

Statutory Financial Examination of

UMIALIK INSURANCE COMPANY

FE 16-06

as of December 31, 2016

Issued by

STATE OF ALASKA

DEPARTMENT OF COMMERCE, COMMUNITY AND

ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

NAIC Company Code: 40126
NAIC Group Code: 00309

PROPOSED REPORT:
May 31, 2018

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 16-06)
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 16-06) 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 on this Report of Examination. A response from the examinee was received on July 6, 2018.

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 considered necessary in accordance with AS 21.06.150(b).

ORDER

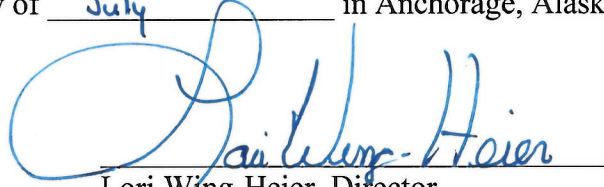
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Umialik Insurance Company (FE 16-06) is approved as filed.

2. Pursuant to AS 21.06.060, the Report of Examination shall be posted on the Division of Insurance website and be available for public inspection.

This order is effective July 13, 2018.

Dated this 13th day of July in Anchorage, Alaska.



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

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THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

**Department of Commerce, Community,
and Economic Development**

DIVISION OF INSURANCE

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

July 9, 2018

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 our multi-state examination of Umialik Insurance Company as part of a coordinated examination of the Western National Insurance Group (WNIG). The examination was performed as part of the coordinated examination of WNIG with the Minnesota Department of Commerce acting as the lead state. In addition to examiners from Minnesota and Alaska; the examination was conducted concurrently with two affiliated companies: Arizona Automobile Insurance Company, an Arizona domiciled company, and Nevada General Insurance Company, a Nevada domiciled company. To the fullest extent the efforts, resources, project materials, and findings were coordinated and made available to all examination participants. The last examination of UIC covered the period of January 1, 2013 through December 31, 2013. This examination covers the period of January 1, 2014 through December 31, 2016.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners 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 mentioned in 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 the company and/or other regulators.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

The following comments and recommendations have been made as a result of this examination:

Unclaimed Property

The Group did not file the annual unclaimed property report or escheat checks in 2016 as required under Alaska Statute 34.45.280 Report of Abandoned Personal Property. It is recommended the Group file the annual unclaimed property report and escheat the appropriate funds in accordance with Alaska Statutes.

Offsetting and Netting Intercompany Balances

The Group did not properly offset and net intercompany receivables and payables in accordance with SSAP No. 64 'Offsetting and Netting of Assets and Liabilities'. It is recommended the Group report receivables and payables from parent, subsidiaries and affiliates in accordance with SSAP No. 64.

