

Statutory Financial Examination of

UMIALIK INSURANCE COMPANY

FE 14-03

as of December 31, 2013

Issued by

**STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE**

NAIC Company Code: 40126
NAIC Group Code: 00309

**FINAL REPORT:
May 8 2015**



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

550 West Seventh Avenue, Suite 1560
Anchorage, Alaska 99501-3567
Main: 907.269.7900
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CERTIFIED MAIL
RETURN RECEIPT REQUESTED

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
550 WEST 7TH AVENUE, SUITE 1560
ANCHORAGE, AK 99501-3567

Order FE 14-03)
In the Matter of Examination of)
Umialik Insurance Company)

FINDINGS OF FACT

1. A report of examination of Umialik Insurance Company, domiciled in the State of Alaska, has been issued by the State of Alaska, Division of Insurance, to Umialik Insurance Company.

2. The Report of Examination of Umialik Insurance Company (FE 14-03) has been transmitted to Stuart Henderson, President and CEO of Umialik Insurance Company (Examinee), and Examinee has been accorded at least 30 days opportunity to review and comment in this Report of Examination. A response from the examinee was received on June 15, 2015.

3. The Director of the Division of Insurance has fully considered and reviewed the report, the examinee response and any relevant portions of the examiner's work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written Report of Examination referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).

2. The actions set forth in Finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).

3. The Director of the Division of Insurance has reviewed the Report of Examination, the examinee response and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent he considered necessary in accordance with AS 21.06.150(b).

ORDER

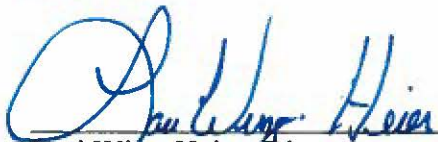
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Umialik Insurance Company (FE 14-03) is approved as filed.

2. Pursuant to AS 21.06.060, the Report of Examination shall be kept in the Office of the Director of the Division of Insurance and be open to public inspection.

This order is effective June 15th, 2015

Dated this 15th day of June, 2015 in Anchorage, Alaska.



Lori Wing-Heier, Director
State of Alaska
Division of Insurance

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THE STATE
of **ALASKA**

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DIVISION OF INSURANCE

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May 13, 2015

Lori Wing-Heier, Director
Division of Insurance
Department of Commerce, Community
and Economic Development
State of Alaska
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Dear Director Wing-Heier:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, an examination has been made of the financial condition and business affairs of:

Umialik Insurance Company ("the Company" or "Umialik")
3301 C Street, Suite 300
Anchorage, Alaska 99503

(NAIC CoCode 40126)

SCOPE OF EXAMINATION

We have performed an interim multi-state examination of Umialik Insurance Company (UIC). The last examination was a full-scope risk-focused examination that covered the period January 1, 2010 through December 31, 2012. The examination report was issued May 19, 2014. This examination covers the period January 1, 2013 through December 31, 2013. The examination cycle was accelerated in part to facilitate Alaska's participation in the next coordinated group examination that will be conducted as of December 31, 2016.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* for a full-scope examination. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

If, during the course of the examination an adjustment is identified, the impact of such adjustments will be documented separately following the Company's financial statements.

This examination may only include significant findings of fact as required pursuant to Alaska Statute 21.06.150(a) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature are not included within the examination report but separately communicated to other regulators and/or the company.

SUMMARY OF EXAMINATION FINDINGS

Significant Findings

There were no material adverse findings, adjustments to the financial statements or specific recommendations as a result of this examination.

DESCRIPTION OF COMPANY

Company History

Umialik is an Alaska-domiciled insurance company organized pursuant to Title 21, Chapter 69, of the Alaska Statutes. Umialik was incorporated on 5/13/1981 and received a Certificate of Authority (license D-1322) from the State of Alaska effective 6/10/1981 authorizing it to transact the business of disability, property, casualty, surety, marine, wet marine, and transportation. As of December 31, 2013 the Company was licensed to transact business in the states of Alaska and Washington.

