

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

IN THE MATTER OF: )  
 )  
Employers Protective Insurance Company )  
302 South Reed Road )  
Kokomo, Indiana 46901 )

Examination of **Employers Protective Insurance Company**

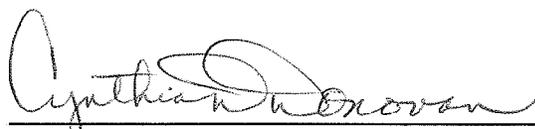
**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **Employers Protective Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on March 23, 2011, 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 **Employers Protective Insurance Company** 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.

5/26/2011  
Date

  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8424**

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IN THE MATTER OF: )  
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302 South Reed Road )  
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**Examination of Employers Protective Insurance  
Company**

### **FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the **Employers Protective Insurance Company** (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on February 27, 2011.

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 March 23, 2011 and was received by the Company on March 25, 2011.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **Employers Protective Insurance Company** as of December 31, 2009.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **Employers Protective Insurance Company** to comply with the 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, 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. 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 and Sealed this 26<sup>th</sup> day of  
May, 2011.



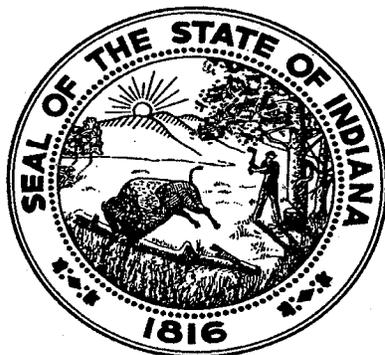
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

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

**EMPLOYERS PROTECTIVE INSURANCE COMPANY**  
NAIC Co. CODE 31020

As of

December 31, 2009



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# STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

# IDOI

**INDIANA DEPARTMENT OF INSURANCE**  
311 W. WASHINGTON STREET, SUITE 300  
INDIANAPOLIS, INDIANA 46204-2787  
TELEPHONE: (317) 232-2385  
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

February 28, 2011

Honorable Stephen W. Robertson  
Commissioner, Indiana Department of Insurance  
311 W. Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3649, an examination has been made of the affairs and financial condition of:

**Employers Protective Insurance Company**  
**302 South Reed Road**  
**Kokomo, Indiana 46901**

hereinafter referred to as the "Company," an Indiana domiciled, reciprocal, property and casualty insurer. The examination was conducted at the Company's corporate offices in Kokomo, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2009, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
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CONSUMER SERVICES  
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SECURITIES / COMPANY RECORDS  
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## SCOPE OF EXAMINATION

The Company was last examined by the Indiana Department of Insurance (IDOI) as of the period ending December 31, 2004. The present examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2005, through December 31, 2009, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

We conducted our examination pursuant to and in accordance with the 2010 NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company is a reciprocal, property and casualty insurer whose attorney-in-fact is the Exchange of America, Inc. (EAI). EAI is 100% owned by Indiana Public Employers Plan, Inc. (IPEP) which is a Not-for-Profit self-insured workers compensation pool for Indiana public entities. IPEP provides self-insurance plans primarily to cities and municipalities. The Company has been in run-off for several years and has not written business during the period of examination.

## CAPITAL AND SURPLUS

The Articles of Incorporation for EAI provide that EPIC has one thousand (1,000) authorized shares of common capital stock without par value. On May 22, 1998, IPEP acquired 100% of the common stock of EAI. During July of 2002, IPEP contributed \$1,035,000 of surplus to EPIC. As of December 31, 2009, all shares of EAI are still owned by IPEP.

## TERRITORY AND PLAN OF OPERATION

During the period of examination the Company was licensed to write business solely in the State of Indiana. The Company's operational, administrative and investment functions are performed in Kokomo, Indiana. However, the Company has remained inactive during the period of examination and has not written insurance premium.

## 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 and Surplus</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2009	\$496,675	\$0	\$496,675	\$0	(\$408,617)
2008	\$4,319,612	\$0	\$4,319,612	\$0	(\$141,877)
2007	\$4,578,321	\$116,833	\$4,461,488	\$0	(\$254,375)
2006	\$725,753	\$9,889	\$715,864	\$0	(\$202,856)
2005	\$1,158,492	\$239,772	\$918,720	\$0	(\$147,808)

Financial results fluctuated during the exam period with the issuance and subsequent repayment of a surplus note. Capital was injected into the Company with the intention of writing premium but the business did not materialize. When this plan did not materialize, the capital was returned.

