

CERTIFICATION

APR 26 2016

FILED

April 26, 2016

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify
that the attached is a full and correct copy of the

Financial Examination Report of
ACCEPTANCE INDEMNITY INSURANCE COMPANY

as of

December 31, 2014

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Ramage
DIRECTOR OF INSURANCE

STATE OF NEBRASKA

DEPARTMENT OF INSURANCE

Bruce Ramage
Director



Pete Ricketts
Governor

April 13, 2016

Kevin Hamm
Acceptance Indemnity Insurance Company
1314 Douglas Street, Suite 600
Omaha, NE 68102

RE: Notification of Exam Report Adoption – Acceptance Indemnity Insurance Company as of December 31, 2014

Dear Kevin,

Attached is the adopted Report of Examination. This report was adopted on April 13, 2016. You may, within ten days from the adoption date, make a written request to the Director for a formal hearing on the report. Upon expiration of this period, if a hearing has not been requested, the report will be accepted as the final report and filed for public inspection on April 23, 2016.

If you would like to waive your right to a hearing, please advise us and the report will be placed on official file upon receipt of your letter.

Please indicate via reply to this email that you have received this letter and the report.

Sincerely,

A handwritten signature in blue ink, appearing to read "Justin C. Schrader".

Justin C. Schrader, CFE
Chief Financial Examiner

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

ACCEPTANCE INDEMNITY INSURANCE COMPANY

dated as of December 31, 2014, verified under oath by the examiner-in-charge on March 23, 2015, and received by the company on April 13, 2016, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 13 day of April, 2016.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

ACCEPTANCE INDEMNITY INSURANCE COMPANY

as of

December 31, 2014



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Raleigh, North Carolina
February 11, 2016

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

ACCEPTANCE INDEMNITY INSURANCE COMPANY

which has its Statutory Home Office located at

**1314 Douglas Street, Suite 1600
Omaha, NE 68102**

with its Principal Executive Office located at

**702 Oberlin Road
Raleigh, North Carolina 27605**

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2012 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2014, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, North Carolina, Texas, Florida, and Illinois participated in this coordinated examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examination(s) of the Company's affiliates:

Acceptance Casualty Insurance Company (ACIC)
Wilshire Insurance Company (WIC)
Occidental Fire & Casualty Company of North Carolina (OFC)
TransGuard Insurance Company of America (TransGuard)
Harco National Insurance Company (Harco)
Service Insurance Company (SIC)
Commercial Alliance Insurance Company (CAIC)

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the North Carolina Department of Insurance as the coordinating state. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholders, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Ernst & Young, LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2014. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Minnesota on September 19, 1988, and was licensed to commence the business of insurance as a capital stock casualty company on that same date. Authorized capitalization of 100,000 shares of common stock were issued to Acceptance Insurance Company (AIC), a Nebraska property and casualty insurer.

Effective June 1, 1991, the Company transferred its State of Domicile to Nebraska. Simultaneous with the re-domestication to Nebraska, the Company became a foreign insurer admitted to transact insurance in the State of Minnesota and continued to be a foreign insurer in all other states in which it was authorized to write business.

On August 9, 2001, the McM Corporation (McM), a North Carolina insurance holding company, acquired the Company. Controlling interest in McM was acquired by IAT Reinsurance Company, Ltd. (IAT) domiciled in Bermuda in 2002. Peter R. Kellogg, an individual, owns controlling interest in IAT.