Western National Mutual Insurance Company ("Western National") filed a Form A with the Division for the acquisition of Umialik in October 2010. A public hearing was held November 15, 2010 and the acquisition was approved by the Director November 22, 2010.

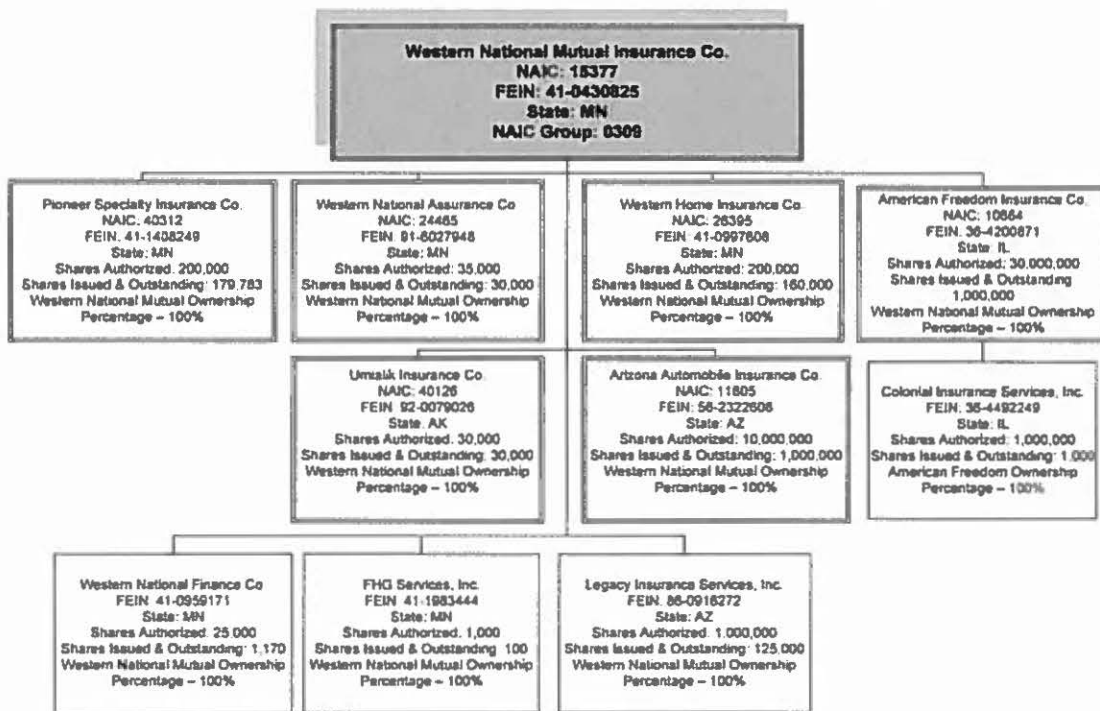
Corporate Records

Examiners reviewed all minutes for the Board of Directors and relevant committees. Articles of Incorporation and bylaws were reviewed as part of the prior examination and no changes were made during the exam period. Board of Directors' meetings were called and held according to the Articles and bylaws. All actions requiring board approval were taken by resolution at a meeting as provided by the bylaws. All elections were held in accordance with bylaws and statute.

The annual shareholder meeting was held according to bylaws and the Board of Directors met quarterly to discuss the operations of the Company. Significant activities including a review of all investment transactions of Umialik and the President's salary are approved by the Board of Directors.

Management and Control

Umialik is part of a holding company and is a wholly-owned subsidiary of Western National. It was acquired by Western National effective November 22, 2010. Western National is a private mutual insurer headquartered in Edina, Minnesota which provides personal and commercial property and casualty insurance.



The companies are party to an intercompany quota share reinsurance pooling agreement with Western National as the pool leader. Under this agreement, each pool member agrees to cede to Western National a 100% interest in their respective gross net liability retained for their own account, which excludes business otherwise ceded or retroceded to third party reinsurers. Such liabilities include reserves for unearned premiums, outstanding loss and loss adjustment expenses and all other outstanding and administrative expenses (excluding inter-company balances, federal income tax related liabilities and liabilities incurred with their respective investment transactions).