Liabilities decreased as the Company agreed to stop paying items like director's fees until new business was written. Net income has decreased as the Company continues to have operating expenses without any income.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors consisting of no less than five (5) and no more than nine (9) members. The shareholder, at each annual meeting, elects the members of the Board of Directors. The Directors of EAI serve as Directors for the Company.

The following is a listing of persons serving as Directors, and their principal occupations, for EAI at December 31, 2009:

<u>Name and Address</u>	<u>Principal Occupation</u>
Timothy Downey Kokomo, Indiana	Insurance Executive Timothy R. Downey Insurance, Inc.
Jean Lushin Kokoma, Indiana	Center Township Trustee Howard County, Indiana
Frank Short Indianapolis, Indiana	Washington Township Trustee Marion County, Indiana
Robert Meeks LaGrange, Indiana	Indiana State Senator - Retired
Daniel Elsener Indianapolis, IN	President Marion University
John Whelan Indianapolis, IN	Executive OFK, Inc.
Anthony Heyworth Indianapolis, IN	Retired
John Dillon Indianapolis, IN	Executive Vice President City Securities Corporation

Officers

The Company's Bylaws state the officers of the Corporation shall consist of a President, one (1) or more Vice-Presidents (if any), a Secretary, a Treasurer, and such other officers as may be chosen by the Board of Directors at such time and in such manner and for such terms as the Board of Directors may prescribe. The officers shall be chosen annually by the Board of Directors. Any two (2) or more offices may be held by the same person. The following is a list of key officers and their respective titles as of December 31, 2009:

<u>Name</u>	<u>Office</u>
Frank Thomas Short	President
Jean Paul Lushin	Secretary and Treasurer

## CONFLICT OF INTEREST

Officers and Directors are required to review and sign Conflict of Interest statements. It was determined that officers and Directors listed in the management and control section of this report have reviewed and signed their statements as of year-end 2008. The Company has been directed to make this an annual process.

## OATH OF OFFICE

Indiana Code (IC) 27-1-7-10(i) stipulates 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. The Company has not had an Oath of Office signed and has been directed to make this an annual process.

## CORPORATE RECORDS

### Articles of Incorporation and Bylaws

There were no changes to the Articles of Incorporation during the period of examination.

There were two changes to the Bylaws during the examination period. The first change was authorized by the Board of Directors at the March 16, 2007, Board meeting and changed the minimum number of Board members to three (3) and imposed a maximum number of Directors as nine (9). The second change increased the minimum number of Directors from three (3) to five (5) and no more than nine (9). The second change was not approved in the Board meeting minutes. See the Other Significant Issues section of this report.

### Minutes

The Board of Directors and the Sole Shareholder meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted and the Company was found to materially operate in accordance with meeting minutes.

## AFFILIATED COMPANIES

### Organizational Structure

The following organizational chart, effective as of December 31, 2009, shows the upstream affiliates from the Company to the ultimate controlling entity.

	<u>NAIC Co.</u>	<u>Domiciliary</u>
	<u>Code</u>	<u>State</u>
Indiana Public Employers Plan, Inc.		IN
Exchange of America, Inc.		IN
<b>Employers Protective Insurance Company</b>	<b>31020</b>	<b>IN</b>

### Affiliated Agreements

Based on a review of the Form B, the Company did not have any affiliated agreements in place at year-end 2009.

### FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on insurance coverages maintained primarily by IPEP. IPEP has purchased employment theft coverage from Federal Insurance Company with policy limits of \$1 million and a \$50,000 deductible.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. Trial balances prepared from the Company's general ledgers for the years ended December 31, 2008, and 2009, were materially reconciled to the Annual Statement.

**Employers Protective Insurance Company**

**Financial Statements**

**Assets**

	As of December 31, 2009			December 31, Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
<b>Assets:</b>				
Cash, cash equivalents, and short-term investments	\$ 496,625	\$ -	\$ 496,625	\$ 4,319,216
Subtotals, cash and invested assets	\$ 496,625	\$ -	\$ 496,625	\$ 4,319,216
Investment income due and accrued	50	-	50	396
<b>Total assets</b>	<b>\$ 496,675</b>	<b>\$ -</b>	<b>\$ 496,675</b>	<b>\$4,319,612</b>

