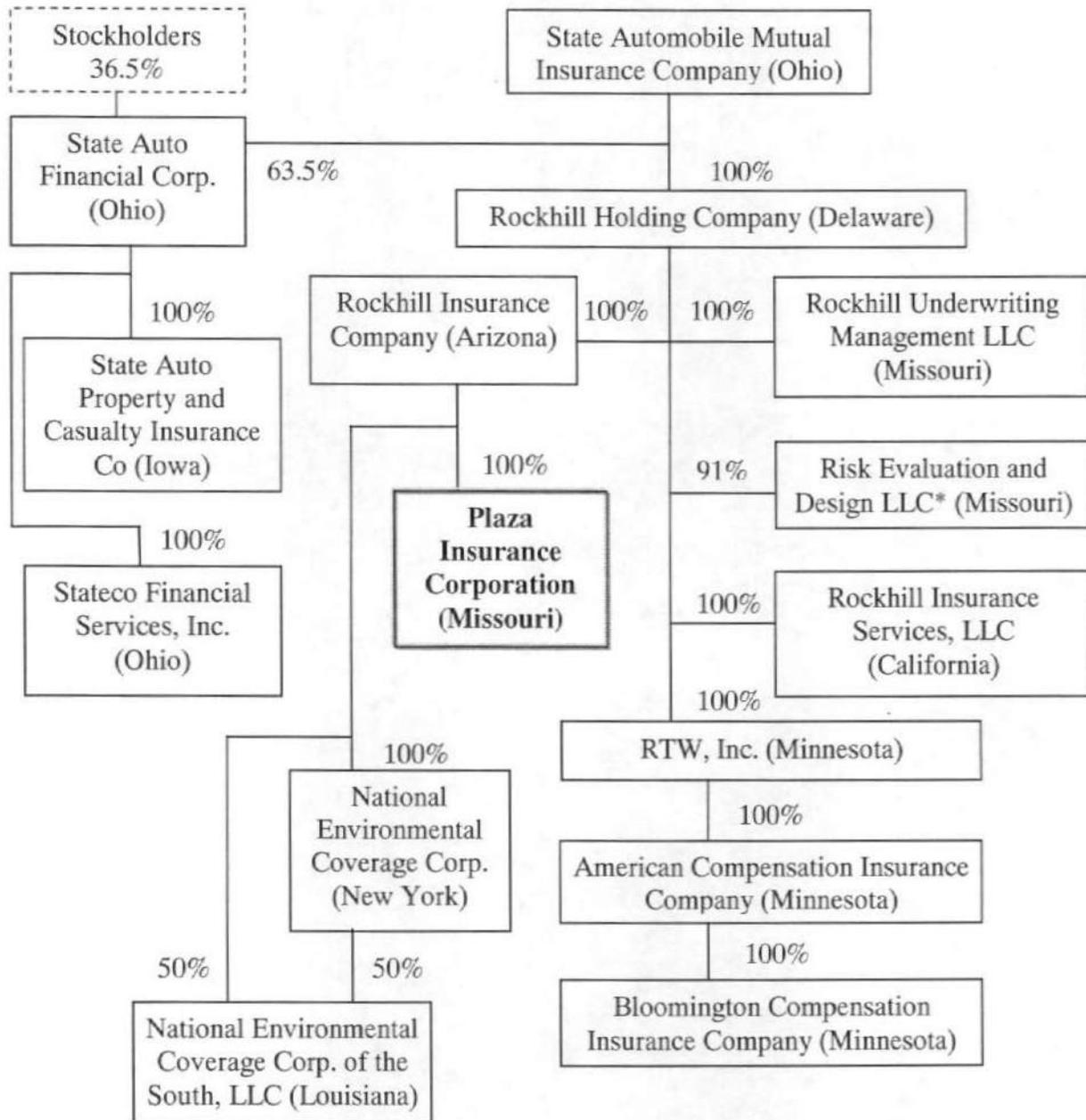
**Holding Company, Subsidiaries and Affiliates**

Plaza Insurance Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Plaza for each year under examination.

Within the holding company structure, Plaza is wholly owned by Rockhill, which in turn is wholly owned by Rockhill Holding. Rockhill Holding is wholly owned by State Auto Mutual, the ultimate controlling entity within the holding company system.

**Organizational Chart**

The ultimate parent, State Auto Mutual, has a number of subsidiaries, both insurance and non-insurance, which are too numerous to list in this report. Therefore, only entities that have direct and indirect ownership of Plaza and entities that have transactions with Plaza are listed. The following organizational chart depicts the ownership of Plaza as of December 31, 2009.



