

Statutory Financial Examination of  
**UMIALIK INSURANCE COMPANY**

FE 13-02

as of December 31, 2012

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 19, 2014**

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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 13-02 )  
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 13-02) has been transmitted to Stuart C. 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 June 17, 2014
- 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).

STATE OF ALASKA  
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT  
DIVISION OF INSURANCE  
550 WEST SEVENTH AVENUE, SUITE 1560  
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ORDER

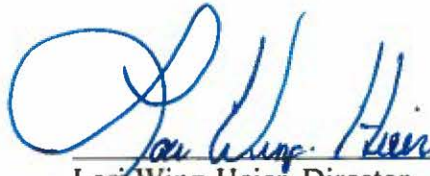
IT IS ORDERED

1. Pursuant to AS 21.06.150(b) (1), the Report of Examination of Umialik Insurance Company (FE 13-02) 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 23, 2014.

Dated this 23 day of June, 2014 at Anchorage, Alaska.



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

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THE STATE  
of **ALASKA**  
GOVERNOR SEAN PARNELL

Department of Commerce, Community,  
and Economic Development

DIVISION OF INSURANCE  
Anchorage Office

550 W. 7th Avenue, Suite 1560  
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May 23, 2014

Lori Wing-Heier, Director  
Division of Insurance  
Department of Commerce, Community  
and Economic Development  
State of Alaska  
550 West 7<sup>th</sup> 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  
3301 C Street, Suite 300  
Anchorage, Alaska 99503

**SCOPE OF EXAMINATION**

This examination covers the three-year period from January 1, 2010 through December 31, 2012. Transactions subsequent to this period were reviewed where deemed appropriate. The most recent prior examination of Umialik Insurance Company (hereinafter referred to as Umialik or the Company) covered the period from January 1, 2007 through December 31, 2009.

The examination was conducted in accordance with the guidelines and procedures recommended by the Financial Condition Committee of the National Association of Insurance Commissioners (NAIC) and the rules, regulations, and directives of the Division of Insurance, State of Alaska. The work papers of the independent certified public accountants, Strohm Ballweg, LLP, were reviewed and used where it was determined to be appropriate. The appropriate CPA work papers have been incorporated into the exam work paper file.

The assets of Umialik were evaluated and verified, and its liabilities were analyzed to determine its financial condition as of December 31, 2012. An actuarial evaluation of the reserves as of December 31, 2012 was performed by Sarah K. McNair-Grove, ACAS, MAAA, Actuary for the Division of Insurance, State of Alaska, as a part of this examination.

## **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.

## **SUBSEQUENT EVENTS**

The examiners performed a review of the Company transactions, activities, and events subsequent to December 31, 2012 and through March 31, 2013 to ensure all significant events subsequent to the exam period end that could require adjustment of, or disclosure in, the financial statements or foot notes were identified.

## **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, 2012 the Company was licensed to transact business in the states of Alaska and Washington.

Western National Mutual 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.

