

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

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

Examination of Merchants Property Insurance Company of Indiana

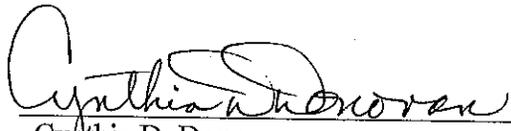
NOTICE OF ENTRY OF ORDER

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 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 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.

11/5/2015
Date


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0050 6181

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

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

Examination of 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, 2010 through December 31, 2014.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on August 31, 2015.

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 October 13, 2015 and was received by the Company on October 15, 2015.

On October 19, 2015, 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:

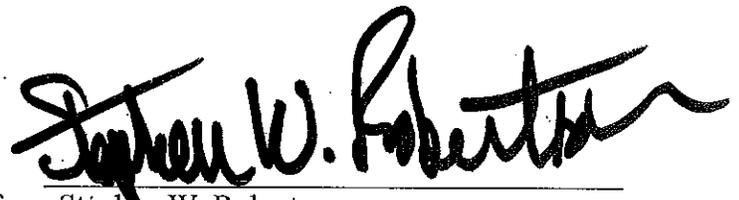
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

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, 2014.
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 and Sealed this 5th day of
November, 2015.



Stephen W. Robertson
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.

Richard W. ...

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

MERCHANTS PROPERTY INSURANCE COMPANY OF INDIANA
NAIC Co. CODE 11894

As of

December 31, 2014

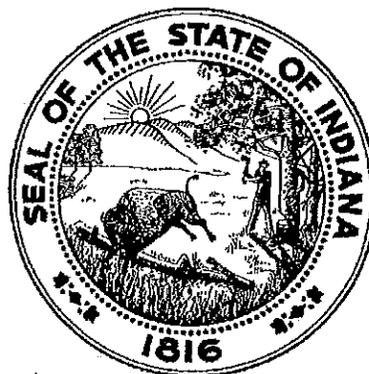


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STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

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

August 31, 2015

Honorable Stephen W. Robertson, 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 3870, an examination has been made of the affairs and financial condition of:

Merchants Property Insurance Company of Indiana
1715 North Meridian Street
Indianapolis, Indiana 46202

hereinafter referred to as the "Company", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Indianapolis, Indiana and the offices of Noble Consulting Services, Inc., in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2014, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES (317) 232-2413 COMPANY COMPLIANCE (317) 233-0697 CONSUMER SERVICES (317) 232-2395 EXAMINATIONS/FINANCIAL SERVICES (317) 232-2390 MEDICAL MALPRACTICE (317) 232-2402 SECURITIES/COMPANY RECORDS (317) 232-1991 STATE HEALTH INSURANCE PROGRAM 1-800-332-4674

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2009. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2010 through December 31, 2014, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted 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 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 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.

The Company is 90.1% owned by Merchants Holding Company, Inc., which is 82.2% owned by Clark-Merchants, Inc. Clark-Merchants, Inc. is a family owned holding company.

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.

CAPITAL AND SURPLUS

As of December 31, 2014, the Company had 10,000 shares of authorized common stock with a par value of \$125 per share, of which 9,575 shares were issued and outstanding. The Company reported common capital stock totaling \$1,196,875 and gross paid in and contributed surplus totaling \$25,000 as of December 31, 2014.

DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends during the examination period:

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2014	\$ 1,231,345	\$ 1,231,345	\$ -
2013	1,066,655	1,066,655	-
2012	997,715	997,715	-
2011	986,225	986,225	-
2010	984,310	984,310	-
Total	<u>\$ 5,266,250</u>	<u>\$ 5,266,250</u>	<u>\$ -</u>

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the net income of such insurer of the prior year. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to the parent during the examination period.

TERRITORY AND PLAN OF OPERATION

Effective July 31, 2004, the Company discontinued writing new business and renewing existing policies. Since October 2005, there have been no policies in force. The primary activity of the Company is the management of its investment portfolio.

