

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
**The Merchants Property Insurance Company of Indiana** )  
**1715 North Meridian Street** )  
**Indianapolis, Indiana 46202-1498** )

Examination of: **The Merchants Property Insurance Company of Indiana**


**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Amy L. Beard, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of The Merchants Property Insurance Company of Indiana, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of The Merchants Property Insurance Company of Indiana shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

8/17/2021  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7018 1130 0001 7982 6246**

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Examination of: **The Merchants Property Insurance Company of Indiana**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of The Merchants Property Insurance Company of Indiana (hereinafter “Company”) for the time period January 1, 2015 through December 31, 2019.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on June 30, 2021.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on August 17, 2021 and was received by the Company on August 17, 2021.

On August 17, 2021, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company’s response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2019.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 17 day of  
August, 2021.

  
\_\_\_\_\_  
Amy L. Beard  
Insurance Commissioner

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

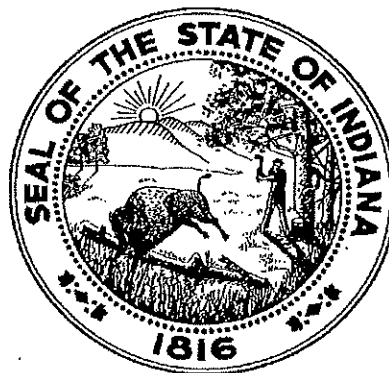
**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**

**OF**

**THE MERCHANTS PROPERTY INSURANCE COMPANY OF**  
**INDIANA**  
NAIC COMPANY CODE 11894

As of

December 31, 2019



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June 30, 2021

Honorable Amy L. Beard  
Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 4064, an examination has been made of the affairs and financial condition of:

**The Merchants Property Insurance Company of Indiana**  
**1715 North Meridian Street**  
**Indianapolis, Indiana 46202-1498**

an Indiana domestic property and casualty insurance company, hereinafter referred to as the "Company." The examination was conducted at the corporate offices of the Company located at 1715 North Meridian Street, Indianapolis, Indiana 46202-1498.

The Report of Examination, showing the financial status of the Company as of December 31, 2019, is hereby respectfully submitted.

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2014. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2015 through December 31, 2019, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Katz, Sapper & Miller, LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

In accordance with the 2019 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, Thomas Consulting performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code (IC). All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was incorporated in Indiana on September 6, 1917, as a stock property and casualty insurance company. The Company operated under the name The Merchants Fire Insurance Company of Indiana until November 1954, when the current name was adopted. In October 1994, a subsidiary company, the Merchants Property and Casualty Insurance Company, was merged into the Company.

## CAPITAL AND SURPLUS

Pursuant to the Articles of Incorporation, the common capital stock authorized for the Company is 10,000 shares of common stock with a par value of \$125 per share. As of December 31, 2019, the Company's total capital and surplus was \$83,557,774, which included: common capital stock of \$1,196,875, consisting of 9,575 issued and outstanding shares; and unassigned funds (surplus) of \$82,335,899. Approximately 90% of the issued and outstanding shares were owned by Merchants Holding Company, Inc. as of December 31, 2019.



### DIVIDENDS TO STOCKHOLDERS

The following exhibit represents the dividends paid by the Company to its shareholders during the examination period:

<u>Year</u>	<u>Ordinary Dividends</u>
2019	\$ 1,710,096
2018	1,583,705
2017	1,495,615
2016	1,359,651
2015	<u>1,309,861</u>
Totals	<u>\$ 7,458,928</u>

The Company notified the INDOI of all declared ordinary dividends to the shareholders during the examination period in accordance with the requirements of IC 27-1-23-1.5. No extraordinary dividends were declared or paid during the examination period.

### TERRITORY AND PLAN OF OPERATION

In 2006, the Company surrendered its Alabama Certificate of Authority and surrendered its Ohio Certificate of Authority in 2008. The Company continues to maintain its license in Indiana.

The Company discontinued writing new and renewal policies in Alabama, Indiana, and Ohio in 2004. Policies continued in force to expiration or termination. At December 31, 2019 there are no policies in force and no unearned premiums. Prior to the Company's adoption of a run-off, it wrote homeowners and commercial package and monoline property insurance policies through approximately 60 independent agents.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2019	\$99,237,842	\$15,680,068	\$83,557,774	\$ -	\$2,399,341
2018	84,493,569	12,722,430	71,771,139	-	2,268,856
2017	88,070,655	13,610,565	74,460,090	-	1,890,710
2016	76,412,072	18,203,675	58,208,397	-	1,759,927
2015	71,356,252	16,617,418	54,738,834	-	1,564,220

Note: Amounts are shown in whole dollars and rows may not total due to rounding.