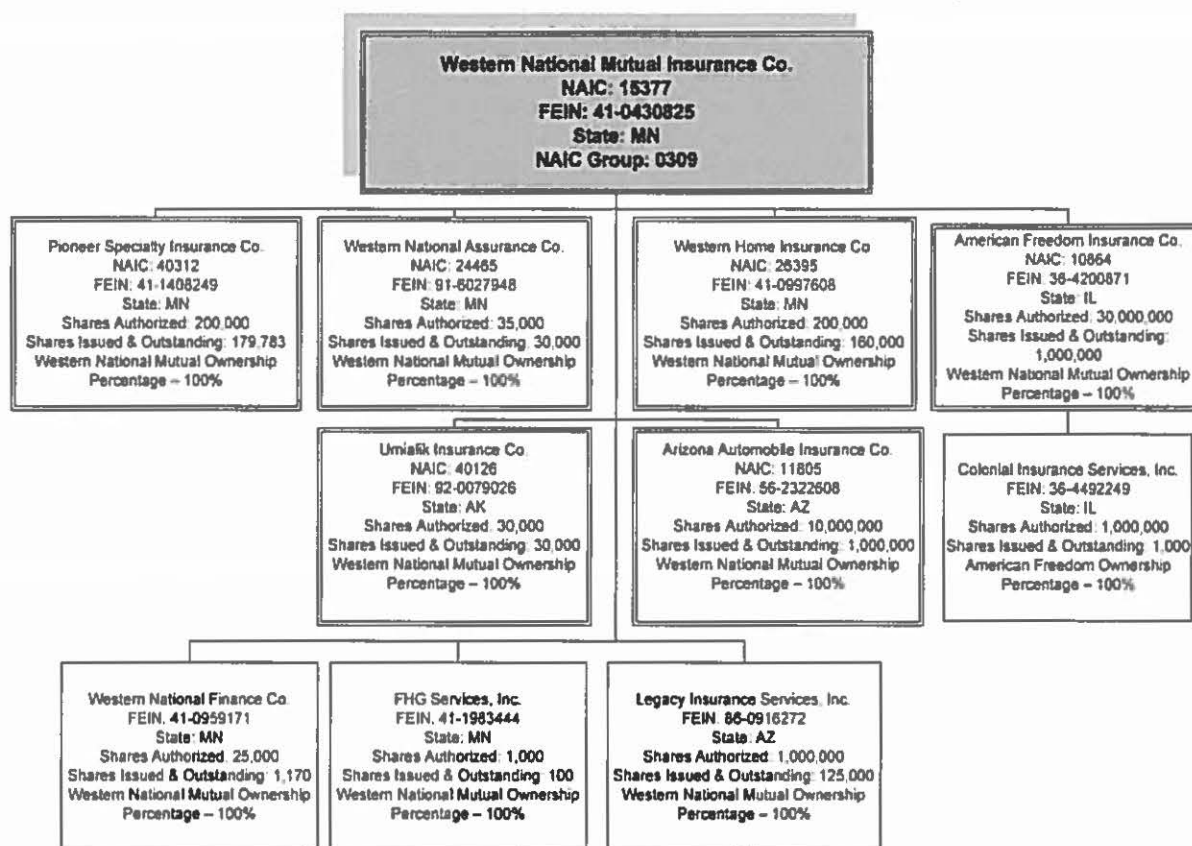
### **Corporate Records**

The Articles of Incorporation, bylaws and minutes of the Board of Directors of Umialik were reviewed during this examination. Annual shareholder meetings were held each year of the examination. 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 or by resolution without a meeting as provided by the bylaws. All elections were held in accordance with bylaws and statute. The corporate bylaws were last amended in 2004.

The annual stockholder meetings were held by June of each year. The Board of Directors generally meets 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 pooling agreement with Western National Mutual Insurance Co. as the pool leader. As a secession each pool member agrees to cede and the pool leader agrees to accept 100% of Net Liabilities and 100% of the Net Written Premiums; and, as a retrocession the pool leader agrees to retrocede and each member agrees to accept its quota-share percentage (see chart below) of the Net Liabilities and its quota-share percentage of the Net Written Premiums across all lines of business. Settlement of the corresponding intercompany payables and receivables is to occur by December 31 of the reporting year.

**Intercompany pooling arrangement as of December 31, 2012**

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 the Company also has a management and expense agreement, effective June 1, 2011, and a tax sharing agreement, effective January 1, 2010.

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 and including seven members.