In accordance with the provisions of the Company's Restated Articles of Incorporation, its period of duration shall be perpetual. Under the provisions of its current charter and in conformity with Nebraska Statutes, the Company is authorized to write the kinds of insurance prescribed by Section 44-201 Subsection (4), (5), (7), (8), (9), (10), (11), (12), (13), (14), (16), (18) and (20) of the Nebraska Insurance Code.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the 'Ultimate Controlling Person', as reported in the 2014 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Peter R. Kellogg
IAT Reinsurance Company, Ltd.
Harco National Insurance Company
CAIC Holding Company, Inc.
Safe Insurance Management Group, Inc.
Commercial Alliance Insurance Company

Housemex Servicios

McM Corporation
Occidental Fire & Casualty Co. of North Carolina
Wilshire Insurance Company
Acceptance Indemnity Insurance Company
Acceptance Casualty Insurance Company
Equity Holdings, Inc.
Equity American General Agency, Inc.
Equity American Financial Services, Inc.
Bay Area Insurance Services, Inc. (94%)
Service Insurance Company
Bay Area Claims Service, Inc.
Pillar Insurance Agency, Inc.
AG Logic Holdings, LLC (51%)
Agrilogic Insurance Services, LLC
TransGuard Insurance Company of America, Inc.
ClaimGuard, Inc.
Vanguard Insurance Agency, Inc.
TransGuard General Agency, Inc.
National Association of Independent Truckers, LLC

Shareholder

The Company's Amended and Restated Articles of Incorporation state that, "the aggregate number of shares which the corporation shall have authority to issue shall be 500,000 shares of common stock of the par value of Twenty Dollars (\$20.00) per share." At the date of this examination, 250,000 shares were issued and outstanding to McM. No dividends were paid to the parent during the examination period.

The By-Laws state that, "the annual meeting of the shareholders shall be held on the date and time, and at the place, as determined by resolution of the Board of Directors for the purpose of electing Directors and for the transaction of such other business as may come before the meeting."

Board of Directors

The Company's Amended and Restated By-Laws state that, "the business and affairs of the corporation shall be managed by its Board of Directors...the number...shall not be less than seven (7) nor more than thirteen (13)...Each Director shall hold office until the next annual meeting of

shareholders and until his successor shall have been elected and qualified. At least one Director must be a resident of the State of Nebraska."

The following persons were serving as Directors at December 31, 2014:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Kenneth C. Coon Omaha, Nebraska	Senior Vice President of AIIC
Marguerite R. Gorman Garden City, New York	Vice President of IAT
Peter R. Kellogg Short Hills, New Jersey	Owner, President of IAT
Edward A. Kerbs Rumson, New Jersey	Vice President of IAT
George E. King Cary, North Carolina	Director of MCM
James R. Miller Hawthorn Woods, Illinois	Senior Vice President of Harco
Stephen L. Stephano Raleigh, North Carolina	President and Chief Executive Officer of MCM

Directors do not receive compensation as Board members.

Officers

The Company's Amended and Restated By-Laws state that, "the Officers of the corporation shall include the Chairman of the Board, the President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), the Treasurer and the Secretary. Any two or more offices may be held by the same person. Such Officers shall be elected from time to time by the Board, each to hold office until the meeting of the Board following the next annual meeting of the shareholders, or until his successor shall have been duly elected, and shall have qualified."

The following is a partial listing of the Senior Officers elected and serving the Company at December 31, 2014:

<u>Name and Residence</u>	<u>Office</u>
Stephen L. Stephano	President and Chief Executive Officer
Michael D. Blinson	Senior Vice President and Corporate Secretary
Kenneth C. Coon	Senior Vice President, Omaha Business Unit
Eugene J. Keating, Jr.	Senior Vice President, Marketing and Underwriting
David G. Pirrung	Senior Vice President and Treasurer
Susan L. Altrock	Vice President
Mary J. Anderson	Vice President
Lynn G. Ford	Vice President, Risk Mitigation
Kevin J. Hamm	Vice President and Chief Financial Officer
Susan K. Johnson	Vice President
Brenda M. Lewis	Vice President, Human Resources
Georgia M. Mace	Vice President, Omaha Administration
Vincent B. Oglesby	Vice President
James H. Stilen	Vice President, Claims
Paul T. Webb	Vice President, Information Technology