\* RED Partners LLC owns 9% of Risk Evaluation and Design LLC.

**Intercompany Transactions**

The Company is a party to the intercompany agreements outlined below.

- 1. Type:** Administrative Services Agreement

**Parties:** Plaza and Rockhill Underwriting Management LLC, (RUM)

**Effective:** June 19, 2007

**Terms:** RUM is to provide to Plaza all services necessary for the conduct of commercial insurance operations including primary and excess property, wind exposed property, umbrella, general liability, surety and professional liability coverage. Services include the selection and appointment of brokers, quotation, rating, and binding of insurance policies, billing and collection of premiums due and processing of return premiums, and payment of commissions. Plaza will pay RUM a commission of up to 9% of gross written premiums, on a monthly basis with settlement made within 30 days after the end of each month.
  
- 2. Type:** Tax Allocation Agreement

**Parties:** Plaza, Rockhill Holding, Rockhill, RTW, ACIC, BCIC, and National Environmental Coverage Corporation

**Effective:** December 31, 2007

**Terms:** The participating parties will each compute a separate tax return for the taxable year under the agreement. Each party's tax liability will equal the tax liability that it would have incurred had it not been a party to the agreement. The amount due for each year (or quarterly if applicable) will be paid to Rockhill Holding within 30 days of when the taxes would have been due to a taxing authority. A current payment will be made by Rockhill Holding within 30 days after filing the consolidated tax return to each party for a year in which a refund is due, because of a net operating loss, or other item of credit or loss that is utilized for the consolidated return. Note: This agreement was terminated effective February 9, 2009 and replaced by the State Auto Insurance Companies Tax Allocation Agreement. Expenses incurred under this agreement during 2008 were settled under the State Auto Insurance Companies Tax Allocation Agreement.
  
- 3. Type:** Service Agreement

**Parties:** Plaza and RTW

**Effective:** August 6, 2008

**Terms:** RTW agrees to provide to Plaza all services related to production and servicing of contracts on workers compensation insurance, including but not limited to, marketing and evaluation of applicants, claims adjudication and other services. Plaza will pay RTW the following compensation based on accident year, to be settled monthly: Year 1 - 16% of earned premiums, Year 2 - 2% earned premiums, Year 3 - .75% of earned premiums, and Year 4 - 0.25% earned premiums.

- 4. Type:** State Auto Insurance Companies Tax Allocation Agreement  
**Parties:** Plaza, State Auto Mutual, and various other affiliates  
**Effective:** February 9, 2009  
**Terms:** Taxes are allocated to each participating party on a separate return basis. State Auto Mutual agrees to pay or receive amounts due to or due from the Internal Revenue Service and settle monies due from or to participating companies by cash within 90 days of the filing of the tax return, payment of the estimated or actual taxes, or receipt of refunds.
- 5. Type:** Underwriting Management Agreement  
**Parties:** Plaza and Risk Evaluation and Design LLC (RED)  
**Effective:** November 20, 2009  
**Terms:** RED accepts authority to act as the underwriting manager. Authority is limited to quoting, binding, and servicing policies and reinsurance contracts, receiving and evaluating applications from brokers or producers and collecting premiums on policies placed. Fees are limited to 7% of gross premiums written. No transactions occurred under this agreement during 2009.
- 6. Type:** Investment Management Agreement  
**Parties:** Plaza and Stateco Financial Services, Inc. (Stateco)  
**Effective:** October 1, 2010  
**Terms:** Stateco, a wholly owned subsidiary of State Auto Financial, agrees to provide investment management services, including selection of investments, allocation of funds between taxable and tax free investments, and maintenance of transaction records. Stateco will have authority to work with Plaza's investment custodians and place brokerage orders with brokers it chooses. Full investment discretion is granted to Stateco under the agreement, but all decisions must be consistent with Plaza's investment policy. Annual fees range from 40 to 50 basis points of the average asset value and will be calculated and paid quarterly.
- 7. Type:** Management and Operating Agreement  
**Parties:** Plaza, State Auto Property and Casualty Insurance Company (State Auto P&C), State Auto Mutual, and various other affiliates  
**Effective:** January 1, 2011  
**Terms:** State Auto P&C is to provide certain organizational, operational, and management services on behalf of Plaza. These services will include appointment and termination of agencies, underwriting of insurance risks, claims investigation and settlement, and reinsurance arrangements. State Auto Mutual agrees to provide data processing services and to make available facilities, equipment, office supplies, furniture and fixtures, automobiles, and other

tangible property to Plaza. Fees will be charged based upon direct and indirect costs incurred.