The Company's liabilities are primarily comprised of a deferred tax liability that have resulted from unrealized capital gains on its investments. As a result of the Tax Cuts and Jobs Act passed by Congress in December, 2017, the corporate tax rate decreased from 34% to 21% effective in 2018. The Company had

used the higher rate to calculate the net deferred tax liability in the 2017 Annual Statement. The largest portion of this liability is the tax on the unrealized gain in the stock portfolio which was \$64.7 million on December 31, 2017. Subsequently, the Company determined that it should have used the lower rate to calculate this liability. The Company restated its 2017 balance sheet as shown above. This resulted in an \$8.4 million (12.7%) increase in surplus for 2017. The restatement had no impact on the income statement for 2017 or 2018. For 2019, surplus increased \$11.7 million (16.4%), mainly as a result of the strong stock market.

## MANAGEMENT AND CONTROL

### **Directors**

The Company's Bylaws specify that the number of directors which shall constitute the full Board of Directors (Board) shall be five (5). Board members are elected at the Annual Meeting of the Shareholders and shall continue to serve until such director's successor shall have been elected and qualified or until such director's death, disqualification, resignation, or removal. The following is a listing of persons serving as directors as of December 31, 2019:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Sara C. Lootens Indianapolis, Indiana	Chairman of the Board, President, and Treasurer The Merchants Property Insurance Company of Indiana
James B. Lootens Indianapolis, Indiana	Executive Secretary The Merchants Property Insurance Company of Indiana
Timothy K. Ryan Indianapolis, Indiana	Partner Hackman Hulett LLP
Scott B. Clark Naples, Florida	Senior Vice President Arthur J. Gallagher Company
Peter B. Calkins Gloucester, Massachusetts	Real Estate Consultant

### **Officers**

The Company's Bylaws specify that the officers of the Company shall be a President, Chairman of the Board, an Executive Vice President, an Executive Secretary, a Treasurer, and such Administrative Vice Presidents and Administrative Secretaries as shall be elected from time to time, and such other officers as may be appointed in accordance with its Bylaws. The following is a list of key officers and their respective titles as of December 31, 2019:

<u>Name</u>	<u>Title</u>
Sara C. Lootens	Chairman of the Board, President, Treasurer,
James B. Lootens	Executive Secretary
Shirley A. Weedling	Administrative Assistant Treasurer and Administrative Assistant Secretary

## **Corporate Governance**

The Company's Board appointed an Executive Committee and an Investment Committee. The following directors and officers were serving on the Board's two (2) committees as of December 31, 2019:

### **Executive Committee:**

Sara C. Lootens  
James B. Lootens  
Timothy K. Ryan

### **Investment Committee:**

Sara C. Lootens  
James B. Lootens  
Shirley A. Weedling

## **CONFLICT OF INTEREST**

The Company's conflict of interest disclosure process requires directors and officers to complete a conflict of interest disclosure statement on an annual basis. From a review of the directors and officers signed statements, there were no material conflicts of interest reported by any of the directors or officers for the period under examination.

## **OATH OF OFFICE**

IC 27-1-7-10(i) requires that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each director serving as of December 31, 2019, signed an Oath of Office statement when elected.

## **CORPORATE RECORDS**

### **Articles of Incorporation**

There were no amendments made to the Company's Articles of Incorporation during the period under examination.

### **Bylaws**

There were no amendments made to the Company's Bylaws during the period under examination.

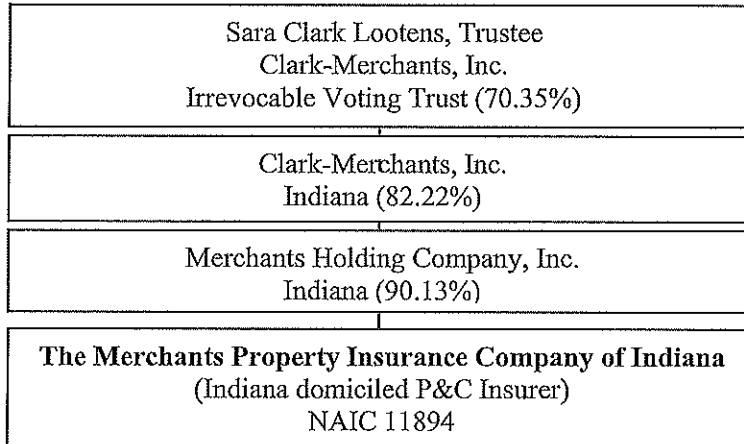
### **Minutes**

The Board and Shareholders Meeting minutes were reviewed for the period under examination through the fieldwork completion date and significant actions taken during each meeting were noted. For the period under examination, the Annual Meetings of the Shareholders were held in accordance with IC 27-1-7-7(b) and the Company's Bylaws.