Committees

The Company's Amended and Restated By-Laws state that, "the Board of Directors may appoint from its number an Executive Committee, which during the intervals between the meetings of the Board of Directors, shall process and exercise all the powers of the Board of Directors in the management and direction of all the business and affairs of the corporation (except the power to alter or amend the By-Laws or to fill vacancies on the Board or on the Executive Committee) in such manner as the Executive Committee shall deem best for the interests of the corporation, in all cases in which specific directions shall not have been given by the Board of Directors. In addition to such general powers, but subject to the limitation above and hereafter expressed, the Executive Committee shall have special and general charge of all financial affairs of the corporation including investments, banking relations, and fiscal policies."

The following persons were serving on the Executive Committee at December 31, 2014:

Kenneth C. Coon
Edward A. Kerbs
Stephen L. Stephano

Peter R. Kellogg
James R. Miller

TRANSACTIONS WITH AFFILIATES

Group Master Hardware & Software Cost Sharing Agreement

This agreement, effective March 10, 2008, is between the Company and its parent McM, as well as its affiliates, OFC, Wilshire, ACIC, Harco, TransGuard, and IAT. The Companies agreed to combine the efforts of the group by coordinating the purchases and development of all hardware and software for all of the Companies. All system hardware and software purchases, and the internal development costs of all systems, are funded by McM C for all of the Companies.

Consolidated Master Cost Sharing Agreement

This agreement, effective March 2008, is between the Company and its affiliates, OFC, Wilshire, ACIC, Harco, and TransGuard. Since the cost structure of these companies is virtually the same, with the exception of certain business that is produced directly by Harco, the costs of these companies are effectively combined and allocated to each company based on net premiums written, with the exception of a differential for the aforementioned business written directly by Harco. Management believes that this methodology provides the most equitable allocation of costs among these companies.

Federal Income Tax Allocation Agreement

The Company's taxable income was consolidated with McM, the Company's parent, and its subsidiaries through April 30, 2002, in accordance with the tax sharing agreement in effect in 2001 and prior. The Company's taxable income earned subsequent to May 1, 2002, is consolidated with IAT, the parent of McM, and its subsidiaries in accordance with the current tax sharing agreement.

Taxes are allocated among the consolidated companies based upon their separate return calculation with current credit for any operating losses or other items utilized in the consolidated return.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business of insurance in the following states:

Alaska	California	Florida
Hawaii	Kansas	Minnesota
Montana	Nebraska	Nevada
New Jersey	Oklahoma	Oregon
Pennsylvania	South Carolina	South Dakota
Utah	Washington	

The Company is also approved or not disapproved for surplus lines in the District of Columbia, Puerto Rico, and the following states:

Alabama	Arizona	Arkansas
Colorado	Connecticut	Delaware
Georgia	Idaho	Illinois
Indiana	Iowa	Kentucky
Maine	Maryland	Massachusetts
Michigan	Mississippi	Missouri
New Hampshire	New Mexico	New York
North Carolina	North Dakota	Ohio
Rhode Island	Tennessee	Texas
Vermont	Virginia	West Virginia
Wisconsin	Wyoming	

The Company underwrites specialty classes of business on an admitted as well as a surplus lines basis. Business is produced exclusively through general agents. Each agent has limited underwriting authority with the home office providing final review and approval. Policies are issued on standard forms with limiting endorsements in accordance with the type of specialty coverage being written.

The specialty lines of property and casualty business written are in six distinct lines of business. A description of each program follows:

1. Commercial Automobile program providing commercial automobile liability and physical damage coverage for local and intermediate trucking including contractor and service risks, wreckers, dump trucks, delivery vehicles, non-trucking liability, miscellaneous local public auto including shuttles, vans, limousines, and social services and school buses.
2. Garage Program unit which targets used car dealers and repair shops for private passenger automobiles.
3. Umbrella/Excess unit providing excess and umbrella coverage up to \$5,000,000 in limits over the first layer of primary coverage. Umbrella coverage is written for small and medium sized businesses, and principal exposures covered are retail and wholesale stores and artisan contractors.
4. Preferred General Agency provides commercial multiple peril, general liability, property and automobile coverages to businesses in Western states.
5. Excess and Surplus Lines unit provides specialty, property and casualty lines including liquor liability for businesses that do not qualify for standard lines treatment.
6. Unique programs for specialized underwriting niches such as a liability program for Nebraska farmers.