Western Mutual then obligates itself to retrocede to the Companies their respective quota share percentages which exist after the initial cessions. Settlement of the corresponding intercompany

payables and receivables is to occur by December 31 of the reporting year. The pool participation percentages as of December 31, 2013 are as follows:

NAIC Company Code	Company	Pooling Share	State of Domicile
15377	Western National Mutual Insurance Co.	75%	MN
24465	Western National Assurance Co.	6%	MN
26395	Western Home Insurance Co.	6%	MN
40312	Pioneer Specialty Insurance Co.	6%	MN
40216	Umialik Insurance Co.	5%	AK
11805	Arizona Automobile Insurance Co.	2%	AZ

In addition to the pooling agreement with Western National, the Company participates in a management and expense agreement, effective June 1, 2011, and a tax sharing agreement, effective January 1, 2010.

During the period under examination, Umialik's Board of Directors consisted of seven individuals at any one time, three of whom have been on the board since the acquisition by Western National.

The following officers and directors were serving as of December 31, 2013:

Umialik Insurance Company

NAME	TITLE	December 31,		
		2011	2012	2013
Stuart Henderson	Chairman, President, CEO	X	X	X
Richard Kalina	SVP, Chief Underwriting Officer			X
Jeffery Couchman	SVP, Marketing & Agency Sales			X
Michael Braun	Senior VP, IT	X	X	X
Peter Corning	Senior VP, CFO, Treasurer		X	X
Richard Long	Senior VP, Claims	X	X	X
David Eide	Executive Vice President (retired)	X	X	
Mary Manley	Senior Vice President (retired)	X	X	
Cindy Doble	VP, Underwriting (retired)	X	X	
Leon Smith	Senior VP, CFO (retired)	X		

Territory and Plan of Operation

The Company is authorized to transact the following lines of business: disability, property, casualty, surety, marine, wet marine, and transportation. The Company is licensed to conduct business in the states of Alaska and Washington. Umialik management has stated their intent to cease writing new business in the state of Washington to focus on their Alaska business. In 2013, 100% of the Direct Premiums written by the Company were in Alaska.

Umialik Insurance Company
As of December 31, 2013
FE 14-03

Based on the lines of business for which Umialik is licensed, and pursuant to the requirements of AS 21.09.070, Umialik is required to maintain minimum policyholders' surplus of \$5,250,000. As of December 31, 2013, the Company's policyholder surplus was \$19,348,452.

Loss Experience

The following schedule shows the premiums earned and loss experience for the year ending December 31, 2013. The figures are reported in the Company's 2013 annual statement:

Year	Losses			Loss Expenses	
	Earned Premiums	Incurred	% of Earned Premium	Incurred	% of Earned Premium
2013	\$16,528,592	\$9,582,250	58.0%	\$1,766,252	10.7%

Reinsurance

The Company is party to an intercompany quota share reinsurance pooling agreement as described above. Under this agreement Umialik and other affiliates cede 100% of the Net Written Premium and related risks to Western National. Western National then retrocedes based on the pool participation percentages stated above.

SUMMARY OF ACTUARIAL REVIEW

As of December 31, 2013, the Company carried \$13,493,454 in net loss and expense reserves and \$15,922,000 in gross loss and expense reserves.

As part of the prior examination the Division of Insurance actuary reviewed the reserves held by Umialik and the actuarial report of their independent actuary: Regnier Consulting Group, Inc. For the year under review examiners utilized data provided by Umialik, discussions with the insurer's staff, and the independent Statement of Actuarial Opinion filed by Regnier. Examiners found that no changes in the Company's reserve calculating methodology had been made and that the Company's estimates matched those of Regnier within a reasonable range and should be accepted as stated.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Alaska Division of Insurance and present the financial condition of the company for the year ending December 31, 2013. The accompanying comments on the financial statements should be considered an integral part of the financial statements.