In addition to the previously listed agreements, Plaza has reinsurance agreements with Rockhill, State Auto Mutual, and other affiliates, which are described in the Reinsurance Section of this report.

The following table summarizes the fees paid and/or received during 2008 and 2009, between Plaza and its affiliates, pursuant to the intercompany agreements described above.

#### Net Amounts Paid or (Received) by Plaza

Agreement	2008	2009
Administrative Services Agreement Between Plaza and RUM	\$ 219,824	\$ 541,267
Service Agreement Between Plaza and RTW	-	16,857
State Auto Insurance Companies Tax Allocation Agreement Between Plaza and State Auto Mutual	-	475,548
Totals	\$ 219,824	\$ 1,033,672

Note: 2007 was excluded from the above schedule due to the changes in Plaza's organizational structure during 2007.

Numerous occasions were noted where the Company was not in compliance with its intercompany agreements (both in amounts paid and timeliness of payment). It was also noted that intercompany loans and services were occurring between the Company and affiliates (Rockhill and ACIC) that were not covered by intercompany agreements. According to RSMo 382.195 (Insurance Holding Companies), the Company may not enter into these transactions "unless the insurer has notified the director in writing of its intention to enter into such transaction at least thirty days prior thereto, or such shorter period as the director may permit, and the director has not disapproved it within such period". Plaza should immediately cease all intercompany transactions with affiliates that have not been nondisapproved by the MO DIFP. The Company should also ensure that it is operating in compliance with all nondisapproved intercompany agreements.

#### FIDELITY BOND AND OTHER INSURANCE

As of year-end 2009, the Company was a named insured, along with other members of the Rockhill Group, on a financial institution bond with a single loss limit of liability of between \$1 to \$5 million, an aggregate loss liability limit of \$10 million and a \$50,000 single loss deductible. This level of coverage exceeds the suggested minimum amount of fidelity insurance coverage of \$1 million according to the NAIC guidelines. Currently the Company is a named insured, along with other subsidiaries of State Automobile Mutual Insurance Company, on a financial institution bond with a single loss limit of liability of \$2.25 million, an aggregate loss liability limit of \$2.25 million and a \$100,000 single loss deductible.

The Company is also a named insured on the following other insurance policies: fiduciary liability coverage, business personal property liability, commercial general liability, employee benefit liability, errors and omissions, workers compensation and directors' and officers' liability.

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

As of December 31, 2009, Plaza did not have any employees, but was allocated a portion of the Rockhill Holding Company 401(k) plan expenses, which covers substantially all Rockhill employees. Employees may contribute up to 6% of salary to the plan which is subject to a 50% match. The match is funded based on employee contributions. There is no legal obligation for employer matching under the plan. The acquisition of the Rockhill Group by State Auto Mutual in February 2009 triggered 100% vesting of the Rockhill Restricted Stock Plan. Plaza reports no other applicable employee or post employee benefits in its Annual Statement.

Effective January 1, 2011, all former Rockhill employees are now employed by State Auto P&C. All employee benefits are to be managed by its upstream affiliates, State Auto Financial and State Auto Mutual.

### **TERRITORY AND PLAN OF OPERATIONS**

Plaza Insurance Company is licensed as a property and casualty insurer by the Missouri Department of Insurance, Financial Institutions, and Professional Registration under Chapter 379 RSMo. Per the Certificate of Authority issued on July 17, 2007, Plaza is authorized to sell property and casualty, accident and health, fidelity and surety, liability, and other miscellaneous coverages. Primary business being written as of the examination date includes commercial auto liability, auto physical damage, and commercial multiple peril. Additional business written includes surety, earthquake, workers compensation, and other occurrence liability coverages.

Plaza is licensed to write business in 41 states and the District of Columbia. In 2009, the Company actively wrote business in all licensed states and territories, except Alaska. Business is written through affiliated and nonaffiliated managing general underwriters. As of December 31, 2009, Plaza had direct written premium of \$15.1 million and assumed written premium from nonaffiliates of \$23.2 million.