Business is produced through independent agents that receive supervision from a Senior Vice President who is assisted by other supervisory personnel in the Home Office. Each agent solicits business from local brokers who are in direct contact with the insurance buying public.

REINSURANCE

Assumed

Effective May 1, 2001, AIC sold its Commercial Automobile, Garage, Liquor Liability, Umbrella and Excess Liability, Nebraska Farmers Mutual Reinsurance Association, Preferred General Agency, Statewide Insurance Corporation General Agency Business, Coin Operated Laundry Program, and Federal Program business to the Company and its subsidiary, ACIC. As part of the agreement, AIC ceded the unearned premium on the business sold under a 100% quota share agreement whereby the Company assumed 50% and ACIC assumed 50%. Additionally, AIC

allowed the Company and ACIC to utilize its paper for a transitional period during which AIC ceded 50% to the Company and 50% to ACIC under a 100% quota share agreement.

The Company also assumed business from former affiliate Redland under a 100% quota share agreement on the programs purchased from AIC. Redland was fronting for the Company and ACIC on the programs purchased in selected jurisdictions where the other former affiliates were not licensed. The Company and ACIC each assumed 50% of this business.

Ceded

Casualty

The following per occurrence casualty covers were in effect:

- First Casualty Excess of Loss (\$700,000 excess of \$300,000)
- Second Casualty Excess of Loss (\$1,000,000 excess of \$1,000,000)
- Public Auto Liability Excess of Loss (\$3,500,000 excess of \$1,500,000)
- Specialty Casualty Excess of Loss (\$500,000 excess of \$500,000)
- Umbrella and Excess Liability Quota Share (up to \$5,000,000)

In addition, the Company had the following Casualty Clash Excess of Loss coverages:

- First through Fourth Casualty Clash Excess of Loss (\$48,000,000 excess of \$2,000,000 for ECO/XPL; \$9,000,000 excess of \$1,000,000 for multiple insureds/coverages in one occurrence)

The Company also has an Employment Practices Liability Quota Share cover in place as of December 31, 2014.

Details on the various casualty covers mentioned above covering business currently written by the Omaha Business Unit of the McM Companies, of which the Company is the principal insurer, are summarized below.

Effective January 1, 2008, the Company entered into a First Casualty Excess of Loss treaty, with IAT to reinsure business classified by the Company as commercial auto/trucking risks. This coverage has annually been put into effect each January 1 and provides per occurrence coverage of

\$700,000 excess of \$300,000 split into two separate layers (1) \$200,000 excess of \$300,000 placed at 50% and (2) \$500,000 excess of \$500,000 placed at 100%.

Effective August 1, 2012 to August 1, 2013, a Second Casualty Excess of Loss treaty also reinsuring commercial auto/trucking risks provides coverage for \$1,000,000 each policy, each coverage in excess of \$1,000,000 each policy, each coverage. This coverage has been renewed annually and effective with the August 1, 2013 renewal, this treaty will remain in effect until cancelled. This treaty originally inceptioned July 15, 2010, when the Company began again to write trucking policies with direct limits in excess of \$1,000,000. This treaty is 100% placed.

A Public Auto Liability Excess of Loss treaty covers public auto (buses, limousines, etc.) business for \$3,500,000 each loss, each policy in excess of \$1,500,000 each loss, each policy. The Company began writing this business in 2010. This treaty renews annually at each January 1 and is 100% placed. The January 1, 2014 treaty year was extended to May 1, 2015, at which time it was cancelled.

