

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

IN THE MATTER OF: )  
 )  
Statesman Insurance Company )  
275 Philips Boulevard )  
Trenton, NJ 08618 )

Examination of: **Statesman 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 Statesman 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 Statesman 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.

Date

5/27/2016



Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0059 5185**

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### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Statesman Insurance Company (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 March 21, 2016.

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 April 7, 2016 and was received by the Company on April 11, 2016.

On May 2, 2016, 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 27<sup>th</sup> day of  
May, 2016.

  
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.

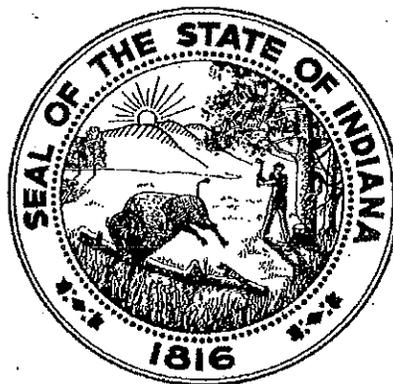
Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A handwritten signature in black ink, appearing to read "Michael J. ...". The signature is written in a cursive style and is located at the bottom of the page.

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**  
**STATESMAN INSURANCE COMPANY**  
NAIC COMPANY CODE 25208

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 103  
Indianapolis, Indiana 46204-2787  
Telephone: (317) 232-2385  
Fax: (317) 232-5251  
Stephen W. Robertson, Commissioner

March 21, 2016

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 3857, an examination has been made of the affairs and financial condition of:

**Statesman Insurance Company**  
**One Indianapolis Square STE 1800**  
**Indianapolis, Indiana 46204**

an Indiana domestic, stock, property and casualty insurance company hereinafter referred to as the Company. The examination was conducted at the main administrative offices of the Company located at 275 Phillips Boulevard, Trenton, New Jersey 08618.

The Report of Examination, showing 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 INSURAN 1-800-332-46

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2009. The present examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) 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 Company was granted an exemption by the INDOI from filing audited financial statements under Indiana Code (IC) 27-1-3.5-5.

In accordance with the 2014 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the examination to evaluate the financial condition of the Company and to identify prospective risks related to its operations. In addition, the Examiners 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. All accounts and activities of the Company were considered in accordance with the examination process.

## HISTORY

The Company was incorporated on April 3, 1956, and commenced business on November 16, 1956, under the laws of the State of Indiana. As of December 31, 1987, the Company was a wholly owned subsidiary of SICO, Inc. (SICO), a holding company controlled by Statesman Insurance Company Stock Ownership Plan. On October 25, 1990, SICO merged with SI Acquisition Company, Inc. (SIAC), an Indiana corporation. SIAC was a subsidiary of Northwestern National Holding Company, Inc. (NNHC), a Delaware corporation. On April 7, 1995, Vik Brothers Insurance, Inc., an Indiana corporation, obtained indirect control of the Company by purchasing 100% of the outstanding shares of NNHC. In 1997, Highlands Insurance Group, Inc. (Highlands) acquired the Company as part of the acquisition of the Vik Insurance Group, Inc. On December 7, 2001, the Company ceased writing new and renewal business and began a run-off of its existing business.

On February 25, 2002, the Texas Department of Insurance placed the five (5) Texas domestic companies within the Highlands Group, including Highlands Insurance Company (HIC), under supervision. On October 31, 2002, the Highlands and five (5) of its non-insurance company subsidiaries commenced Chapter 11 bankruptcy proceedings in the US Bankruptcy Court of the District of Delaware. Effective September 30 2002, four (4) of the HIC subsidiaries domiciled in Texas were merged with and into HIC. On November 6, 2003, the District Court of Travis County, Texas issued an Agreed Permanent Injunction and Order Appointing Receiver appointing the Texas Commissioner of Insurance as receiver of HIC. On January 30, 2004, Prime Tempus, Inc. was appointed as Special Deputy Receiver (SDR) for HIC. HIC is currently in run-off.

## CAPITAL AND SURPLUS

As of December 31, 2014, the Company had 1,600 authorized shares of common stock, of which 712 were issued and outstanding. The Company's common stock had a par value of \$3,250 per share. The Company also had 200,000 authorized shares of preferred stock, of which 15,465 were issued and outstanding. The Company's

preferred stock had a par value of \$50 per share. All issued and outstanding shares were owned by SICO which is a direct subsidiary of HIC in receivership. There were no dividends declared or paid during the period covered by this examination.

