

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

IN THE MATTER OF:)
)
Meridian Security Insurance Company)
518 East Broad Street)
Columbus, OH 43215)

Examination of **Meridian Security Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Meridian Security Insurance Company** (hereinafter "Company") for the time period January 1, 2009 through December 31, 2013.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on October 3, 2014.

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 December 24, 2014 and was received by the Company on January 7, 2015.

On January 15, 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.

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

IN THE MATTER OF:)
)
Meridian Security Insurance Company)
518 East Broad Street)
Columbus, OH 43215)

Examination of **Meridian Security 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 **Meridian Security Insurance Company**, 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 **Meridian Security 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.

February 13, 2015
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0048 6815 02

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, 2013.
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 13th day of February, 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.

Handwritten signature

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

MERIDIAN SECURITY INSURANCE COMPANY

NAIC Co. CODE 23353
NAIC GROUP CODE 0175

As of

December 31, 2013



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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

October 3, 2014

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 3793, an examination has been made of the affairs and financial condition of:

Meridian Security Insurance Company
518 East Broad Street
Columbus, Ohio 43215

hereinafter referred to as the "Company", or "MSIC", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Columbus, Ohio.

The Report of Examination, reflecting the status of the Company as of December 31, 2013, 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
1-800-622-4464

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, 2008. The present risk-focused examination was conducted by Noble Consulting Services, Inc., (Noble) and covered the period from January 1, 2009 through December 31, 2013, 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.

The examination of the Ohio domestic insurance companies of the State Auto Group, (the Group) was called by the Ohio Department of Insurance (OHDOI) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The OHDOI served as the lead state on the coordinated examination, and the Arizona Department of Insurance, Connecticut Insurance Department, INDOI, Iowa Insurance Division, Minnesota Department of Commerce, and Wisconsin Office of the Commissioner of Insurance served as participants.

The OHDOI staff provided all actuarial services throughout the examination and conducted a review of the Company's loss reserves and loss adjustment expense reserves as of December 31, 2013.

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

HISTORY

The Company was incorporated on July 27, 1967, under the laws of the state of Indiana, as Meridian Standard Insurance Company, and commenced business on October 2, 1967. Effective January 13, 1984, the Company's name was changed to Meridian Security Insurance Company. On June 1, 2001, State Automobile Mutual Insurance Company (SAM) acquired Meridian Insurance Group, Inc. (MIGI) and became the Company's ultimate controlling entity.

On January 1, 2005, the Company transferred cash related to the liabilities assumed by SAM in conjunction with the termination of its Reinsurance Pooling Agreement and subsequent participation in the State Auto Pool. The Company only cedes premiums to SAM; therefore, the Company has no reserves.

The operations of the former companies within the Group, State Auto Florida Insurance Company and Beacon National Insurance Company, were merged with the Company at the close of business, December 31, 2012.

CAPITAL AND SURPLUS

MIGI owned 100% of the Company's issued and outstanding stock as of the examination date. There were 100,000 authorized shares of common stock with a par value of \$200 per share and 25,000 shares issued and outstanding throughout the examination period.

DIVIDENDS TO STOCKHOLDERS

The Company did not pay any dividends during the examination period.

TERRITORY AND PLAN OF OPERATION

The Group's distribution platform is represented by approximately 2,700 independent insurance agencies. Product writings include personal and commercial automobile, commercial multiple peril, fire, general liability, homeowners, and workers' compensation insurance. The Company is licensed in forty-three (43) states, with writings primarily in the Midwest and Eastern United States. Approximately 80% of the Company's direct business is derived from its automobile lines.

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>
2013	\$114,197,498	\$47,224,346	\$ 66,973,152	\$ -	\$ 2,172,273
2012	113,452,841	48,421,886	65,030,955	-	1,482,847
2011	80,016,439	46,001,604	34,014,835	-	1,714,394
2010	80,479,174	47,860,837	32,618,337	-	1,084,760
2009	72,809,430	41,541,078	31,268,352	-	652,572

Invested assets and surplus increased in 2012, primarily due to the State Auto Florida Insurance Company and the Beacon National Insurance Company merging with and into the Company.

Net income is primarily attributable to investment performance. The Company's premiums are ceded to SAM in accordance with the Reinsurance Pooling Agreement. Premiums earned during the examination period reflect the Company's 0.0% participation percentage in the Reinsurance Pooling Agreement.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of no less than five (5) and no more than fifteen (15) directors. At least one (1) of the directors must be a resident of Indiana. The shareholders, at each annual meeting, elect the members of the Board.

