



THE STATE  
of **ALASKA**  
GOVERNOR MIKE DUNLEAVY

Department of Commerce, Community,  
and Economic Development

DIVISION OF INSURANCE  
Anchorage Office

550 West Seventh Avenue, Suite 1560  
Anchorage, Alaska 99501-3567  
Main: 907.269.7900  
Fax: 907.269.7910

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

Order FE 22-01 )  
In the Matter of the 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 the Examination of the Umialik Insurance Company (FE 22-01) has been forwarded to Richard Long, President/CEO of Umialik Insurance Company and the Examinee has been accorded at least 30 days opportunity to review and comment on this Report of Examination. A response from the Examinee was received on June 1, 2023.
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 the Examination referred to in Finding of Fact No. 1 above was issued in accordance with Alaska Statute (AS) 21.06.150(b).
2. The actions set forth in Finding of Fact No. 2 above 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 for the in Finding of Fact No. 3 above to the extent she extent she considered necessary in accordance AS 21.06.150(b).

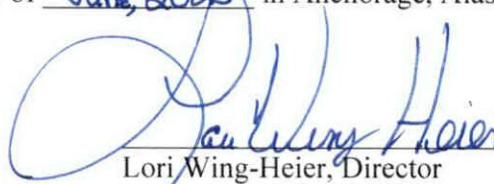
ORDER

IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of the Examination of Umialik Insurance Company FE 22-01 is approved as filed.
2. Pursuant to AS 21.06.060, the Report of the 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 20, 2023

Dated this 20<sup>th</sup> day of June, 2023 in Anchorage, Alaska.



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

Statutory Financial Examination of  
**UMIALIK INSURANCE COMPANY**

FE 22-01

As of  
December 31, 2021

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:**  
**June 16, 2023**

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June 16, 2023

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 "UIC")  
725 E. Fireweed Lane, Suite 500  
Anchorage, AK 99503

(NAIC CoCode 40126)

### **SCOPE OF EXAMINATION**

We have performed our multi-state examination of UIC covering the three-year period of January 1, 2019 through December 31, 2021 as part of the Western National Insurance Group ("WNIG" or ("the Group")) coordinated examination of WNIG. Minnesota, the lead state, examines its insurer every five years while those domiciled in Alaska are subject to examination, by statute, every three years. The last examination covered the period of January 1, 2017, through December 31, 2018.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* ("Handbook"). 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 adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as required by AS 21.06.150, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

The following comments and recommendations have been made because of this examination:

#### **Implied Ceding Commission**

The Group participants in the reinsurance pool recorded a thirty percent (30%) ceding commission as an offset against expenses. The multi-line excess of loss reinsurance contract did not include a ceding commission clause. As such, the Group failed to account for the reinsurance in accordance with the terms of the contracts, the NAIC Annual Statement Instructions, and Alaska Statutes 21.09.200. The Group amended its reporting for 2022.

#### **Reinsurance Pool Balances**

The Group is netting amounts related to its Pooling Reinsurance Agreement with its parent, Western National Mutual Insurance Company ("WNMIC") and reporting a net amount on Annual Statement Page 3, Line 19 Payable to parent, subsidiaries and affiliates. This is not in compliance with SSAP No. 63, paragraphs 8 and 9, the NAIC Annual Statement Instructions, and Alaska Statutes 21.09.200. The Group amended its reporting in the first quarter 2023 quarterly statement.