FINANCIAL STATEMENTS
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
As of December 31, 2013

	As Reported	Examination Adjustments	As Adjusted
	<u> </u>	<u> </u>	<u> </u>
<u>Assets</u>			
Bonds	\$ 38,152,847		\$ 38,152,847
Cash & short term investments	(105,566)		(105,566)
Investment income due and accrued	325,432		325,432
Premiums and agents' balances in course of collection	1,988,198		1,988,198
Deferred premiums, agents' balances and installments booked but deferred	1,245,749		1,245,749
Amounts recoverable from reinsurers	15,954		15,954
Net deferred tax asset	959,582		959,582
Electronic data processing equipment and software	1,013		1,013
Receivables from parent, subsidiaries and affiliates	1,052,970		1,052,970
	<u>1,052,970</u>		<u>1,052,970</u>
 Total Admitted Assets	 \$ 43,636,179		 \$ 43,636,179
	<u> </u>		<u> </u>
<u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Losses	\$ 11,041,224		\$ 11,041,224
Loss adjustment expenses	2,452,230		2,452,230
Commissions payable	330,143		330,143
Taxes, licenses, and fees	59,647		59,647
Current federal and foreign income tax	291,548		291,548
Other expenses	1,159,617		1,159,617
Unearned premiums	7,609,702		7,609,702
Advance premium	213,644		213,644
Ceded reinsurance premiums payable	(157,642)		(157,642)
Amounts withheld or retained by company for account of others	16,304		16,304
Provision for reinsurance	18,000		18,000
Payable to parent, subsidiaries and affiliates	1,154,620		1,154,620
Aggregate write-ins for liabilities	98,690		98,690
	<u>98,690</u>		<u>98,690</u>
 Total Liabilities	 \$ 24,287,727		 \$ 24,287,727
	<u> </u>		<u> </u>
<u>Surplus</u>			
Common capital stock	\$ 3,000,000		\$ 3,000,000
Gross paid-in and contributed surplus	8,208,430		8,208,430
Unassigned funds (surplus)	8,140,022		8,140,022
	<u>8,140,022</u>		<u>8,140,022</u>
 Surplus as regards policyholders	 \$ 19,348,452		 \$ 19,348,452
	<u> </u>		<u> </u>
 Total Liabilities and Surplus	 \$ 43,636,179		 \$ 43,636,179
	<u> </u>		<u> </u>

FINANCIAL STATEMENTS
STATEMENT OF UNDERWRITING AND INVESTMENT
As of December 31, 2013

	As Reported	Examination Adjustments	As Adjusted
<u>Underwriting Income</u>			
<u>Revenue</u>			
Premiums earned	\$ 16,528,592		\$ 16,528,592
Total Revenue	<u>\$ 16,528,592</u>		<u>\$ 16,528,592</u>
<u>Deductions</u>			
Losses incurred	\$ 9,582,250		\$ 9,582,250
Loss expenses incurred	1,766,252		1,766,252
Other underwriting expenses	4,564,177		4,564,177
Total underwriting deductions	<u>\$ 15,912,679</u>		<u>\$ 15,912,679</u>
Net underwriting gain or (loss)	<u>\$ 615,913</u>		<u>\$ 615,913</u>
<u>Investment Income</u>			
Net investment income earned	\$ 1,106,007		\$ 1,106,007
Net realized capital gains or (losses)	(366,116)		(366,116)
Net investment gain or (loss)	<u>\$ 739,891</u>		<u>\$ 739,891</u>
<u>Other Income</u>			
Net gain (loss) from agent's or premium balances charged off	\$ (3,664)		\$ (3,664)
Finance and service charges not included in premiums	29,507		29,507
Other income	3,327		3,327
Federal and foreign income taxes (incurred)	(308,558)		(308,558)
Net Income	<u>\$ 1,076,416</u>		<u>\$ 1,076,416</u>
<u>Capital and Surplus Account</u>			
Surplus, Dec. 31, prior year	<u>\$ 18,225,413</u>		<u>\$ 18,225,413</u>
<u>Gains and (Losses) in Surplus</u>			
Net income (loss)	\$ 1,076,416		\$ 1,076,416
Change in net unrealized capital gains	14,657		14,657
Change in net deferred income tax	131,695		131,695
Change in nonadmitted assets	(81,729)		(81,729)
Change in provision for reinsurance	(18,000)		(18,000)
Change in surplus as regards policyholders for the year	<u>\$ 1,123,039</u>		<u>\$ 1,123,039</u>
Surplus for the period ended Dec. 31, 2013	<u><u>\$ 19,348,452</u></u>		<u><u>\$ 19,348,452</u></u>