Under the Reinsurance Pooling Agreement with the Rockhill Group, all direct and nonaffiliated assumed business is ceded to Rockhill, as the pool leader. Plaza's participation rate in the pool as of December 31, 2009 was 5.69% resulting in assumed affiliated and net premiums of \$5.5 million. As described further in the Reinsurance Section of this report, Plaza was admitted into the State Auto Mutual Intercompany Reinsurance Pool, effective January 1, 2011. State Auto Mutual will assume 100% of written and assumed business and Plaza's participation in the pool will be 0%.

## GROWTH OF THE COMPANY AND LOSS EXPERIENCE

The trends indicated below are a direct result of the Company writing new business starting in 2008. The year 2007 is not included as no premiums were written nor losses paid or incurred by the Company. Despite net losses, capital levels have increased due to other adjustments and a contribution associated with the acquisition by State Auto Mutual in February 2009.

	<u>2008</u>	<u>2009</u>
Direct Written Premiums	\$ 2,396,794	\$ 15,099,887
Net Written Premiums	6,740,586	5,518,389
Premiums Earned	4,391,125	5,226,820
Net Income (Loss)	(261,465)	(448,083)
Net Loss & LAE Reserves	6,330,947	7,591,529
Net Loss & LAE Incurred	3,247,082	3,549,529
Total Capital & Surplus	10,214,005	10,530,315
Total Admitted Assets	20,672,516	31,231,315
Direct Written Premium to Surplus	23.5%	143.4%
Net Written Premium to Surplus	66.0%	52.4%
Net Loss & LAE Reserves to Surplus	62.0%	72.1%
Net Loss and LAE Incurred to Premiums Earned	74.0%	67.9%

## REINSURANCE

### General

The Company's written premium activity on a direct, assumed and ceded basis, for the period under examination, is detailed below:

<u>Premiums:</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct Business	\$ -	\$ 2,396,794	\$ 15,099,887
Reinsurance Assumed			
Affiliates	-	6,740,586	5,518,388
Non-affiliates	-	-	23,158,597
Reinsurance Ceded:			
Affiliates	-	(1,842,942)	(19,448,510)
Non-affiliates	-	(553,852)	(18,809,973)
<b>Net Written Premiums</b>	<b>\$ -</b>	<b>\$ 6,740,586</b>	<b>\$ 5,518,389</b>

### Pooling

Plaza, Rockhill, ACIC, and BCIC, are participants in the Reinsurance Pooling Agreement whereby Plaza, ACIC, and BCIC cede 100% of their net business to Rockhill, the pool leader.

Rockhill in turn cedes Plaza, ACIC, and BCIC a percentage of the pooled results, which is based upon the percentage of business ceded into the pool. The pooling participants and each of their percentage participations in the pooled results are as follows:

Rockhill	61.84%
ACIC	25.74%
BCIC	6.73%
Plaza	5.69%

Rockhill, ACIC, BCIC, and Plaza were added as participants to the State Auto Mutual Intercompany Reinsurance Pool effective January 1, 2011. Under the new agreement, Plaza agrees to cede and State Auto Mutual, as the pool leader, agrees to assume, all net liabilities as of January 1, 2011. The Company's participation percentage shall be 0% and in turn, Plaza shall receive a ceding commission equal to acquisition expenses associated with the unearned premium reserve.

### Assumed

During the examination period, Plaza's assumed premiums increased due to the Reinsurance Pooling Agreement, as noted above, and an agreement with an unaffiliated insurer, Stonington Insurance Company (Stonington). The Company entered into an assumed reinsurance agreement with Stonington effective February 1, 2009, where Plaza assumed unearned premiums of \$14.1 million as of the effective date and the subsequent business per the agreement.

### Ceded

As stated above, the Company cedes 100% of its net business to Rockhill under the Reinsurance Pooling Agreement. Prior to pooling, Plaza cedes business to various other reinsurers.

Plaza's most significant non-affiliated reinsurer is Swiss Reinsurance America Corporation (Swiss Re). Effective February 1, 2009, Rockhill and Plaza cede 50% of property and casualty business to Swiss Re. Plaza, ACIC, and BCIC are party to two excess of loss agreements with Swiss Re for worker's compensation coverage. The first agreement provides for coverage of \$300,000 in excess of \$200,000 and the second agreement provides for coverage of \$500,000 in excess of \$500,000.

Plaza also cedes 75% of its net liability for contract surety bonds issued or renewed to Rockhill. This quota share agreement became effective April 1, 2009 and is before Plaza participation in the Reinsurance Pooling Agreement.