DESCRIPTION OF COMPANY

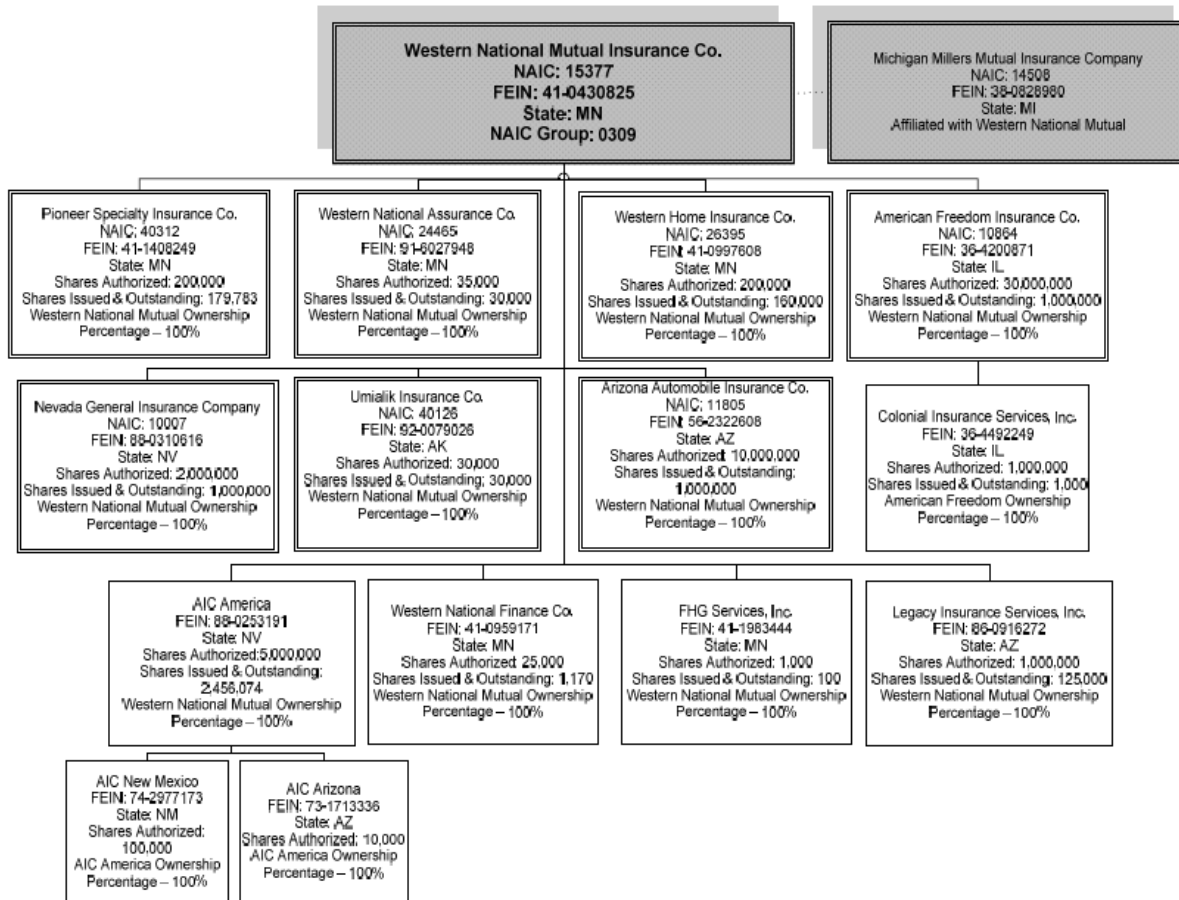
Company History

Umialik is an Alaska-domiciled insurance company organized pursuant to Title 21, Chapter 69, of the Alaska Statutes. Umialik was incorporated on 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, 2016 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.

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 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. Effective January 1, 2017 American Freedom Insurance Company (AFI) and Nevada General Insurance Company (NGIC) were added to the pooling agreement:

| NAIC Company Code | Company | 2016 Pooling Share | 2017 Pooling Share | State of Domicile |
|-------------------|---------------------------------------|--------------------|--------------------|-------------------|
| 15377 | Western National Mutual Insurance Co. | 75% | 74% | MN |
| 24465 | Western National Assurance Co. | 6% | 5% | MN |
| 26395 | Western Home Insurance Co. | 6% | 5% | MN |
| 40312 | Pioneer Specialty Insurance Co. | 6% | 5% | MN |
| 40216 | Umialik Insurance Co. | 5% | 5% | AK |
| 11805 | Arizona Automobile Insurance Co. | 2% | 2% | AZ |
| 10864 | American Freedom Insurance Company | - | 3% | IL |
| 10007 | Nevada General Insurance Company | - | 1% | NV |

In addition to the pooling agreement with Western National, 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 Umialik 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 Company amended its bylaws on June 22, 2004, to increase the minimum number of directors from five up to seven members.