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>Surplus and Other Funds</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2014	\$ 75,035,487	\$ 17,957,298	\$ 57,078,189	\$ -	\$ 1,706,054
2013	68,573,035	15,913,485	52,659,550	-	1,268,285
2012	57,551,644	12,246,086	45,305,558	-	1,313,331
2011	53,034,061	10,816,130	42,217,931	-	1,128,075
2010	50,597,219	10,020,784	40,576,435	-	1,062,482

Admitted assets increased \$24.4 million, or 48%, during the examination period. Assets primarily consist of high quality equities and fixed maturity investments, the value of which is largely determined by the characteristics of the underlying investment and general economic conditions.

Liabilities increased \$7.9 million, or 79%, which is primarily due to increased deferred tax liabilities associated with increased unrealized gains in the Company's investment portfolio. The Company has a buy and hold strategy which has resulted in significant unrealized gains.

Surplus increased \$16.5 million, or 41%, during the examination period due to increases in its investment portfolio and net income, offset somewhat by increases in related deferred tax liabilities and dividends paid.

Net income increased \$0.6 million, or 61%, during the examination period due to increased dividends and interest received from the investment portfolio.

MANAGEMENT AND CONTROL

Directors

The Company's Bylaws state that the Board of Directors (Board) shall consist of five (5) members. The shareholders at the annual meeting elect the members of the Board.

The following is a listing of persons serving as directors at December 31, 2014, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Peter Burnett Calkins North Andover, Massachusetts	Executive Vice President/Chief Operating Officer, Boston Division Forest City Enterprises
Scott Burnett Clark Dania Beach, Florida	Risk and Benefits Officer Miami-Dade County School System
William Brown Clark Indianapolis, Indiana	Chairman of the Board Merchants Property Insurance Company of Indiana
Sara Clark Lootens Indianapolis, Indiana	President and Treasurer Merchants Property Insurance Company of Indiana
Timothy Knoll Ryan Indianapolis, Indiana	Partner Hackman Hulett, LLP

Officers

The Company's Bylaws state the officers of the Company, who shall be elected by the Board, shall consist of a President, a Chairman of the Board, an Executive Secretary, a Treasurer, and such Administrative Vice Presidents and Administrative Secretaries as shall be elected from time to time, for a term lasting until the next annual meeting of the Board. The same person may hold any two (2) or more offices, except the offices of President and Secretary shall not be held by the same person.

The following is a list of key officers and their respective titles as of December 31, 2014:

<u>Name</u>	<u>Office</u>
William B. Clark	Chairman of the Board
Sara C. Lootens	President and Treasurer
James B. Lootens	Executive Secretary
Shirley A. Weedling	Assistant Treasurer
Joyce E. Nyberg	Assistant Secretary

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2014.

OATH OF OFFICE

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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2014.

CORPORATE RECORDS

Articles of Incorporation

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

Bylaws

There were no amendments made to the Bylaws during the examination period.

Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws state the annual meeting of shareholders is to be held each year on the third Tuesday of January. For each year under review, the annual meeting of shareholders was held within five (5) months following the close of each fiscal year and in accordance with the Company's Bylaws.

The Company's committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Executive Committee and Investment Committee.

AFFILIATED COMPANIES

Organizational Structure

The following organizational chart shows the Company's parent and subsidiaries as of December 31, 2014:

	<u>NAIC Co. Code</u>	<u>Domiciliary State</u>
Clark-Merchants, Inc.		IN
Merchants Holding Company, Inc.		IN
Merchants Property Insurance Company of Indiana	11894	IN

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

Allocation of Federal Income Tax Agreement

Effective October 1, 2000, the Company is party to 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 protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by St Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$250,000, with a \$10,000 deductible. The fidelity bond does not meet the prescribed minimum coverage specified by the NAIC. See the Other Significant Issues section of this Report of Examination.

The Company had additional types of coverage in-force at December 31, 2014, including, but not limited to, commercial property liability, commercial umbrella liability, directors and officers liability, and workers' compensation liability.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has no retirement plan, deferred compensation plan, or post-retirement benefit plan.