### **DESCRIPTION OF COMPANY**

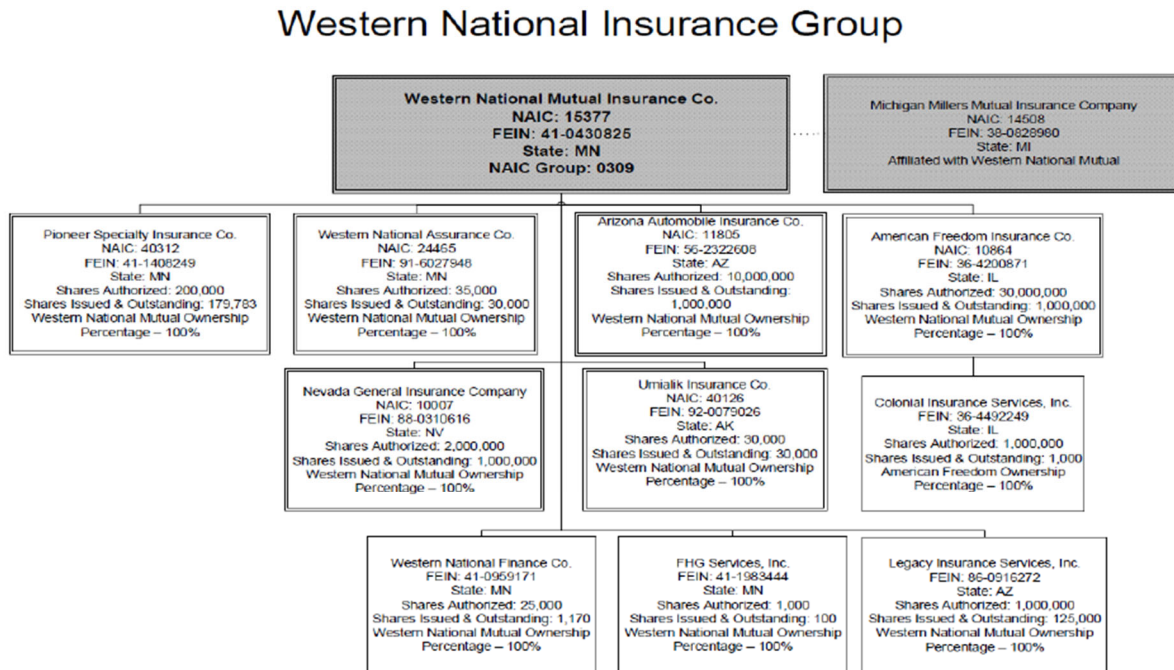
#### **Company History**

UIC is an Alaska-domiciled insurance company organized pursuant to Title 21, Chapter 69, of the Alaska Statutes. UIC was incorporated on May 13, 1981 and received a Certificate of Authority (license D-1322) from the State of Alaska effective June 10, 1981 authorizing it to transact the business of disability, property, casualty, surety, marine, wet marine, and transportation. As of December 31, 2021, the Company was licensed to transact business in the states of Alaska and Washington.

WNMIC filed a Form A with the Alaska Division of Insurance (“the Division”) for the acquisition of UIC in October 2010 and it was approved by the Director on November 22, 2010.

Management and Control

UIC is part of a holding company and is a wholly owned subsidiary of WNMIC, a private mutual insurer headquartered in Edina, Minnesota which provides personal and commercial property and casualty insurance. Below is an organization chart of WNIIG.



Related Party Activity

The companies are party to an intercompany quota-share reinsurance pooling agreement with WNMIC as the pool leader. Under this agreement, each pool member agrees to cede to WNMIC 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).

WNMIC then retrocedes 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.

NAIC Company Code	Company	2021 Pooling Share	State of Domicile
15377	Western National Mutual Insurance Company	79%	MN
24465	Western National Assurance Company	5%	MN
40312	Pioneer Specialty Insurance Company	5%	MN
<b>40216</b>	<b>Umialik Insurance Company</b>	<b>5%</b>	<b>AK</b>
10864	American Freedom Insurance Company	3%	IL
11805	Arizona Automobile Insurance Company	2%	AZ
10007	Nevada General Insurance Company	1%	NV

During the examination period, WNMIC’s participation percentage of the pool increased from 74% to 79% when Western Home Insurance Company (NAIC CoCode 26395) was sold to Obsidian Insurance Holdings, Inc. on July 1, 2021. Subsequent to the examination period, Arizona Automobile Insurance Company (“AAIC”) was sold on March 1, 2022, and WNMIC’s pooling share in 2022 increased to 81%. UIC’s participation percentage of the pool did not change during or subsequent to the examination period.

In addition to the pooling agreement with WNMIC, the Company participates in a management and expense agreement, effective July 1, 2016, and a tax sharing agreement, effective July 1, 2016.

The Articles of Incorporation and bylaws of UIC provide that a board of directors elected by the shareholder will manage the business and affairs of the Company. The Articles of Incorporation also provide that the board of directors shall have a minimum of five and a maximum of twenty-one members. The bylaws on June 22, 2004, to increase the minimum number of directors from five up to seven members. There were no amendments to the Articles of Incorporation and bylaws during the examination period.