## AFFILIATED COMPANIES

### Organizational Structure

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. An Insurance Holding Company System Registration Statement was filed with the INDOI for each year of the examination period. The following organizational chart depicts the Company's relationship within the holding company system:



### Affiliated Agreements

The following affiliated agreement was disclosed as part of the Form B Holding Company Registration Statement and was filed with, and not disapproved by, the INDOI in accordance with IC 27-1-23-4(b)(4).

#### Allocation of Federal Income Tax Agreement

Effective October 1, 2000, the Company entered into an Allocation of Federal Income Tax Agreement with Clark-Merchants, Inc. and Merchants Holding Company, Inc. to file a consolidated federal income tax return. Each member's liability is determined as if calculated on a separate return basis.

## FIDELITY BOND AND OTHER INSURANCE

The Company is protected by a fidelity bond. The fidelity bond was issued by CUMIS Insurance Society, Inc., a subsidiary of CUNA Mutual Group. The Company is insured for losses up to \$500,000 and an aggregate loss limit of \$500,000 with a \$10,000 deductible. The fidelity bond limit was adequate to meet the prescribed minimum coverage specified by the NAIC. Other various interests of the Company are protected by appropriate policies of insurance.

## STATUTORY AND SPECIAL DEPOSITS

The Company reported a statutory deposit comprised of a U.S. Treasury Bond for the State of Indiana for all policyholders with a book value of \$190,451 and a fair value of \$205,688 as of December 31, 2019.

## REINSURANCE

### **Reinsurance Assumed**

The Company did not assume any reinsurance during the period covered by this examination.

### **Reinsurance Ceded**

The Company did not cede any reinsurance during the period covered by this examination. The Company's primary reinsurance was terminated in 2004 but will continue in effect to cover the run-off of policy obligations.

## RESERVES

The Company was granted an exemption by the INDOI from including an actuarial opinion as part of the financial statements, as generally required under the provisions of IC 27-1-20-21.3.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2019, was agreed to the Annual Statement without exception.

Overall, Thomas Consulting determined the Company's accounting procedures, practices, and records were satisfactory.

**FINANCIAL EXHIBITS**

Comparative Exhibit – Statutory Statement of Assets  
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds  
Comparative Exhibit - Statutory Statement of Income  
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

**THE MERCHANTS PROPERTY INSURANCE COMPANY OF INDIANA**

**FINANCIAL STATEMENTS**

**Assets**

**As of December 31, 2019**

	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
Bonds	\$ 12,053,091	\$ -	\$ 12,053,091	\$ 12,179,794
Common stocks	86,315,429	-	86,315,429	71,517,442
Real estate: properties occupied by the company	202,807	-	202,807	204,985
Cash, cash equivalents and short-term investments	<u>495,550</u>	<u>-</u>	<u>495,550</u>	<u>418,241</u>
Subtotals, cash and invested assets	<u>\$ 99,066,877</u>	<u>\$ -</u>	<u>\$ 99,066,877</u>	<u>\$ 84,320,462</u>
Investment income due and accrued	\$ 170,965	\$ -	\$ 170,965	\$ 170,760
Current federal and foreign income tax recoverable and interest thereon	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,347</u>
<b>Totals</b>	<b><u>\$ 99,237,842</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 99,237,842</u></b>	<b><u>\$ 84,493,569</u></b>

**THE MERCHANTS PROPERTY INSURANCE COMPANY OF INDIANA**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

**As of December 31, 2019**

	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
Losses	\$ 3,000	\$ -	\$ 3,000	\$ 3,000
Loss adjustment expenses	1,666	-	1,666	1,666
Other expenses	4,719	-	4,719	3,433
Taxes, licenses and fees (excluding federal and foreign income taxes)	18,389	-	18,389	16,248
Current federal and foreign income taxes	4,362	-	4,362	-
Net deferred tax liability	<u>15,647,932</u>	-	<u>15,647,932</u>	<u>12,698,083</u>
Total liabilities	<u>\$ 15,680,068</u>	<u>\$ -</u>	<u>\$ 15,680,068</u>	<u>\$ 12,722,430</u>
Common capital stock	\$ 1,196,875	\$ -	\$ 1,196,875	\$ 1,196,875
Gross paid in and contributed surplus	25,000	-	25,000	25,000
Unassigned funds (surplus)	<u>82,335,899</u>	-	<u>82,335,899</u>	<u>70,549,264</u>
Surplus as regards policyholders	<u>\$ 83,557,774</u>	<u>\$ -</u>	<u>\$ 83,557,774</u>	<u>\$ 71,771,139</u>
<b>Totals</b>	<b><u>\$ 99,237,842</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 99,237,842</u></b>	<b><u>\$ 84,493,569</u></b>