### TERRITORY AND PLAN OF OPERATION

Prior to going into run-off in 2001, the Company wrote non-standard automobile, commercial multiple peril, homeowners multiple peril, and workers compensation insurance. The Company marketed its products through independent agents. As of the date of this report, the Company holds active certificates of authority in Indiana and Pennsylvania.

### GROWTH OF THE COMPANY

Comparative financial data, as reported in the Company's filed financial statements for the period under examination, was as follows:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Net Premiums Earned</u>	<u>Net Income (Loss)</u>
2014	\$7,134,130	\$4,692,000	\$2,442,130	\$0	(\$23,007)
2013	7,157,138	4,734,000	2,423,138	0	(19,980)
2012	7,177,118	5,120,000	2,057,118	0	(8,603)
2011	7,179,580	5,850,647	1,328,933	0	(1,828)
2010	7,181,408	5,771,647	1,409,761	0	6,089

The Company did not report any premium income during the period covered by this examination. The Company's Capital and Surplus has improved over the examination period as claims have been settled and the corresponding Provision for Reinsurance liability has decreased.

### MANAGEMENT AND CONTROL

#### **Directors**

The following is the only person serving as a director as of December 31, 2014:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Albert J. Marino Princeton, New Jersey	Independent Contractor for Highlands

## Officers

The following officers were serving as of December 31, 2014:

<u>Name</u>	<u>Position</u>
Craig A. Koenig	President and Chief Executive Officer
Albert J. Marino	Treasurer and Chief Financial Officer

Craig A. Koenig is also the President of Prime Tempus, Inc., the SDR of HIC.

As a result of its limited operations, the INDOI granted the Company an exemption from certain shareholder, director, and officer requirements including the requirement of an Annual Shareholder Meeting (IC 27-1-7-7), board composition (IC 27-1-7-10(a)) and Indiana resident director (IC 27-1-7-11).

### CONFLICT OF INTEREST

In 2010 and 2012, the Company's director, officers, and other key employees were not required to complete a questionnaire or other form of declaration which discloses the occurrence of a conflict of interest transaction. Therefore, for those years, the Examination Team was not able to make a determination as to whether any transactions occurred whereby a director, officer, or other key employee of the Company had a direct or indirect interest in such transactions. (Please see the "Other Significant Findings" section of this report regarding this issue.)

### OATH OF OFFICE

Indiana Code 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. It was noted during the examination that the Company did not require its director to subscribe to an Oath of Office as required by IC 27-1-7-10(i). However, subsequent to the period covered by this examination, the Company's director subscribed to an Oath of Office on April 29, 2015.

### CORPORATE RECORDS

#### **Articles of Incorporation and Bylaws**

No amendments were made to the Company's Articles of Incorporation or Bylaws during the period covered by this examination.

#### **Minutes and Annual Meeting of the Board**

There were no board meetings held during any of the years covered by this examination. The INDOI granted the Company an exemption from holding an annual board meeting as specified under Article V, Section 3, of its Bylaws.

## AFFILIATED COMPANIES

### **Organizational Structure**

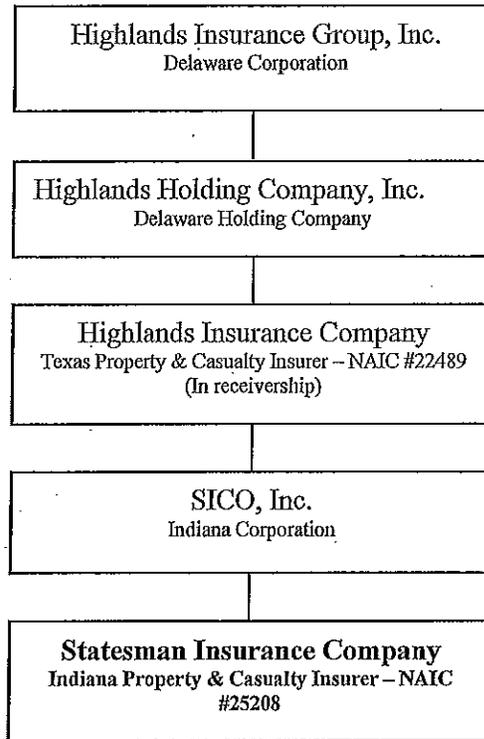
The Company is a member of an insurance holding company system in which Highlands is the ultimate controlling entity. The organizational chart, listed on page 6 of this report, shows the Company's relationship to other entities within Highlands. The INDOI granted the Company an exemption from filing an annual Holding Company Registration Statement as required by IC 27-1-23-3 for all years covered by this examination.