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

## ACCOUNTS AND RECORDS

Plaza utilizes SunGard's Enterprise Accounting System for its general ledger system. Structured Query Language (SQL) queries are used to obtain data from the general ledger system. The financial reporting process relies heavily on Microsoft Excel spreadsheets. Plaza's data resides on servers owned by Rockhill. Support for these IT systems has been outsourced to Avazpour Networking Services, Inc. since 2006.

Financial statements of the Company were audited as of December 31, 2009, by the CPA firm, Ernst & Young, LLP of Kansas City, MO. PricewaterhouseCoopers, LLP of St. Louis, MO, issued audited statutory financial statements of the Company for the years 2007 and 2008.

The 2009 Statement of Actuarial Opinion was issued by Thomas Warthen, FCAS, MAAA, Senior Vice President and Chief Actuary, an officer of Rockhill Insurance Group. The 2007 and 2008 Statements of Actuarial Opinion were also issued by Thomas Warthen. The actuary was appointed by the Board of Directors to render an opinion.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the MO DIFP as of December 31, 2009, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with RSMo Section 379.098 (Securities to be Deposited by All Companies, Kind and Amount). Plaza's required deposit with Missouri is \$1,200,000. The funds on deposit as of December 31, 2009, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$2,025,000	\$2,133,306	\$2,029,312

**Deposits with Other States**

The Company also has funds on deposit with various other states. The funds on deposit as of December 31, 2009, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Florida	U.S. Treasury Note	225,000	239,906	225,225
Georgia	U.S. Treasury Note	100,000	106,625	100,100
Louisiana	U.S. Treasury Note	80,000	85,300	80,080
Massachusetts	U.S. Treasury Note	120,000	127,950	120,120
New Mexico	U.S. Treasury Note	325,000	346,531	325,326
North Carolina	U.S. Treasury Note	510,000	543,788	510,511
Oregon	U.S. Treasury Note	260,000	277,956	259,819
South Carolina	U.S. Treasury Note	170,000	181,263	170,170
Tennessee	U.S. Treasury Note	35,000	37,319	35,035
Texas	U.S. Treasury Note	60,000	63,975	60,060
Virginia	U.S. Treasury Note	225,000	239,906	225,225
<b>Totals</b>		<u>\$ 2,110,000</u>	<u>\$ 2,250,519</u>	<u>\$ 2,211,671</u>

**FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of Plaza Insurance Company for the period ending December 31, 2009. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement Items." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual activity.

	<u>Assets</u>		
	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$ 19,438,707	\$ -	\$ 19,438,707
Cash and Short-term Investments	2,415,891	-	2,415,891
Investment Income Due and Accrued	280,515	-	280,515
Uncollected. Premiums and Agents' Balances in the Course of Collection	6,557,887	3,390	6,554,497
Deferred Premiums, Agent Balances, and Installments Booked and Not Yet Due	558,690	2,054	556,636
Amounts Recoverable from Reinsurers	1,225,402	-	1,255,402
Funds Held by or Deposited with Reinsured Companies	(9,990)	-	(9,990)
Net Deferred Tax Asset	556,122	250,769	305,353
Electronic Data Processing Equipment and Software	336	-	336
Receivable from Parent, Subsidiaries and Affiliates	422,690	-	422,690
Aggr. Write-Ins for Other than Invested Assets:			
Accounts Recievable – Other	11,278	-	11,278
Prepaid Expense	6,520	6,520	-
Other Assets	1,128	1,128	-
<b>TOTAL ASSETS</b>	<b>\$ 31,495,176</b>	<b>\$ 263,861</b>	<b>\$ 31,231,315</b>

Liabilities, Surplus and Other Funds

Losses	\$ 5,817,792
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	568,236
Loss Adjustment Expenses	1,773,737
Commissions Payable, Contingent Commissions and Other Similar Charges	265,127
Other Expenses (Excluding Taxes, Licenses and Fees)	73,447
Taxes, Licenses and Fees (Excluding Federal and Foreign Income Taxes)	33,590
Current Federal and Foreign Income Taxes	148,659
Unearned Premiums	2,641,030
Advance Premium	2,668
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	9,338,450
Amounts Withheld or Retained by Company for Account of Others	64,517
Aggregate Write-Ins for Liabilities:	
Retroactive Reinsurance Reserve Ceded - 1998	(31,181)
Excess Ceding Commission	5,188
<b>TOTAL LIABILITIES</b>	<b>\$ 20,701,260</b>
Aggregate Write-Ins for Special Surplus Funds:	
Retroactive Reins – Gain/Loss	31,181
Common Capital Stock	3,000,000
Gross Paid In and Contributed Surplus	7,209,164
Unassigned Funds (Surplus)	289,710
Surplus as Regards Policyholders	<b>\$ 10,530,055</b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$ 31,231,315</b>