During the period under examination, UIC’s Board of Directors consisted of six individuals in 2019 and seven individuals in 2020 and 2021.

NAME	TITLE	2019	2020	2021
Stuart Henderson	President & CEO	X	X	
Michael R. Braun	Senior Vice President	X		
John P. Buckley	Senior Vice President		X	X
Peter H. Corning	CFO & Treasurer	X	X	X
Jeffrey J. Couchman	Senior Vice President	X	X	X
Patricia M. Harris	Senior Vice President		X	X
Richard B. Kalina	Executive Vice President	X	X	X
Loren R. Klassen	Senior Vice President			X
Richard E. Long	Senior Vice President	X	X	X



### Conflict of Interest

The Company has established a formal code of conduct outlining procedures for disclosure of potential conflicts of interest. Annual conflict of interest disclosure questionnaires are to be completed by all officers and directors. These statements identify any material interest or affiliation which may conflict with the duties of such person on behalf of the Company.

### Territory and Plan of Operation

The Company is authorized to transact the following lines of business: boiler and machinery, burglary and theft, credit, elevator, entertainments, glass, health, leakage and fire extinguishing equipment, liability, livestock, malpractice, marine, miscellaneous casualty, personal property floater, property, surety (including fidelity), vehicle, wet marine, and workers compensations and employer's liability policies. As of December 31, 2021, they are licensed to conduct business in the states of Alaska and Washington. UIC ceased writing new business in the state of Washington and 100% of direct premiums written by the Company were in Alaska during the examination period.

Based on the lines of business for which UIC is licensed, and pursuant to the requirements of AS 21.09.070, the Company is required to maintain minimum policyholders' surplus of \$5,250,000. As of December 31, 2021, the Company's policyholder surplus was \$41,077,207.

### Growth of the Company

The following schedule summarizes year-end balance sheet numbers for the beginning of this examination period and for the years ending December 31, 2019 through December 31, 2021. The figures are reported in the annual statements of the Company for the years 2019 through 2021:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2019	\$ 94,223,924	\$61,944,563	\$32,279,361
2020	\$100,565,429	\$65,143,294	\$35,422,135
2021	\$115,252,359	\$74,175,152	\$41,077,207

### Reinsurance

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

## **ACTUARIAL REVIEW**

Steven Regnier, ACAS, MAAA of Regnier Consulting Group, Inc., the opining actuary was appointed by the board of directors to render an opinion on the reserves carried on the balance sheet as of December 31, 2021. The Division retained INS Consultants, Inc. ("INS") to perform

actuarial services in conjunction with the UIC examination as part of the multi-state coordinated examination of WNIG to review the lead state's actuarial review. Taylor-Walker Consulting, LLC was retained by the Minnesota Department of Commerce to independently review the reserves ("the Taylor-Walker Report") provided for the Group. INS found that the Taylor-Walker Report properly addressed the risks identified for the Group, which also apply to UIC. INS concurred with the findings in the Taylor-Walker Report that resulted in no recommended changes to reserves. the methods and assumptions used to calculate reserves to be generally reasonable, appropriate, and in accordance with statutory requirements except as otherwise noted. reserves carried by UIC meet the statutory requirements of the State of Alaska and make a reasonable provision for all unpaid loss and loss adjustment expenses.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Division and present the financial condition of the company for the period ending December 31, 2021. The accompanying comments on financial statements should be considered an integral part of the financial statements.

**FINANCIAL STATEMENTS**  
**STATEMENT OF ASSETS**  
As of December 31, 2021

	As Reported 12/31/2021
<u>Assets</u>	
Bonds	\$ 81,726,871
Preferred stocks	2,259,300
Cash, cash equivalents and short-term investments	623,375
Other invested assets	493,998
Receivables for securities	766,933
	<hr/>
Total cash and invested assets	85,870,477
	<hr/>
Investment income due and accrued	628,733
Uncollected premiums and agents' balances in the course of collection	3,360,365
Deferred premiums, agents' balances and installments booked but deferred	18,818,769
Amounts recoverable from reinsurers	7,592
Net deferred tax asset	1,194,585
Receivables from parent, subsidiaries and affiliates	5,097,518
Brokerage agreement receivable	274,320
	<hr/>
Total Admitted Assets	<u>\$ 115,252,359</u>