The following is a listing of persons serving as directors at December 31, 2013, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Alison Coolbrith Bloomfield, Connecticut	Director Heffernan Group
Michael Fiorile Columbus, Ohio	President & Chief Operating Officer Dispatch Printing Company
James Kunk Dublin, Ohio	Regional President Huntington National Bank
Paul Otte Westerville, Ohio	President Emeritus Franklin University
Robert Restrepo, Jr. Columbus, Ohio	Chairman, Chief Executive Officer, & President State Automobile Mutual Insurance Company
Marsha Ryan New Albany, Ohio	Former Chief Executive Officer & Administrator Ohio Bureau of Workers' Compensation
Edwin Simcox Fishers, Indiana	President Indiana Energy Association
Dwight Smith New Albany, Ohio	Chief Executive Officer Sophisticated Systems, Inc.
Roger Sugarman Columbus, Ohio	Director/Attorney Kegler, Brown, Hill, & Ritter

Officers

The Bylaws state the principal officers of the Company shall consist of a President, a Chairman of the Board, one (1) or more Vice Presidents, a Secretary, a Treasurer, and such other officers as the Board deems necessary. The same person may hold any two (2) or more offices, except the President and the Secretary may not be the same person. The Board may elect or authorize the appointment of other officers as the business of the Corporation may require.

The following is a list of key officers and their respective titles as of December 31, 2013:

Name	Office
Robert Restrepo, Jr.	Chairman, Chief Executive Officer, & President
James Yano	Secretary
Matthew Pollak	Treasurer
Joel Brown	Senior Vice President
Jessica Buss	Senior Vice President
Steven English	Senior Vice President
Clyde Fitch, Jr.	Senior Vice President
Stephen Hunckler	Senior Vice President
Cynthia Powell	Senior Vice President
Lyle Rhodebeck	Senior Vice President
Lorraine Siegworth	Senior Vice President
Douglas Allen	Vice President
David Dalton	Vice President
Steven Hazelbaker	Vice President
Ricky Holbein	Vice President
Scott Jones	Vice President
Karen Longshore	Vice President
Charles McShane, Jr.	Vice President
Matthew Mrozek	Vice President
Paul Nordman	Vice President
John Petrucci	Vice President
Timothy Reik	Vice President
Mary Reynolds	Vice President
Larry Willeford	Vice President

Corporate Governance

Corporate governance was evaluated through a review of the Company's corporate governance guidelines, Executive Officer and Board member interviews, Board general meeting minutes, committee minutes, and other examination documentation. The corporate governance review followed the format provided by Exhibit M of the Handbook.

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, 2013.

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 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, 2013.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no amendments made to the Articles of Incorporation or 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. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

The committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Compensation Committee, Independent Committee, Investment & Finance Committee, and Nominating & Governance Committee.

AFFILIATED COMPANIES

Organizational Structure

The following organizational chart shows the Company's parent and subsidiaries as of December 31, 2013:

	<u>NAIC Co. Code</u>	<u>Domiciliary State</u>
State Automobile Mutual Insurance Company	25135	OH
Meridian Insurance Group, Inc.		
Meridian Security Insurance Company	23353	IN
Meridian Citizens Mutual Insurance Company	10502	IN
State Auto Holdings, Inc.		
State Auto Insurance Company of Wisconsin	31755	WI
State Auto Financial Corporation		
State Auto Property & Casualty Insurance Company	25127	IA
Milbank Insurance Company	41653	IA
State Auto Insurance Company of Ohio	11017	OH
Patrons Mutual Insurance Company of Connecticut	14923	CT
Rockhill Holding Company		
RTW, Inc.		
American Compensation Insurance Company	45934	MN
Bloomington Compensation Insurance Company	12311	MN
Rockhill Insurance Company	28053	AZ
Plaza Insurance Company	30945	IA

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.

2005 Management and Operations Agreement

Under the 2005 Management and Operations Agreement, State Auto Property & Casualty Insurance Company (SA P&C) is responsible for performing all organizational, operational, and management functions for each of the companies participating in the agreement. All individuals providing services to any members of the Group are employees of SA P&C. Under the 2005 Management and Operations Agreement, SAM provides certain facilities, office equipment, and other tangible property to members of the Group as needed to conduct their respective businesses. The amount paid by the Company for services rendered by SAM and SA P&C during 2013 under the 2005 Management and Operations Agreement was \$23,062.

RTW Consulting Services Agreement

The Company entered into the RTW Consulting Services Agreement with RTW, Inc. for overall claims case management for the workers' compensation program effective November 1, 2009. The amount paid by the Company for services rendered by RTW, Inc. during 2013 under the RTW Consulting Services Agreement was \$0.