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

The following officers and directors were serving as of December 31 for each year covered by the exam period:

**Umialik Insurance Company**

NAME	TITLE	December 31,		
		2010	2011	2012
Stuart Henderson	Chairman, President, CEO	X	X	X
Michael Braun	Senior VP, IT	X	X	X
Peter Corning	CFO, Treasurer			X
Richard Long	Senior VP, Claims		X	X
David Eide	Executive Vice President	X	X	X
Mary Manley	Senior Vice President	X	X	X
Cindy Doble	VP, Underwriting	X	X	X
Dennis Ballinger	Senior VP, Claims	X		
Leon Smith	Senior VP, CFO (retired)	X	X	

**Fidelity Bond and Other Insurance**

As of December 31, 2012 the Company was named insured on a Financial Institution Bond written with Travelers Insurance Company with coverage dates from 1/1/2012 to 1/1/2013. The bond covers fidelity, on premises, in-transit, forgery, alteration, counterfeit currency, trading loss, and computer theft and has a \$5,000,000 single loss and \$5,000,000 aggregate limit of liability with a single-loss deductible retention of \$250,000. This amount exceeds the minimum recommended coverage by the NAIC. The bond also maintains coverage for claims expenses with a \$10,000 limit of liability.

**Officers', Employees' and Agents' Welfare and Pension Plans**

The Company provides a comprehensive package of employee benefit programs for its employees. For regular, full-time employees, the Company makes available a comprehensive



Umialik Insurance Company  
 As of December 31, 2012  
 FE 13-02

medical and life insurance plan. The Company has a 401K deferred compensation program covering substantially all employees.

**Territory and Plan of Operation**

Umialik 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 has stated their intent to cease writing new business in the state of Washington to focus on their Alaskan business. In 2012 98.7% 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 \$4,125,000; As of December 31, 2012 the Company's policyholder's surplus was \$18,225,413.

**Growth of the Company**

The following schedule shows the annual results of operations from the year ended December 31, 2010 through December 31, 2012. The figures are as reported in the annual statement of Umialik filed with the Division for the years 2010 through 2012:

Year	Admitted Assets (000's)	Liabilities (000's)	Surplus (000's)
2010	\$43,411	\$27,562	\$15,849
2011	\$37,226	\$20,217	\$17,010
2012	\$40,146	\$21,921	\$18,225

**Loss Experience**

The following schedule shows the loss experience during the period of examination:

Year	Net Premiums Earned (000's)	Net Losses Incurred (000's)	Ratio	Loss Expense Incurred (000's)	Ratio
2010	\$22,509	\$10,109	44.9%	\$2,464	10.9%
2011	\$12,549	\$7,615	60.7%	\$1,437	11.5%
2012	\$14,734	\$8,670	58.8%	\$1,639	11.1%

**Reinsurance**

The Company is party to an intercompany pooling agreement as described above. Under this agreement Umialik and each other affiliate cede 100% of the Net Written Premium and related

risks to Western National. Western National then retrocedes based on the percentage distributions stated above.

### **Accounts and Records**

The Company's internal control review structure was discussed with management through questionnaires, interviews with management and key staff members, and a review of the work performed by the independent certified public accountants.

Umialik's computerized accounting and record-keeping system is designed to be in compliance with statutory insurance accounting principles and reporting requirements as prescribed by the Alaska Division of Insurance and the NAIC. The Company's response to the internal control review was evaluated by the computer audit specialists of the examination team who evaluated the adequacy of their controls.

### **Statutory Deposits**

Umialik maintains a statutory deposit of \$323,642 at Wells Fargo Bank, N.A. in Anchorage, AK for the benefit of all Alaska policyholders. This exceeds the statutory requirement of \$300,000 as prescribed by AS 21.09.090.

## **SUMMARY OF ACTUARIAL REVIEW**

As of December 31, 2012, Umialik carried \$10,222,129 in Net Loss and Loss Adjustment Expense reserves and \$2,330,474 in Gross Loss and Loss Adjustment Expense reserves. Using data provided by Umialik and discussions with the insurer's staff, the division actuary reviewed the reserves held by Umialik, and the actuary report prepared by Regnier Consulting Group, Inc. in support of the 2012 Statement of Actuarial Opinion. Based on this review, the overall reserve position is within a reasonable range of acceptable reserve estimates and should be accepted as stated.

## **FINANCIAL STATEMENTS**

The following financial statements represent the financial position of Umialik as of December 31, 2012, as reported to the division and as determined by the examiners.