### **Affiliated Agreements**

As of December 31, 2014, the Company operated under a Group Services Agreement which was entered into with HIC and its affiliates effective January 1, 1996. This agreement was approved by the INDOI on December 22, 1995. Under the terms of this agreement, any affiliate may provide services to another affiliate. The expenses incurred under the terms of the agreement are allocated to the other affiliates based on the estimated costs of services performed. During 2014, the Company paid HIC \$26,776 for services provided under the Group Services Agreement.

Please refer to the Reinsurance section for information related to the intercompany Reinsurance Agreement.

## Organizational Chart



### FIDELITY BOND

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond. The Company is insured for losses up to \$2,000,000 with a \$150,000 deductible. The fidelity bond coverage limit was adequate to meet the prescribed minimum coverage specified by the NAIC.

### STATUTORY AND SPECIAL DEPOSITS

On December 15, 2014, the Company's special deposit with the State of Indiana matured and was subsequently replaced on January 15, 2015 with a US Treasury Note. As of December 31, 2015, the US Treasury Note had a par value of \$1,500,000 and a fair value of \$1,497,480.

### REINSURANCE

Effective January 1, 1994, the Company entered into a Reinsurance Agreement with Northwestern National Casualty Company (NNCC). Under the terms of the Reinsurance Agreement, the Company cedes all liabilities incurred under

or in connection with all contracts and policies issued after July 1, 1985 that were outstanding and in force as of January 1, 1994, and policies issued after December 31, 1993. As a result of the merger of NNCC with and into HIC that became effective May 1, 2003, HIC replaced NNCC as the reinsurer under the Reinsurance Agreement.

Under its Receivership Plan, HIC is not currently paying assumed liabilities, and is not permitted to pay assumed liabilities without the approval of the Texas Insurance Commissioner and/or the Court. As a result, the Company has recorded a Provision for Reinsurance liability to offset the amount of reinsurance ceded to HIC under the Reinsurance Agreement. As of December 31, 2014, the Provision for Reinsurance was \$4,692,000.

#### **RESERVES**

The Company did not report a reserve for losses and loss adjustment expenses as a result of the Reinsurance Agreement, whereby 100% of these liabilities are ceded to HIC. The Company was granted an exemption by the INDOI from including an actuarial opinion as part of the financial statements as required under the provisions of IC 27-1-20-21.3.

#### **ACCOUNTS AND RECORDS**

The Company's accounting procedures, practices, account records, and supporting information were reviewed and tested to the extent deemed necessary. The Financial Statement totals for Admitted Assets, Liabilities, Surplus, and Net Income for the year ended December 31, 2014, were agreed to the trial balance with no exceptions noted. In general, the Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

**FINANCIAL EXHIBITS**

Comparative Exhibit – Statutory Statement of Assets, 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.

STATESMAN INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets, Liabilities, Surplus, and Other Funds

	<u>As of December 31, 2014</u>			<u>December</u>
	<u>Per Annual</u>	<u>Examination</u>	<u>Per</u>	<u>31, Prior</u>
	<u>Statement</u>	<u>Adjustments</u>	<u>Examination</u>	<u>Year</u>
Bonds	\$ 15,425	\$ -	\$ 15,425	\$ 1,518,773
Cash, cash equivalents and short-term investments	5,843,719	-	5,843,719	4,115,791
Amounts recoverable from reinsurers	1,274,986	-	1,274,986	1,495,256
Receivables from parent, subsidiaries and affiliates	-	-	-	27,318
<b>Total assets</b>	<b>\$ 7,134,130</b>	<b>\$ -</b>	<b>\$ 7,134,130</b>	<b>\$ 7,157,138</b>
Provision for reinsurance	\$ 4,692,000	\$ -	\$ 4,692,000	\$ 4,734,000
<b>Total liabilities</b>	<b>\$ 4,692,000</b>	<b>\$ -</b>	<b>\$ 4,692,000</b>	<b>\$ 4,734,000</b>
Common capital stock	\$ 2,314,000	\$ -	\$ 2,314,000	\$ 2,314,000
Preferred capital stock	773,250	-	773,250	773,250
Gross paid in and contributed surplus	5,274,236	-	5,274,236	5,274,236
Unassigned funds (surplus)	(5,919,356)	-	(5,919,356)	(5,938,346)
<b>Surplus as regards policyholders</b>	<b>\$ 2,442,130</b>	<b>\$ -</b>	<b>\$ 2,442,130</b>	<b>\$ 2,423,138</b>
<b>Totals</b>	<b>\$ 7,134,130</b>	<b>\$ -</b>	<b>\$ 7,134,130</b>	<b>\$ 7,157,138</b>