RED Underwriting Management Agreement

The Company and certain other affiliates entered into the RED Underwriting Management Agreement with Risk Evaluation and Design, LLC (RED) to act as an underwriting manager to underwrite insurance and reinsurance coverages for the alternative risk and program market. Also, RED provided various services to the Company and certain other affiliates in the placement of various lines of insurance, such as: assistance in marketing to prospective applicants, evaluating applications and in the investigation, inspection, and review of such applicants for selection and acceptance of risks, selection and appointment of brokers where desired, subject to final approval by the Company, and numerous other services as provided in the RED Underwriting Management Agreement. The amount paid by the Company for services rendered by RED during 2013 under the RED Underwriting Management Agreement was \$1,654.

Stateco Investment Management Agreement

Under the Stateco Investment Management Agreement, Stateco Financial Services, Inc. (Stateco) manages the investment portfolios of the Company and in return receives an investment management fee based on performance and the size of the portfolios. The amount paid by the Company for services rendered by Stateco during 2013 under the Stateco Investment Management Agreement was \$146,856.

Consolidated Tax Allocation Agreement

Under the Consolidated Tax Allocation Agreement, SAM files a consolidated federal income tax return for itself and participating subsidiaries, and the allocation of taxes is based upon the taxes that each participating company would have paid if separate tax returns had been filed.

Reinsurance Pooling Agreement

The Company participates in a Reinsurance Pooling Agreement with affiliated insurers. Participants cede to SAM all of their insurance business and assume from SAM an amount equal to their respective participation percentages set forth in the Reinsurance Pooling Agreement. All premiums, losses and loss expenses, and underwriting expenses are allocated among the participants on the basis of their respective participation percentages. As of December 31, 2013, the Company's participation percentage was 0.0%.

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 a single loss coverage limit of \$5,000,000, with a \$150,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2013, including but not limited to automobile; directors, officers, and employment practices; excess liability; general; professional; property; umbrella; and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has no direct retirement or insurance plans. All personnel are employees of affiliated companies.

STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2013:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Florida	\$ 227,499	\$ 228,753
Indiana	2,552,695	2,595,430
Nevada	200,378	203,274
New Hampshire	521,317	527,069
Oregon	260,000	251,511
All Other Special Deposits:		
Arizona	608,793	615,959
California	110,057	112,467
Delaware	109,570	101,845
Georgia	80,041	81,794
Massachusetts	150,284	152,456
Nevada	100,189	101,637
North Carolina	200,103	204,486
Oregon	114,666	112,141
Virginia	225,116	230,047
Total Deposits	<u>\$5,460,708</u>	<u>\$5,518,869</u>

REINSURANCE

Reinsurance Pool

Member companies of the Group participate in a Reinsurance Pooling Agreement. This agreement provides that all premiums, loss expenses, underwriting expenses, premiums in the course of collection and reinsurance recoverable on loss payments of the companies, and net of reinsurance with non-affiliates, be pooled and then allocated to each company based on percentages outlined in the agreement.

Following is a list of the companies within the Group and their respective pooling percentage:

Name of Pool Members	Percentage of Pool	Domiciliary State
State Auto Property & Casualty Insurance Company	51.0%	IA
State Automobile Mutual Insurance Company	34.0%	OH
Milbank Insurance Company	14.0%	IA
Meridian Citizens Mutual Insurance Company	0.5%	IN
Patrons Mutual Insurance Company of Connecticut	0.5%	CT
American Compensation Insurance Company	0.0%	MN
Bloomington Compensation Insurance Company	0.0%	MN
Meridian Security Insurance Company	0.0%	IN
Plaza Insurance Company	0.0%	IA
Rockhill Insurance Company	0.0%	AZ
State Auto Insurance Company of Ohio	0.0%	OH
State Auto Insurance Company of Wisconsin	0.0%	WI
Total	<u>100.0%</u>	

Ceded Reinsurance

Members of the Group follow the customary industry practice of reinsuring a portion of their exposures and paying to the reinsurers a portion of the premiums received. Insurance is ceded principally to reduce net liability on individual risks or for individual loss occurrences, including catastrophic losses.

Homeowners Quota Share

SAM entered into a 75% quota share reinsurance arrangement with three (3) reinsurers for the pooled homeowners business, effective December 31, 2011 and terminating on December 31, 2014. The quota share reinsurance arrangement is intended to deleverage the ratio of premiums written to surplus as well as to provide additional downside protection for homeowners catastrophe losses. Certain material adverse change clauses were incorporated into the agreement to ensure that the Group is implementing the necessary steps in order to become profitable in its homeowners line of business. There is also a cap on profitability to ensure that the reinsurers do not benefit excessively from the arrangement.