THE MERCHANTS PROPERTY INSURANCE COMPANY OF INDIANA

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2019

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
<b>Underwriting Income</b>				
Premiums earned	\$ -	\$ -	\$ -	\$ -
DEDUCTIONS				
Losses incurred	(188)	-	(188)	(567)
Loss adjustment expenses incurred	6,621	-	6,621	12,542
Other underwriting expenses	96,059	-	96,059	120,922
Total underwriting deductions	\$ 102,492	\$ -	\$ 102,492	\$ 132,897
<b>Net underwriting gain (loss)</b>	\$ (102,492)	\$ -	\$ (102,492)	\$ (132,897)
<b>Investment income</b>				
Net investment income earned	2,159,939		2,159,939	2,006,220
Net realized capital gains	\$ 648,603	\$ -	\$ 648,603	\$ 693,186
<b>Net investment gain</b>	\$ 2,808,542	\$ -	\$ 2,808,542	\$ 2,699,406
Net income before all other federal and foreign income taxes	\$ 2,706,050	\$ -	\$ 2,706,050	\$ 2,566,509
Federal and foreign income taxes incurred	306,709	-	306,709	297,653
<b>Net income</b>	\$ 2,399,341	\$ -	\$ 2,399,341	\$ 2,268,856

**THE MERCHANTS PROPERTY INSURANCE COMPANY OF INDIANA**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus as regards policyholders, December 31, prior year	<u>\$ 71,771,139</u>	<u>\$ 74,460,090</u>	<u>\$ 58,208,397</u>	<u>\$ 54,738,834</u>	<u>\$ 57,078,189</u>
Net income	\$ 2,399,341	\$ 2,268,856	\$ 1,890,710	\$ 1,759,927	\$ 1,564,220
Change in net unrealized capital gains or (losses)	14,047,239	(4,267,165)	11,272,630	3,072,852	(2,597,301)
Change in net deferred income tax	(2,949,849)	893,063	4,583,968	(3,565)	3,587
Dividends to stockholders	(1,710,096)	(1,583,705)	(1,495,615)	(1,359,651)	(1,309,861)
<b>Change in surplus as regards policyholders for the year</b>	<b><u>\$ 11,786,635</u></b>	<b><u>\$ (2,688,951)</u></b>	<b><u>\$ 16,251,693</u></b>	<b><u>\$ 3,469,563</u></b>	<b><u>\$ (2,339,355)</u></b>
<b>Surplus as regards policyholders, December 31, current year</b>	<b><u>\$ 83,557,774</u></b>	<b><u>\$ 71,771,139</u></b>	<b><u>\$ 74,460,090</u></b>	<b><u>\$ 58,208,397</u></b>	<b><u>\$ 54,738,834</u></b>

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2019, based on the results of this examination.

## OTHER SIGNIFICANT FINDINGS

There were no significant findings noted as a result of this examination.

## SUBSEQUENT EVENTS

### **Pandemic Risk**

On March 11, 2020, the World Health Organization declared an outbreak of the coronavirus (COVID-19). The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. Due to the timing of the examination and fieldwork, the effects of COVID-19 on this entity are not fully addressed within this examination report.

There were no other events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this Report of Examination.

## MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, Thomas Consulting obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to Thomas Consulting.



**AFFIDAVIT**


This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., performed an examination of **The Merchants Property Insurance Company of Indiana** as of **December 31, 2019**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2019 NAIC *Financial Condition Examiners Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of **The Merchants Property Insurance Company of Indiana** as of **December 31, 2019**, as determined by the undersigned.

  
\_\_\_\_\_  
**D. Patrick Huth, CFE**  
**The Thomas Consulting Group, Inc.**

  
\_\_\_\_\_  
**Jerry Ehlers, CFE, CPA**  
**Indiana Department of Insurance**

DARCY L. SHAWVER  
NOTARY PUBLIC

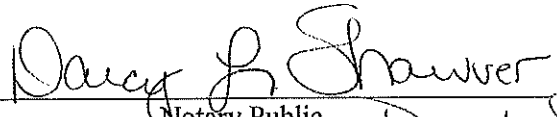
State of:  
County of:

**SEAL**  
MARION COUNTY, STATE OF INDIANA  
MY COMMISSION EXPIRES OCTOBER 4, 2025  
COMMISSION NO. 706063

On this 20<sup>th</sup> day of August 2021, before me personally appeared, D. Patrick Huth and Jerry Ehlers to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires Oct 4, 2025

  
\_\_\_\_\_  
Notary Public Darcy L. Shawver