A Specialty Casualty Excess of Loss treaty reinsures casualty lines of business not covered by the First Casualty Excess of Loss treaty. This cover is effective January 1, and provides per occurrence coverage of \$500,000 excess of \$500,000. The coverage provided under this treaty covers all commercial auto business other than truck and is the treaty predominately used for casualty business written by the Omaha Business Unit. The coverage also provides for loss adjustment expense up to \$750,000 each loss expense, each and every insured, in excess of \$250,000 retention, each loss expense, each and every insured for loss occurrences with no payment of indemnity. The Company's retention under this treaty was increased from \$300,000 to \$500,000 effective January 1, 2011. This treaty is 100% placed.

The Company's umbrella and excess liability business is reinsured via a 100% Umbrella and Excess Liability Quota Share treaty which covers the first \$5,000,000 ultimate net loss, each insured, each occurrence. This treaty is 90% placed. The Company generally writes umbrella and excess policies with limits up to \$5,000,000. Should any such policy be written with limits over \$5,000,000, the excess is reinsured on a facultative basis. Effective July 1, 2011, a former Umbrella and Excess Liability Excess of Loss treaty with limits of \$4,000,000 excess of \$1,000,000 retention was discontinued and the cover on the Umbrella Quota Share was increased to \$5,000,000 to reinsure the entire direct policy exposure. This treaty renews each July 1.

The Company's group Casualty Clash Excess of Loss treaties provide cover for 100% of both extra contractual obligations and/or excess of original policy limits exposures as well as a true clash (multiple insureds/coverages in one event) cover. The extra-contractual obligations and excess policy limits (ECO/XPL) coverage is provided in four layers: (1) \$3,000,000 excess of \$2,000,000, (2) \$5,000,000 excess of \$5,000,000, (3) \$10,000,000 excess of \$10,000,000 and (4) \$30,000,000 excess of \$20,000,000. The fourth layer was added effective January 1, 2012. The true clash coverage layers provide cover of \$4,000,000 excess of \$1,000,000 and \$5,000,000 excess of \$5,000,000. In addition, the first layer clash cover also provides ECO/XPL protection for private passenger auto liability lines of business of \$4,000,000 excess of \$1,000,000. The Company's clash coverage is effective each January 1 and is 100% placed.

The Company has had an Employment Practices Liability Quota Share agreement in place continuously since July 17, 2008. This coverage provides 100% of liability protection not to exceed \$250,000 per occurrence as per the direct policy exposure.

Property

The Company's commercial property business is reinsured via two Property Excess of Loss agreements. A working layer treaty provides per risk coverage of \$500,000 excess of \$500,000 with an occurrence limit of \$1,500,000 and an excess treaty provides per risk coverage of \$4,000,000 excess of \$1,000,000 with an occurrence limit of \$8,000,000. Any direct limits in excess of \$5,000,000 are reinsured via facultative placements. Both treaties are effective each January 1 and are 100% placed.

The Company's personal lines (homeowners, dwelling fire, and mobile homeowners) property business was reinsured by a Property Excess of Loss treaty which provides per risk coverage of \$2,000,000 excess of \$500,000 with an occurrence limit of \$4,000,000. This treaty renewed each June 1 and was 90% placed for the term of June 1, 2013 to May 31, 2014 at which time it was not renewed.

A group-wide Property Catastrophe Excess of Loss facility provides catastrophe coverage for all property lines of business, both commercial and personal. This coverage was provided via four per occurrence layers as follows: (1) \$15,000,000 excess of \$5,000,000, (2) \$30,000,000 excess of \$20,000,000, (3) \$80,000,000 excess of \$50,000,000, and (4) \$100,000,000 excess of \$130,000,000. Treaties for the first three layers are in force for a two year period effective June 1, 2013. The treaty for the fourth layer is in force for a two year period effective July 1, 2013. All layers were 100% placed. The first layer is an internal layer solely provided by IAT. IAT also has a 50% participation in the second layer. The prior years' arrangements were similar in structure.