Other Reinsurance Arrangements

Each member of the Group is party to working reinsurance treaties for casualty, workers' compensation and property lines with several reinsurers arranged through reinsurance intermediaries. These agreements are described in more detail below. The Group has also secured other reinsurance to limit the net cost of large loss events for certain types of coverage. The Group also makes use of facultative reinsurance for unique risk situations. The Group also participates in state insurance pools and associations. In general, these pools and associations are state sponsored and/or operated, impose mandatory participation by insurers doing business in that state, and offer coverage for hard-to-place risks at premium rates established by the state sponsor or operator, thereby transferring risk of loss to the participating insurers in exchange for premiums which may not be commensurate with the risk assumed.

Property Catastrophe

Members of the Group maintain a property catastrophe excess of loss reinsurance agreement, covering property catastrophe related events affecting at least two (2) risks. As of June 1, 2013, this property catastrophe reinsurance agreement was revised to increase the treaty limit. Under this agreement, the Group retains the first \$55 million of catastrophe loss, each occurrence, with a 5% co-participation on the next \$265 million of covered loss, each occurrence. The reinsurers are responsible for 95% of the excess over \$55 million up to \$320 million of covered losses, each occurrence. Under this agreement, the Group is responsible for losses above \$320 million.

The Group also maintains a separate property catastrophe excess of loss reinsurance agreement covering Excess and Surplus property and Programs catastrophe related events affecting at least two (2) risks. Under this agreement, the Group retains the first \$15 million of catastrophe loss, each occurrence, and the reinsurers are responsible for 100% of the excess over \$15 million up to \$55 million of covered loss, each occurrence. The rates for this reinsurance are negotiated annually.

Property Per Risk

At June 1, 2013, the Group renewed the July 1, 2012 property per risk excess of loss reinsurance agreement, aligning its effective date with that of the property catastrophe treaty. This reinsurance agreement provides that the Group is responsible for the first \$1 million of each covered loss for Excess and Surplus property and Programs units, and the first \$3 million of each covered loss for other property business. The Group is also responsible for an additional \$2 million in aggregate retention per treaty year for losses exceeding \$3 million. The reinsurers are responsible for 100% of the loss in excess of \$1 million for the Excess and Surplus property and Programs units and \$3 million for other property business up to \$20 million of covered loss. The rates for this reinsurance are negotiated annually.

For the Excess and Surplus property unit policies, the Group also maintains a property Surplus share agreement for wind-only insurance products. This agreement provides for a proportional share of losses on all coastal wind policies written with limits greater than \$5 million and up to \$10 million of covered loss and all non-coastal wind policies written with limits greater than \$10 million and up to \$16 million of covered loss. The reinsurers' limit cannot exceed more than \$5 million on any one (1) risk.

Casualty and Workers' Compensation

As of July 1, 2013, the Group renewed its casualty excess of loss reinsurance agreement. Under this agreement, the Group is responsible for the first \$1 million of workers' compensation losses, each loss occurrence, subject to an additional \$1 million in annual aggregate retention, and \$2 million of losses that involve auto liability, other liability, and umbrella liability policies, subject to an additional \$2 million in annual aggregate retention. The reinsurance agreement provides coverage up to \$10 million. Excess and Surplus casualty and Programs units risks are not subject to this casualty excess of loss reinsurance agreement.

Also, certain unusual claim situations involving bodily injury liability, property damage, uninsured motorist and personal injury protection are covered by an arrangement that provides for \$30 million of coverage in excess of \$10 million retention for each loss occurrence. This reinsurance sits above the \$8 million excess of \$2 million arrangement. The rates for this reinsurance are negotiated annually. Policies underwritten by the Excess and Surplus casualty and Programs units are not subject to this casualty excess of loss reinsurance agreement.

In addition to the workers' compensation reinsurance described above, each company in the Group is party to a workers' compensation catastrophe reinsurance agreement that provides additional reinsurance coverage for workers' compensation losses involving multiple workers. Subject to \$10 million of retention, reinsurers are responsible for 100% of the excess over \$10 million up to \$30 million of covered loss. For loss amounts over \$30 million, the casualty excess of loss reinsurance agreement provides \$20 million coverage in excess of \$30 million. Workers' compensation catastrophe coverage is subject to a "Maximum Any One Life" limitation of \$10 million. This limitation means that losses associated with each worker may contribute no more than \$10 million to covered loss under these agreements. The rates for the workers' compensation catastrophe reinsurance agreement are negotiated annually.