FINANCIAL STATEMENTS
STATEMENT OF CAPITAL AND SURPLUS ACCOUNT
As of December 31, 2013

	<u>Common Stock</u>	<u>SURPLUS</u>		<u>TOTAL</u>
		<u>Paid-In</u>	<u>Unassigned</u>	
Balance at December 31, 2012	<u>\$ 3,000,000</u>	<u>\$ 8,208,430</u>	<u>\$ 7,016,983</u>	<u>\$ 18,225,413</u>
Net income – 2013			1,076,416	1,076,416
Change in net unrealized capital gains or (losses)			14,657	14,657
Change in net deferred income tax			131,695	131,695
Change in nonadmitted assets			(81,729)	(81,729)
Change in provision for reinsurance			(18,000)	(18,000)
Balance at December 31, 2013	<u><u>\$ 3,000,000</u></u>	<u><u>\$ 8,208,430</u></u>	<u><u>\$ 8,140,022</u></u>	<u><u>\$ 19,348,452</u></u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS
RESULTING FROM THE EXAMINATION**

This examination did not result in findings that produced adjustments to the financial statements filed as of December 31, 2013.

**COMPLIANCE WITH RECOMMENDATIONS IN
PRIOR REPORT OF EXAMINATION**

There were no recommendations in the prior report of examination.

FINDINGS AND RECOMMENDATIONS

There were no material adverse findings, adjustments to the financial statements or specific recommendations as a result of this examination.

CLOSING

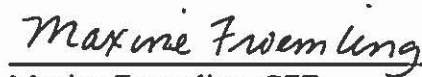
This examination was conducted in accordance with practices and procedures promulgated by the NAIC.

An affidavit of the Examiner-in-Charge, Darin Benck, CFE with Risk and Regulatory Consulting, LLC is on file with the Alaska Division of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Alaska Division of Insurance and the NAIC *Financial Condition Examiners Handbook*. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of Umialik Insurance Company as of December 31, 2013.

Also participating in the examination from the Alaska Division of Insurance was David Phifer, AFE. Additionally, Jaki Gardner, CFE, with Risk and Regulatory Consulting, LLC assisted in the examination.

We wish to express our appreciation for the courteous cooperation and assistance extended to us by the management and staff of Umialik Insurance Company during the course of this examination.

This report is respectfully submitted,



Maxine Froemling, CFE
Chief Financial Examiner

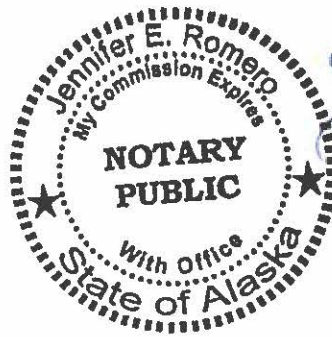
AFFIDAVIT

Anchorage, Alaska)
May 13, 2015)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2013, of Umialik Insurance Company, an Alaska-domiciled company holding Certificate of Authority #D-1322, is true to the best of my knowledge and belief.

Maxine Froemling
Maxine Froemling, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 13th day of May, 2015.



Jennifer E. Romero
Notary Public for the State of Alaska
My commission expires: with office