**FINANCIAL STATEMENTS**  
**STATEMENT OF LIABILITIES and SURPLUS**  
As of December 31, 2021

		As Reported 12/31/2021
<b>Liabilities</b>		
Losses	\$	23,403,248
Reinsurance payable on paid losses and loss adjustment expenses		112,798
Loss adjustment expenses		5,106,130
Commissions payable, contingent commission and other similar charges		532,737
Other expenses		2,057,733
Taxes, licenses and fees		170,473
Current federal and foreign income taxes		580,977
Unearned premiums		16,011,064
Advance premium		485,279
Ceded reinsurance premiums payable		203,041
Funds held by company under reinsurance treaties		54,876
Amounts withheld or retained by company for account of others		355,167
Remittances and items not allocated		4
Payable to parent, subsidiaries and affiliates		25,101,625
Total Liabilities	\$	74,175,152
<b>Surplus</b>		
Common capital stock		3,000,000
Gross paid in and contributed surplus		8,208,430
Unassigned funds		29,868,776
Total surplus	\$	41,077,207
Total Liabilities and Surplus	\$	115,252,359

**FINANCIAL STATEMENTS**  
**STATEMENT OF OPERATIONS**  
As of December 31, 2021

	As Reported 12/31/2021
<u>Underwriting Income</u>	
Premiums earned	\$ 32,231,516
<u>Deductions</u>	
Losses incurred	\$ 16,005,106
Loss adjustment expenses	3,287,547
Other underwriting expenses incurred	9,883,551
Total underwriting deductions	\$ 29,176,204
Net underwriting gain or (loss)	\$ 3,055,312
<u>Investment Income</u>	
Net investment income earned	\$ 2,539,516
Net realized capital gains	435,256
Net Investment gain or (loss)	\$ 2,974,772
<u>Other Income or (Loss)</u>	
Net gain (loss) from agents' or premium balances charged off	\$ (258,650)
Finance and service charges not included in premiums	\$ 30,037
Aggregate write-ins for miscellaneous income	263,295
Net Other Income or (loss)	\$ 34,682
Net income before federal income tax	\$ 6,064,766
Federal income taxes incurred	906,612
Net income (loss)	\$ 5,158,154

**FINANCIAL STATEMENTS**  
**RECONCILIATION OF CAPITAL AND SURPLUS**  
As of December 31, 2021

	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Surplus (Deficit)	Total Policyholders' Surplus
Balance at December 31, 2018	\$ 3,000,000	\$ 8,208,430	\$ 18,077,369	\$ 29,285,799
Net income - 2019			2,825,132	2,825,132
Change in net deferred income tax			171,801	171,801
Change in nonadmitted assets			(7,371)	(7,371)
Change in provision for reinsurance			4,000	4,000
Balance at December 31, 2019	\$ 3,000,000	\$ 8,208,430	\$ 21,070,931	\$ 32,279,361
Net income (loss) - 2020			3,533,624	3,533,624
Change in net deferred income tax			227,967	227,967
Change in nonadmitted assets			(618,817)	(618,817)
Balance at December 31, 2020	\$ 3,000,000	\$ 8,208,430	\$ 24,213,705	\$ 35,422,135
Net income - 2021			5,158,154	5,158,154
Change in net unrealized capital gains			(16,353)	(16,353)
Change in net deferred income tax			(314,250)	(314,250)
Change in nonadmitted assets				827,521
Change in provision for reinsurance			827,522	
Balance at December 31, 2021	\$ 3,000,000	\$ 8,208,430	\$ 29,868,778	\$ 41,077,207

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

There were no adjustments to the financial statements filed as of December 31, 2021 for any of the companies in the Group were made to surplus during this examination.

## **COMMENTS ON FINANCIAL STATEMENTS**

There were no recommended examination adjustments to the financial statements because of the examination.

## **SUBSEQUENT EVENTS**

No subsequent events related to UIC occurred during the examination period.

On March 1, 2022, WNMIC sold all outstanding shares of AAIC to Trexis Insurance Corporation. Proceeds from the sale were \$18,017,764 and the cost of AAIC's common stock was \$4,000,000, resulting in a realized gain of \$14,017,764. The sale was approved by both the California Department of Insurance and Minnesota Department of ("Commerce").