The Company has had an Equipment Breakdown Quota Share agreement in place continuously since October 1, 2006. The coverage provides 100% of liability protection up to \$25,000,000 per occurrence.

Program Specific Reinsurance

Property and casualty business produced by Innovative Risk Management (IRM) and classified as either Habitational or Hospitality (HHP) or South 39 programs is reinsured via several property coverage agreements in addition to utilizing the otherwise mentioned casualty reinsurance treaties generally available and applicable to any business written by the Company. The excess treaties covering the Company's IRM property business limit per location losses to a retention of \$500,000 or \$1,000,000 for the HHP program (blended placement) and \$250,000 for the South 39 program. These treaties were first put into effect February 1, 2008, when the IRM programs were incepted and have been 100% placed throughout the duration of the programs.

The Company then has a 100% quota share cession of the primary property per location retentions (\$500,000/\$1,000,000 HHP and \$250,000 South 39) for the IRM business. This same combined quota share treaty also provides an 80% quota share of the primary casualty layer (\$300,000 per occurrence) for the IRM business. This continuous quota share treaty also incepted February 1, 2008, and is 100% placed with two fully collateralized, captive protected cells namely (1) Programs Plus Segregated Portfolio and (2) Mahoney Group Segregated Portfolio. Both protected cell arrangements are reflected in Schedule F as First Employers Insurance Company SPC.

The Company has a Property Quota Share treaty on inland marine business emanating from a master policy issued to Extra Space Management, Inc. (Extra Space) and participating tenant/occupants of self-storage properties managed by Extra Space for monthly coverage periods. Beginning September 1, 2014, this treaty covers 100% of the first \$1,250,000 in per occurrence losses on the business. This continuous treaty was first put into effect September 1, 2008 when the

Extra Space program incepted and is 100% placed with ESM Reinsurance Limited, which is a fully collateralized captive reinsurer of Extra Space.

The Company has an Excess of Loss treaty providing coverage of \$10,000,000 excess of \$1,250,000 per occurrence on the Extra Space business mentioned in the previous paragraph. This treaty incepts annually each September 1 and is 100% placed with various Lloyd syndicates. There is also a separate terrorism cover on this business providing per occurrence coverage of \$10,000,000 excess of \$20,000.

The Company is a named cedent, along with other affiliated companies, to various reinsurance arrangements under which the Company, as of December 31, 2014, which reflected little or no activity. Several of these reinsurance arrangements provide coverage to specific blocks of business written by particular producers which have business currently being written by affiliated companies.

Net Retained Lines of Business

Effective January 1, 2003, the Company entered into a quota share reinsurance agreement with its ultimate parent, IAT, whereby the Company ceded 25% of its net retained premiums and losses incurred subsequent to the agreement's effective date. Effective January 1, 2008, the quota share cession rate was reduced to 20%.

Ceded Business Prior to May 1, 2001

As of July 1, 2001, the Company was sold to the McM, by its former parent, AIC. Additionally, Acceptance Insurance Companies, Inc. (AICI), the parent of AIC, sold its wholly owned insurance company, ACIC to McM effective the same date. The former parent of the Company, AIC, reinsured 100% of the Company's business for policies issued prior to May 1, 2001. Any subsequent business written on the Company's or ACIC paper, which AIC produced

and managed, was assumed by AIC under a 100% quota share agreement. As of December 31, 2012, approximately \$4,300,000 of short-term and near short term investments were held in trust and pledged to McM to secure AIC's net obligations under these reinsurance agreements. Under these reinsurance agreements, AIC assumed business from the Company after cessions to outside Company reinsurers. AIC is contingently liable for any uncollectible amounts due from Company reinsurers related to this business. This is reinsurance originally placed by the Acceptance Group involving AIC, ACIC, and the Company.