**FINANCIAL STATEMENTS**  
**STATEMENT OF ASSETS, LIABILITIES AND SURPLUS**  
As of December 31, 2012

	<u>As Reported</u>	<u>Examination Adjustments</u>	<u>As Adjusted</u>
<u>Assets</u>			
Bonds	\$ 35,120,549		\$ 35,120,549
Cash & short term investments	1,217,637		1,217,637
Investment income due and accrued	301,933		301,933
Premiums and agents' balances in course of collection	1,521,141		1,521,141
Deferred premiums, agents' balances and installments booked but deferred	957,697		957,697
Amounts recoverable from reinsurers	54,895		54,895
Net deferred tax asset	962,570		962,570
Other assets	9,905		9,905
	<hr/>		<hr/>
Total Admitted Assets	<u>\$ 40,146,327</u>		<u>\$ 40,146,327</u>
 <u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Losses	\$ 10,222,129		\$ 10,222,129
Loss adjustment expenses	2,330,474		2,330,474
Commissions payable	267,303		267,303
Taxes, licenses, and fees	58,293		58,293
Current federal and foreign income tax	404,192		404,192
Other expenses	1,028,273		1,028,273
Unearned premiums	7,049,293		7,049,293
Advance premium	193,533		193,533
Ceded reinsurance premiums payable	(96,121)		(96,121)
Remittances and items not allocated	(1,034)		(1,034)
Payables for securities	326,426		326,426
Aggregate write-ins for liabilities	138,153		138,153
	<hr/>		<hr/>
Total Liabilities	<u>\$ 21,920,914</u>		<u>\$ 21,920,914</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)	7,016,983		7,016,983
	<hr/>		<hr/>
Surplus as regards policyholders	<u>\$ 18,225,413</u>		<u>\$ 18,225,413</u>
	<hr/>		<hr/>
Total Liabilities and Surplus	<u>\$ 40,146,327</u>		<u>\$ 40,146,327</u>

**FINANCIAL STATEMENTS**  
**STATEMENT OF INCOME**  
As of December 31, 2012

	<u>As Reported</u>	<u>Examination Adjustments</u>	<u>As Adjusted</u>
<b><u>Underwriting Income</u></b>			
<b><u>Revenue</u></b>			
Premiums earned	\$ 14,734,146		\$ 14,734,146
Total Revenue	<u>\$ 14,734,146</u>		<u>\$ 14,734,146</u>
<b><u>Deductions</u></b>			
Losses incurred	\$ 8,669,742		\$ 8,669,742
Loss expenses incurred	1,638,875		1,638,875
Other underwriting expenses	4,362,232		4,362,232
Total underwriting deductions	<u>\$ 14,670,849</u>		<u>\$ 14,670,849</u>
Net underwriting gain or (loss)	<u>\$ 63,297</u>		<u>\$ 63,297</u>
<b><u>Investment Income</u></b>			
Net investment income earned	\$ 1,122,334		\$ 1,122,334
Net realized capital gains or (losses)	476,280		476,280
Net investment gain or (loss)	<u>\$ 1,598,614</u>		<u>\$ 1,598,614</u>
<b><u>Other Income</u></b>			
Net gain (loss) from agent's or premium balances charged off	\$ (12,576)		\$ (12,576)
Additional Other Income	11,649		11,649
Federal and foreign income taxes (incurred)	(303,796)		(303,796)
Net Income	<u>\$ 1,357,188</u>		<u>\$ 1,357,188</u>
<b><u>Capital and Surplus Account</u></b>			
Surplus, Dec. 31, prior year	<u>\$ 17,009,503</u>		<u>\$ 17,009,503</u>
<b><u>Gains and (Losses) in Surplus</u></b>			
Net income (loss)	\$ 1,357,188		\$ 1,357,188
Change in net unrealized capital gains	22,646		22,646
Change in net deferred income tax	32,439		32,439
Change in nonadmitted assets	(196,363)		(196,363)
Change in surplus as regards policyholders for the year	<u>\$ 1,215,910</u>		<u>\$ 1,215,910</u>
Surplus for the period ended Dec. 31, 2012	<u>\$ 18,225,413</u>		<u>\$ 18,225,413</u>