Statement of Income

<b>Underwriting Income:</b>	
Premiums Earned	\$ 5,226,820
Deductions:	
Losses Incurred	2,412,906
Loss Adjustment Expenses Incurred	1,136,534
Other Underwriting Expenses Incurred	2,815,558
WRCA Surplus Distribution Recovery Assessment	136,618
<b>Net Underwriting Gain or (Loss)</b>	<b>\$ (1,274,795)</b>
<b>Investment Income:</b>	
Net Investment Income Earned	\$ 741,132
Net Realized Capital Gains or (Losses)	179,306
<b>Net Investment Gain or (Loss)</b>	<b>\$ 920,438</b>
<b>Other Income:</b>	
Net Gain or (Loss) from Agents' or Premium Balances Charged Off	\$ (1,406)
Finance and Service Charges Not Included in Premiums	325
Aggregate Write-ins for Miscellaneous Income:	
Miscellaneous Income	5,412
Interest Income	1,749
<b>Total Other Income</b>	<b>\$ 6,080</b>
<b>Net Income Before Federal and Foreign Income Taxes</b>	<b>\$ (348,277)</b>
Federal and Foreign Income Taxes Incurred	99,806
<b>NET INCOME</b>	<b>\$ (448,083)</b>

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2008	\$ 10,214,005
Net Income	(448,083)
Change in Net Deferred Income Tax	118,533
Change in Non-Admitted Assets	3,233
Other Stock Compensation	642,368
Examination Change	-
<b>Net Change in Surplus as Regards Policyholders for 2009</b>	<b>\$ 316,051</b>
<b>Surplus as Regards Policyholders, December 31, 2009</b>	<b>\$ 10,530,056</b>

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None

**SUMMARY OF RECOMMENDATIONS**

Numerous occasions were noted where the Company was not in compliance with its intercompany agreements (both in amounts paid and timeliness of payment). It was also noted that intercompany loans and services were occurring between the Company and affiliates (Rockhill and ACIC) that were not covered by intercompany agreements. According to RSMo 382.195 the Company may not enter into these transactions "unless the insurer has notified the director in writing of its intention to enter into such transaction at least thirty days prior thereto, or such shorter period as the director may permit, and the director has not disapproved it within such period". Plaza should immediately cease all intercompany transactions with affiliates that have not been nondisapproved by the MO DIFP. The Company should also ensure that it is operating in compliance with all nondisapproved intercompany agreements.

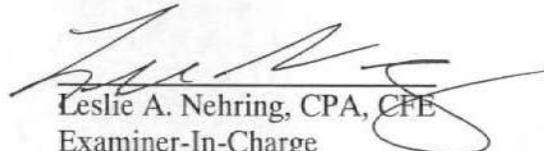
**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Plaza Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Karen Baldree, CPA, CFE, Kim Dobbs, CFE, Timothy Carroll, and Valerie Hastings, examiners for the MO DIFP, participated in this examination.

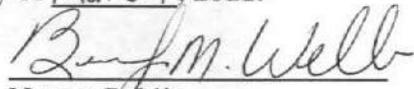
**VERIFICATION**

State of Missouri            )  
County of                    )

I, Leslie A. Nehring, CPA, CFE, 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 Plaza Insurance 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.

  
Leslie A. Nehring, CPA, CFE  
Examiner-In-Charge  
MO DIFP

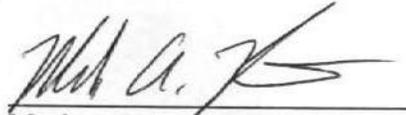
Sworn to and subscribed before me this 30<sup>th</sup> day of March, 2011.

My commission expires: 04/14/2012   
Notary Public

**BEVERLY M. WEBB**  
Notary Public - Notary Seal  
STATE OF MISSOURI  
County of Clay  
My Commission Expires 4/14/2012  
Commission # 08464070

## 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, except where practices, procedures and applicable regulations of the MO DIFP and statutes of the State of Missouri prevailed.



Mark A. Nance, CFE, CPA

Audit Manager

Missouri Department of Insurance, Financial  
Institutions and Professional Registration