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.

| Name | Title | 2016 | 2015 | 2014 |
|------------------|-----------------|------|------|------|
| Stuart Henderson | President & CEO | X | X | X |
| Peter Corning | CFO | X | X | X |
| Jon Hebeisen | Secretary | X | X | X |
| Steve Richards | EVP | X | X | X |
| Richard Kalina | EVP | X | X | X |
| Richard Long | SVP | X | X | X |
| Michael Braun | SVP | X | X | X |
| Jeffery Couchman | SVP | X | X | 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. Since 2013, 100% of the Direct Premiums written by the Company were in Alaska.

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, 2016, the Company's policyholder surplus was \$25,595,662.

Reinsurance

The Company is party to an intercompany quota share reinsurance pooling agreement as described above. Under this agreement Umialik and other included 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.

ACTUARIAL REVIEW

Steven Regnier, ACAS, MAAA, FCA was appointed by the board to render an opinion on the reserves carried on the balance sheet as of December 31, 2016. Merlinos & Associates, Inc. were retained by the Minnesota Department of Commerce to independently review the reserves provided for the group. The reserves carried by UIC meet the statutory requirements of the State of Alaska and make a reasonable provision for all unpaid loss and loss adjustments expenses.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the company with the National Association of Insurance Commissioners (NAIC) and the Alaska Division of Insurance. They present the financial condition of the company as reported for the period ending December 31, 2016. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered to be an integral part of the financial statements.

STATEMENT OF ASSETS

As of December 31, 2016

| | As Reported 12/31/2016 |
|---|-----------------------------|
| Bonds | \$ 44,740,045 |
| Cash, cash equivalents, and short-term investment | (623,623) |
| Receivables for securities | 3,883 |
| Total cash and invested assets | <u>44,120,304</u> |
| Investment income due and accrued | 407,087 |
| Uncollected premiums and agents' balances in the course of collection | 1,527,763 |
| Deferred premiums; agents' balances and installments booked but deferred and not yet due | 10,458,748 |
| Amounts recoverable from reinsurers | 68,251 |
| Net deferred tax asset | 1,220,374 |
| Receivables from parent; subsidiaries and affiliates | <u>2,760,596</u> |
| Total Admitted Assets | <u><u>\$ 60,563,123</u></u> |

STATEMENT OF LIABILITIES AND SURPLUS

As of December 31, 2016

| <u>Liabilities</u> | <u>As Reported 12/31/2016</u> |
|---|-----------------------------------|
| Losses | \$ 14,825,080 |
| Reinsurance payable on paid losses and loss adjustment expenses | 80,123 |
| Loss adjustment expenses | 3,078,401 |
| Commissions payable; contingent commissions and other similar charges | 361,381 |
| Other expenses | 1,165,716 |
| Taxes; licenses and fees | 78,619 |
| Current federal and foreign income taxes | 1,022,030 |
| Unearned premiums | 10,605,353 |
| Advance premium | 659,557 |
| Ceded reinsurance premiums payable | 28,574 |
| Funds held by company under reinsurance treaties | 16,337 |
| Amounts withheld or retained by company for account of others | 52,499 |
| Remittances and items not allocated | (2,161) |
| Provision for reinsurance | 38,000 |
| Payable to parent; subsidiaries and affiliates | <u>2,957,952</u> |
| Total liabilities | <u>\$ 34,967,461</u> |
| <u>Surplus</u> | |
| Common capital stock | \$ 3,000,000 |
| Gross paid in and contributed surplus | 8,208,430 |
| Unassigned funds (surplus) | <u>14,387,232</u> |
| Total Surplus as regards policyholders | <u>25,595,662</u> |
| Total Liabilities and Surplus | <u><u>\$ 60,563,123</u></u> |