**FINANCIAL STATEMENTS**  
**STATEMENT OF CAPITAL AND SURPLUS ACCOUNT**  
As of December 31, 2012

	Common Stock	SURPLUS		TOTAL
		Paid-In	Unassigned	
Balance at December 31, 2009	\$ 3,000,000	\$ 3,183,774	\$ 11,931,578	\$18,115,352
Net income – 2010			1,963,954	1,963,954
Change in net unrealized capital gains or (losses)			447,170	447,170
Change in net deferred tax income			(173,000)	(173,000)
Change in nonadmitted assets			99,779	99,779
Dividends paid			(9,628,546)	(9,628,546)
Surplus paid-in		5,024,656		5,024,656
Balance at December 31, 2010	\$ 3,000,000	\$ 8,208,430	\$ 4,640,935	\$15,849,365
Net income – 2011			2,923,854	2,923,854
Change in net unrealized capital gains or (losses)			(1,901,494)	(1,901,494)
Change in net deferred tax income			207,642	207,642
Change in nonadmitted assets			(69,864)	(69,864)
Balance at December 31, 2011	\$ 3,000,000	\$ 8,208,430	\$ 5,801,073	\$17,009,503
Net income – 2012			1,357,188	1,357,188
Change in net unrealized capital gains or (losses)			22,646	22,646
Change in net deferred tax income			32,439	32,439
Change in nonadmitted assets			(196,363)	(196,363)
Balance at December 31, 2012	\$ 3,000,000	\$ 8,208,430	\$ 7,016,983	\$18,225,413

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

This examination did not result in findings that produced adjustments to the financial statements for any year under review.

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

During the examination the following recommendations in the prior report of examination were found to have been implemented or the issue was no longer present:

- Prior Finding 1 – Formal Catastrophe Plan
- Prior Finding 2 – Social Security Offsets

There were no other recommendations in the prior report of examination that have not been implemented or findings where an issue was still present.

**CURRENT 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. This examination also includes a compliance review of applicable Alaska Statutes and Regulations.

An affidavit of the Examiner-in-Charge, David Crandall, CFE, CPA, CIA, Senior Manager 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, 2012.

Also participating in the examination from the Alaska Division of Insurance were David Phifer, AFE, Financial Examiner II and Sarah McNair-Gove, FCAS, MAAA, Actuary. Additionally, the following contract examiners from Risk and Regulatory Consulting, LLC assisted in the examination: Grace Kelly, and Adam Sarote, Computer Specialist.

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

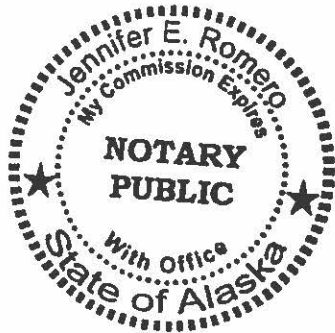
AFFIDAVIT

Anchorage, Alaska )  
May 23, 2014 )  
STATE OF ALASKA )  
THIRD JUDICIAL DISTRICT )

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2012, 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 23<sup>rd</sup> day of May, 2014.



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



Umialik Insurance Company  
As of December 31, 2012  
FE 13-02


AFFIDAVIT

Anchorage, Alaska )  
June 24, 2014 )  
STATE OF ALASKA )  
THIRD JUDICIAL DISTRICT )

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2012, 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 Crandall, CFE, CPA, CIA

Subscribed and sworn to before me this 24<sup>th</sup> day of June, 2014.

  
\_\_\_\_\_  
Notary Public for the State of New York  
My commission expires: 2017

**JANETT M. AMEERALLY**  
Notary Public - State of New York  
No. 01AM6202196  
Qualified in Queens County  
My Commission Expires March 9, 2013