**STATESMAN INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Statement of Income**

	<b>December 31, 2014</b>			<b>December 31,</b>
	<b>Per Annual</b>	<b>Exam</b>	<b>Per</b>	<b>Prior Year</b>
	<b>Statement</b>	<b>Adjustments</b>	<b>Examination</b>	
<b>Investment Income</b>				
Net investment income earned	\$ (23,007)	\$ -	\$ (23,007)	\$ (19,980)
Net investment gain (loss)	\$ (23,007)	\$ -	\$ (23,007)	\$ (19,980)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ (23,007)	\$ -	\$ (23,007)	\$ (19,980)
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ (23,007)	\$ -	\$ (23,007)	\$ (19,980)
<b>Net Income</b>	<b>\$ (23,007)</b>	<b>\$ -</b>	<b>\$ (23,007)</b>	<b>\$ (19,980)</b>

**STATESMAN INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Capital and Surplus Account</b>					
Surplus as regards policyholders, December 31 prior year	\$ 2,423,138	\$ 2,057,118	\$ 1,328,933	\$ 1,409,761	\$ 1,415,672
Net Income	(23,007)	(19,980)	(8,603)	(1,828)	6,089
Change in net deferred income tax	-	-	5,241	-	-
Change in provision for reinsurance	42,000	386,000	302,000	(79,000)	(12,000)
Aggregate write-ins for gains and losses to surplus	-	-	429,547	-	-
<b>Change in surplus as regards policyholders for the year</b>	<u>\$ 18,993</u>	<u>\$ 366,020</u>	<u>\$ 728,185</u>	<u>\$ (80,828)</u>	<u>\$ (5,911)</u>
<b>Surplus as regards policyholders, December 31 current year</b>	<u>\$ 2,442,130</u>	<u>\$ 2,423,138</u>	<u>\$ 2,057,118</u>	<u>\$ 1,328,933</u>	<u>\$ 1,409,761</u>

## COMMENTS ON THE FINANCIAL STATEMENTS

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

## OTHER SIGNIFICANT FINDINGS

### Conflict of Interest Disclosures

In 2010 and 2012, the Company's director and officers were not required to complete a questionnaire or other form of declaration which discloses the occurrence of a conflict of interest transaction. Therefore, for those years, the Examination Team was not able to make a determination as to whether any transactions occurred whereby a director or officer of the Company had a direct or indirect interest in such transaction (see page 4).

**It is recommended that the Company continue to require its directors and officers to sign a Conflict of Interest questionnaire on an annual basis.**

## SUBSEQUENT EVENTS

As of the date of this Report of Examination, the Company has filed an application with the Texas Department of Insurance to change its state of domicile from Indiana to Texas.

## MANAGEMENT REPRESENTATION

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

**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 **Statesman Insurance Company**, as of **December 31, 2014**.

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 2014 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 the **Statesman Insurance Company**, as of **December 31, 2014**, as determined by the undersigned.

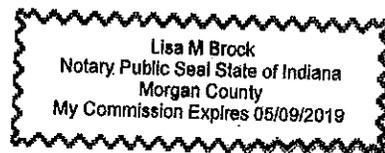
  
\_\_\_\_\_  
**D. Patrick Huth, CFE**  
**The Thomas Consulting Group, Inc.**

State of:  
County of:

On this 7<sup>th</sup> day of April, 2016, before me personally appeared, D. Patrick Huth, 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 5/9/2019 Lisa M. Brock  
Notary Public



1. The first part of the document is a list of names and addresses of the members of the committee. The names are listed in alphabetical order, and the addresses are listed below each name. The list includes names such as Mr. J. H. Smith, Mr. W. B. Jones, and Mr. C. D. Brown, among others.