STATEMENT OF INCOME

As of December 31, 2016

| | <u>As Reported</u> <u>12/31/2016</u> |
|--|---|
| <u>Underwriting Income</u> | |
| Premiums earned | \$ 22,520,660 |
| <u>Deductions</u> | |
| Losses incurred | \$ 12,560,228 |
| Loss adjustment expenses incurred | 2,192,292 |
| Other underwriting expenses incurred | 6,187,192 |
| Total underwriting deductions | <u>\$ 20,939,712</u> |
| Net underwriting gain (loss) | <u>\$ 1,580,948</u> |
| <u>Investment Income</u> | |
| Net investment income earned | \$ 1,535,142 |
| Net realized capital gains (losses) | <u>137,758</u> |
| Net investment gain (loss) | <u>\$ 1,672,900</u> |
| <u>Other Income or (Loss)</u> | |
| Net gain (loss) from agents' or premium balances charged off | \$ (35,817) |
| Finance and service charges not included in premiums | 43,105 |
| Aggregate write-ins for miscellaneous income | <u>(3)</u> |
| Total other income | <u>\$ 7,285</u> |
| Federal and foreign income taxes incurred | <u>\$ 927,380</u> |
| Net income (loss) | <u><u>\$ 2,333,753</u></u> |

RECONCILIATION OF SURPLUS

As of December 31, 2016

| | |
|---|----------------------|
| Surplus at December 31, 2013 | <u>\$ 19,348,452</u> |
| Net Income - 2014 | 1,622,996 |
| Change in net unrealized capital gains/losses | 0 |
| change in net deferred income tax | (44,069) |
| change in nonadmitted assets | 91,077 |
| Change in provision for reinsurance | 16,000 |
| Cumulative effect of change in accounting principle | <u>0</u> |
| Balance at December 31, 2014 | <u>\$ 21,034,456</u> |
| Net Income - 2015 | 2,094,294 |
| Change in net unrealized capital gains/losses | (13,550) |
| change in net deferred income tax | 185,287 |
| change in nonadmitted assets | (85,994) |
| Change in provision for reinsurance | 2,000 |
| Cumulative effect of change in accounting principle | <u>0</u> |
| Balance at December 31, 2015 | <u>\$ 23,216,493</u> |
| Net Income - 2016 | 2,333,753 |
| Change in net unrealized capital gains/losses | (2,778) |
| change in net deferred income tax | (46,853) |
| change in nonadmitted assets | 133,047 |
| Change in provision for reinsurance | (38,000) |
| Cumulative effect of change in accounting principle | <u>0</u> |
| Balance at December 31, 2016 | <u>\$ 25,595,662</u> |

Analysis of Changes in Financial Statements Resulting from the Examination

No adjustments to the financial statements filed as of December 31, 2016 were made to surplus as a result of this examination.

Comments on Financial Statement Items

There were no additional comments on the financial statements files as of December 31, 2016 as a result of the examination.

SUBSEQUENT EVENTS

Effective January 1, 2017, AFI and NGIC were added to the intercompany pooling agreement with participation percentages of 3% and 1%, respectively.

In 2017 Umialik relocated their home office to 725 E. Fireweed Lane, Suite 500, Anchorage, AK 99503. Additionally, in 2017 the WNIG group relocated their home office to 4700 W 77th Street, Edina, Minnesota, 55435.

SUMMARY OF RECOMMENDATIONS

Unclaimed Property

It is recommended the Group file the annual unclaimed property report and escheat the appropriate funds in accordance with Alaska Statute 34.45.280 Report of Abandoned Personal Property.

Offsetting and Netting of Intercompany Balances

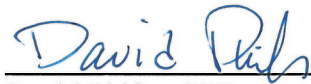
It is recommended the Group report receivables and payables from parent, subsidiaries and affiliates in accordance with SSAP No. 64.

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.

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,

A handwritten signature in blue ink that reads "David Phifer". The signature is written in a cursive style and is positioned above a horizontal line.

David Phifer, CFE
Chief Financial Examiner

AFFIDAVIT

Anchorage, Alaska)
July 13, 2018)
)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2016, 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
David Phifer, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 13 day of July, 2018.



Sian Ng-Ashcraft
Notary Public for the State of Alaska

My commission expires: with office