**Liabilities, Surplus and Other Funds**

	As of December 31, 2009			December 31, Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
<b>Liabilities:</b>				
	-	-	-	-
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Surplus notes	-	-	-	4,000,000
Gross paid in and contributed surplus	2,260,461	-	2,260,461	1,674,781
Unassigned funds (surplus)	(1,763,786)	-	(1,763,786)	(1,355,169)
<b>Surplus as regards policyholders</b>	<b>496,675</b>	<b>-</b>	<b>496,675</b>	<b>4,319,612</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 496,675</b>	<b>\$ -</b>	<b>\$ 496,675</b>	<b>\$ 4,319,612</b>

**Employers Protective Insurance Company**

Financial Statements

Statement of Income

	<b>As of December 31, 2009</b>			
	<u>Per</u> <u>Annual</u> <u>Statement</u>	<u>Exam</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>	<u>December</u> <u>31, Prior</u> <u>Year</u>
<b>UNDERWRITING INCOME</b>				
DEDUCTIONS:				
Other underwriting expenses incurred	\$ 156,423	\$ -	\$ 156,423	\$ 222,864
Total underwriting deductions	<u>\$ 156,423</u>	<u>\$ -</u>	<u>\$ 156,423</u>	<u>\$ 222,864</u>
Net underwriting gain (loss)	\$ (156,423)	\$ -	\$ (156,423)	\$ (222,864)
<b>INVESTMENT INCOME</b>				
Net investment income earned	<u>\$ (252,194)</u>	<u>\$ -</u>	<u>\$ (252,194)</u>	<u>\$ 80,987</u>
Net investment gain (loss)	(252,194)	-	(252,194)	80,987
<b>OTHER INCOME</b>				
Total other income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>(408,617)</u>	<u>-</u>	<u>(408,617)</u>	<u>(141,877)</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>(408,617)</u>	<u>-</u>	<u>(408,617)</u>	<u>(141,877)</u>
<b>Net income</b>	<u><u>\$ (408,617)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (408,617)</u></u>	<u><u>\$ (141,877)</u></u>
<b>CAPITAL AND SURPLUS ACCOUNT</b>				
Surplus as regards policyholders, December 31, prior year	<u>\$ 4,319,612</u>	<u>\$ -</u>	<u>\$ 4,319,612</u>	<u>\$ 4,461,489</u>
Net income	(408,617)	-	(408,617)	(141,877)
Change in surplus notes	(4,000,000)	-	(4,000,000)	-
Surplus adjustments:				
Paid in	<u>585,680</u>	<u>-</u>	<u>585,680</u>	<u>-</u>
<b>Change in surplus as regards policyholders for the year</b>	<u>(3,822,937)</u>	<u>-</u>	<u>(3,822,937)</u>	<u>(141,877)</u>
<b>Surplus as regards policyholders, as of December 31 current year</b>	<u><u>\$ 496,675</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 496,675</u></u>	<u><u>\$ 4,319,612</u></u>

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2009, based on the results of this examination.

### OTHER SIGNIFICANT ISSUES

#### Oath of Office

It is recommended, for all future periods, that the Company shall have Directors take and subscribe to an oath of office in compliance with IC 27-1-7-10(i).

#### Conflict of Interest Statements

It is recommended that officers and Directors of the Company update and sign conflict of interest Statements annually or at the time when they are elected or appointed.

#### Shareholder and Board of Directors Meeting

Meetings of the Shareholder and Board of Directors were not held in 2009. It is recommended that the Company conduct regular meetings of the Shareholder and the Board of Directors as required by the Bylaws of the Company.

#### Board of Directors Meeting Minutes

Per review of Board meeting minutes dated March 16, 2007, the Bylaws were amended to have no less than three (3) Directors on the Board. However, the most up-to-date Bylaws show that there are to be no less than five (5) Directors. There was no indication in subsequent minutes that another amendment was made. It is recommended that the Board of Directors approve all changes to the Bylaws in the future.

### SUBSEQUENT EVENTS

There were no 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, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

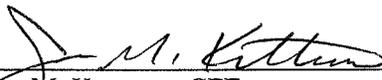
**AFFIDAVIT**

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 Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners," performed an examination of **Employers Protective Insurance Company**, as of **December 31, 2009**.

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

This examination was performed in accordance with those procedures required by the 2010 NAIC Financial Condition Examiner's 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 standards 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 **Employers Protective Insurance Company**, as of **December 31, 2009**, as determined by the undersigned.

  
\_\_\_\_\_  
James M. Kattman, CFE  
Noble Consulting Services, Inc.

State of:  
County of:

On this 9 day of March 2011, before me personally appeared, James M. Kattman, 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: 2/1/18 