On March 1, 2022, WNMIC sold all outstanding shares of Legacy Insurance Services, Inc. ("Legacy"), a Managing General Agency producing nonstandard auto insurance business for AAIC to Alfa Insurance. Proceeds from the sale were \$8,240,318, and the cost of Legacy's common stock was \$2,000,000, resulting in a realized gain of \$6,240,318. The sale was approved by both the California Department of Insurance and Commerce.

## **OTHER SIGNIFICANT EVENTS**

### **COVID-19 Economic Impact**

During March of 2020, the World experienced a pandemic related to the COVID-19 virus. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

At the date of this report, the full effect of this pandemic on the U.S. and global insurance and reinsurance industry is still unknown. The lead state is expecting the COVID-19 outbreak to affect a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. Insurance regulators with the assistance of the NAIC are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The lead state has been in communication with the Group regarding

the impact of COVID-19 on business operations and the financial position of the Company and no immediate action was deemed necessary at the time of this report. Also, as of the date of this report, the Company was fully operational and was providing services to its policyholders. The Company expects COVID-19 to be an earnings event, not a solvency event.

### **SUMMARY OF RECOMMENDATIONS**

There were no adjustments to the financial statements for any of the companies in the Group during this examination.

#### **Implied Ceding Commission**

It is recommended the Group account for the reinsurance in accordance with the terms of the contracts, the NAIC Annual Statement Instructions, and Alaska Statutes 21.09.200. The Group amended its reporting for 2022.

#### **Reinsurance Pool Balances**

It is recommended the Group account for amounts related to its Pooling Reinsurance Agreement with its parent, WNMIC in compliance with SSAP No. 63, paragraphs 8 and 9, the NAIC Annual Statement Instructions, and Alaska Statutes 21.09.200. The Group amended its reporting in the first quarter 2023 quarterly statement.



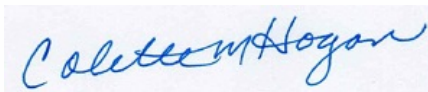
**CLOSING**

This examination was conducted in accordance with practices and procedures promulgated by the NAIC. This examination also includes a compliance review of applicable Alaska Statutes and Regulations.

In addition to the undersigned, the following examiners participated in the examination from the Division: Insurance Financial Examiner II Kevin Richard. Also participating in the examination were contract examiners from The INS Companies as follows: Sarah Lucibello, CPA, CFE, Joseph Rome, CFE, Laura Rodriguez-Campbell, John R. Pedrick, FCAS, MAAA and Michael W. Morro, ACAS, MAAA.

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

This report is respectfully submitted,



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Colette M. Hogan, CFE, MCM  
Examiner-in Charge  
The INS Companies



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W. David Phifer, CFE  
Chief Financial Examiner  
State of Alaska

AFFIDAVIT

Salt Lake City, Utah )  
Date )  
STATE OF UTAH )  
JUDICIAL DISTRICT )

County of Salt Lake

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2021, of Umialik Insurance Company, an Alaska-domiciled company holding Certificate of Authority #D-1322, is true to the best of my knowledge and belief.

*Colette M. Hogan*

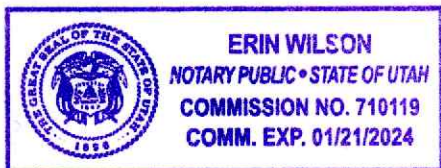
Colette M. Hogan, CFE, MCM  
Examiner-in-Charge  
The INS Companies

Subscribed and sworn to before me this 14 day of June, 2023.

*Erin Wilson*

Notary Public for the State of Utah

My commission expires: 01/21/24



AFFIDAVIT

Anchorage, Alaska )  
Date )  
STATE OF ALASKA )  
THIRD JUDICIAL DISTRICT )

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2021, of Umialik Insurance Company, an Alaska-domiciled company holding Certificate of Authority #D-1322, is true to the best of my knowledge and belief.

David Phifer  
W. David Phifer, CFE  
Chief Financial Examiner  
State of Alaska

Subscribed and sworn to before me this 13<sup>th</sup> day of June, 2023.

[Signature]  
Notary Public for the State of Alaska

My commission expires: N/A