For Excess and Surplus casualty and Programs unit risks, the Group has a combined casualty treaty whereby under Section A, it retains the first \$1 million of covered loss and the reinsurers are responsible for 90% of loss in excess of \$1 million up to \$10 million for all primary business and excess business written directly above a primary policy. Under Section B, as respects excess policies over another carrier's primary policy, the Group has a \$10 million proportional agreement where it retains \$1 million of each risk and the reinsurers are responsible for 90% of loss for each risk based on the percentage the \$1 million retained bears to the total policy limit. The rates for this reinsurance are negotiated annually.

Assumed Reinsurance

The Company has no assumed reinsurance that is financially significant.

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, 2012 and December 31, 2013, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2009 through December 31, 2013, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

MERIDIAN SECURITY INSURANCE COMPANY
Assets
As of December 31, 2013

	Per Examination*
Bonds	\$ 58,727,814
Stocks:	
Common stocks	5,207,255
Cash, cash equivalents and short-term investments	3,606,266
Other invested assets	501,793
Subtotals, cash and invested assets	68,043,128
Investment income due and accrued	522,322
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	347,599
Deferred premiums, agents' balances and installments booked but deferred and not yet due	266,271
Reinsurance:	
Amounts recoverable from reinsurers	33,485,628
Receivables from parent, subsidiaries and affiliates	11,532,550
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	114,197,498
Totals	\$ 114,197,498

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

MERIDIAN SECURITY INSURANCE COMPANY
 Liabilities, Surplus and Other Funds
 As of December 31, 2013

	Per Examination*
Reinsurance payable on paid losses and loss adjustment expenses	\$ 319,322
Current federal and foreign income taxes on realized capital gains (losses)	829,232
Net deferred tax liability	441,822
Ceded reinsurance premiums payable	45,356,280
Funds held by company under reinsurance treaties	4,100
Payable to parent, subsidiaries and affiliates	38,101
Aggregate write-ins for liabilities	235,489
Total liabilities excluding protected cell liabilities	47,224,346
Total liabilities	47,224,346
Common capital stock	5,000,000
Gross paid in and contributed surplus	25,609,636
Unassigned funds (surplus)	36,363,516
Surplus as regards policyholders	66,973,152
Totals	\$ 114,197,498

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

MERIDIAN SECURITY INSURANCE COMPANY
Statement of Income
For the Year Ended December 31, 2013

	Per Examination*
INVESTMENT INCOME	
Net investment income earned	\$ 1,974,699
Net realized capital gains (losses) less capital gains tax	681,198
Net investment gain (loss)	2,655,897
OTHER INCOME	
Aggregate write-ins for miscellaneous income	(521)
Total other income	(521)
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,655,376
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,655,376
Federal and foreign income taxes incurred	483,103
Net income	\$ 2,172,273

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

MERIDIAN SECURITY INSURANCE COMPANY
Capital and Surplus Account Reconciliation

	2013	2012*	2011	2010	2009
Surplus as regards policyholders, December 31 prior year	\$ 65,030,955	\$ 63,040,311	\$ 32,618,337	\$ 31,268,352	\$ 30,642,529
Net income	2,172,273	1,482,847	1,714,394	1,084,760	652,572
Change in net unrealized capital gains or (losses) less capital gains tax	(277,454)	504,879	(283,506)	430,848	(45,901)
Change in net deferred income tax	31,884	(3,358)	(34,390)	(234,531)	19,152
Change in nonadmitted assets	5,456	16,314	-	-	-
Change in provision for reinsurance	10,038	(10,038)	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	68,908	-
Change in surplus as regards policyholders for the year	1,942,197	1,990,644	1,396,498	1,349,985	625,823
Surplus as regards policyholders, December 31 current year	<u>\$ 66,973,152</u>	<u>\$ 65,030,955</u>	<u>\$ 34,014,835</u>	<u>\$ 32,618,337</u>	<u>\$ 31,268,352</u>

* The increase in surplus from 2011 to 2012 is due to the operations of the former companies within the Group, State Auto Florida Insurance Company and Beacon National Insurance Company, merging with MSIC at the close of business December 31, 2012.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2013, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

There were no significant issues identified as of December 31, 2013, based on the results of this examination.

SUBSEQUENT EVENTS

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

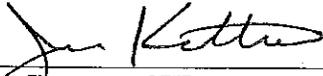
AFFIDAVIT

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 Meridian Security Insurance Company, as of December 31, 2013.

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 Meridian Security Insurance Company as of December 31, 2013, as determined by the undersigned.



James Kattman, CFE
Noble Consulting Services, Inc.

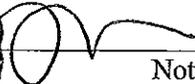
State of: Indiana
County of: Marion

On this 24 day of November, 2014, before me personally appeared, James 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




Notary Public