STATUTORY DEPOSIT

The Company reported the following statutory deposit at December 31, 2014:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$ 200,247	\$ 217,876
Total Deposits	<u>\$ 200,247</u>	<u>\$ 217,876</u>

REINSURANCE

The Company’s primary reinsurance was terminated as of December 31, 2004, but will continue in effect to cover the run-off of policies.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2013 and December 31, 2014, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2010 through December 31, 2014, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

MERCHANTS PROPERTY INSURANCE COMPANY OF INDIANA

Assets

As of December 31, 2014

	<u>Per Examination*</u>
Bonds	\$ 12,616,043
Stocks:	
Common stocks	61,697,102
Real estate:	
Properties occupied by the company	200,533
Cash, cash equivalents and short-term investments	<u>323,396</u>
Subtotals, cash and invested assets	74,837,074
Investment income due and accrued	182,919
Current federal and foreign income tax recoverable and interest thereon	<u>15,494</u>
Total	<u>\$ 75,035,487</u>

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

MERCHANTS PROPERTY INSURANCE COMPANY OF INDIANA
Liabilities, Surplus and Other Funds
As of December 31, 2014

	<u>Per Examination*</u>
Losses	\$ 3,000
Loss adjustment expenses	1,666
Other expenses	2,637
Taxes, licenses and fees	19,840
Net deferred tax liability	17,930,155
Total liabilities	<u>17,957,298</u>
Common capital stock	1,196,875
Gross paid in and contributed surplus	25,000
Unassigned funds (surplus)	55,856,314
Surplus as regards policyholders	<u>57,078,189</u>
Totals	<u>\$ 75,035,487</u>

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

MERCHANTS PROPERTY INSURANCE COMPANY OF INDIANA
Statement of Income
For the Year Ended December 31, 2014

	Per Examination*
UNDERWRITING INCOME	
DEDUCTIONS	
Losses incurred	\$ (568)
Loss adjustment expenses incurred	16,125
Other underwriting expenses incurred	164,730
Net underwriting gain (loss)	(180,287)
INVESTMENT INCOME	
Net investment income earned	1,512,565
Net realized capital gains (losses) less capital gains tax	633,882
Net investment gain (loss)	2,146,447
OTHER INCOME	
Aggregate write-ins for miscellaneous income	44,579
Total other income	44,579
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,010,739
Federal and foreign income taxes incurred	304,685
Net income	\$ 1,706,054

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

MERCHANTS PROPERTY INSURANCE COMPANY OF INDIANA
Capital and Surplus Account Reconciliation

	2014	2013	2012	2011	2010
Surplus as regards policyholders, December 31 prior year	\$ 52,659,550	\$ 45,305,558	\$ 42,217,931	\$ 40,576,435	\$ 38,112,742
Net income	1,706,054	1,268,285	1,313,331	1,128,075	1,062,482
Change in net unrealized capital gains or (losses) less capital gains tax	3,952,752	7,152,485	2,769,587	1,504,575	2,361,351
Change in net deferred income tax	(8,822)	(123)	2,424	(4,948)	24,137
Change in nonadmitted assets	-	-	-	19	33
Dividends to stockholders	(1,231,345)	(1,066,655)	(997,715)	(986,225)	(984,310)
Change in surplus as regards policyholders for the year	4,418,639	7,353,992	3,087,627	1,641,496	2,463,693
Surplus as regards policyholders, December 31 current year	<u>\$ 57,078,189</u>	<u>\$ 52,659,550</u>	<u>\$ 45,305,558</u>	<u>\$ 42,217,931</u>	<u>\$ 40,576,435</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2014, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

The fidelity bond in effect at the examination date did not meet the prescribed minimum coverage specified by the NAIC.

There were no further significant issues identified as of December 31, 2014, based on the results of this examination.

SUBSEQUENT EVENTS

Subsequent to the examination date and prior to the completion of fieldwork, the Company increased its fidelity bond coverage to meet the prescribed minimum coverage specified by the NAIC.

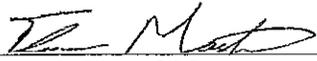
AFFIDAVIT

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 Merchants Property Insurance Company of Indiana, as of December 31, 2014.

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 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 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 Merchants Property Insurance Company of Indiana as of December 31, 2014, as determined by the undersigned.



Tom Masterson, CFE
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 30 day of September, 2015, before me personally appeared, Tom Masterson, 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  My Commission Expires July 04, 2019



Notary Public