Commencing on January 1, 1993, the Company was a party to a pooling agreement with its former parent, AIC. Redland and ACIC were added, by addendum, as participants to the pooling agreement effective January 1, 1995 and January 1, 1996, respectively. The agreement provided for AIC to act as lead participant in the pool by assuming from each of the other participants 100% of their business net after other reinsurance. All business of AIC, after other reinsurance, was combined with the business assumed from the other participants to form the pool. This pooled business was retroceded to all of the participants in their proportional shares while retaining the individual participant's ultimate responsibility for their own respective direct insurance writings. Effective January 1, 2001, the Company withdrew from the pool. Effective May 1, 2001, AIC unconditionally indemnified the Company as a consequence of having been a party to the agreement including the business written by the Company prior to the effective date and any business assumed under the Agreement. As collateral for this indemnification, obligations are secured by a trust, established effective May 1, 2001, of which AIC, the Company and its subsidiary, ACIC, are parties.

Multi-Cedent Reinsurance Allocation Agreements

The Company and several affiliates are listed in common as cedents under various reinsurance contracts. The contracts entered into by the Company and its affiliates, commonly known as multi-cedent reinsurance contracts; do not contain provisions for apportioning payment of premiums and recovery of losses amongst the various cedent participants. It was recommended in previous examinations that an allocation agreement be established amongst the participating affiliates to formalize provisions for sharing under multi-cedent reinsurance contracts. An acceptable formalized written agreement should contain clear and definite terms which take into account the various costs, benefits, and limits of coverage applicable under the various types of reinsurance contracts being utilized. The allocation agreement should at a minimum specify how aggregate limits, reinstatements, funds held for unauthorized reinsurers, and off-setting provisions will be treated. Terms of the allocation agreement should be clear and definite as to when and how often calculations and settlements are to occur.

Pursuant to SSAP 62R, paragraph 9, reinsurance agreements with multiple cedents require allocation agreements. The allocation agreement can be part of the reinsurance agreement or a separate agreement. If the agreement has multiple cedents, the allocation must be in writing and the terms of the allocation agreement must be fair and equitable.

The Company has drafted a Multi-Cedent Reinsurance Allocation Agreement, along with its affiliates, which has been approved in Illinois for the Illinois domestic affiliate in North Carolina for the North Carolina domestic affiliates, in Florida for the Florida domestic affiliate, in Texas for the Texas domestic affiliate, and disapproved by the Nebraska Department of Insurance for the Company and ACIC due to certain perceived deficiencies. These perceived deficiencies should be addressed in a re-draft of the agreement which should be filed with the

director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, Section §44-2133(2) of the Nebraska Insurance Statutes.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2013</u>	<u>2014</u>
Bonds	\$ 26,672,483	\$ 24,305,572
Common stock	172,360,301	197,104,600
Admitted assets	226,363,029	240,876,987
Loss reserves	31,744,531	43,922,124
Total liabilities	102,285,051	111,695,294
Capital and surplus	124,077,978	129,181,693
Premiums earned	46,636,150	64,144,046
Net investment income	3,833,453	3,485,042
Losses incurred	24,744,402	38,884,357
Net income	332,670	347,929

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT **December 31, 2014**

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 24,305,572		\$ 24,305,572
Preferred stocks	2,977,300		2,977,300
Common stocks	197,104,600		197,104,600
Cash	(3,134,281)		(3,134,281)
Other invested assets (Schedule BA)	<u>2,233,392</u>		<u>2,233,392</u>
Subtotal, cash and invested assets	\$223,486,583		\$223,486,583
Investment income due and accrued	594,180		594,180
Uncollected premiums and agents' balances	6,932,987	\$ 41,402	6,891,585
Deferred premiums	1,473,463		1,473,463
Amounts recoverable from reinsurers	1,777,125		1,777,125
Funds held by or deposited with reinsured companies	15,727		15,727
Current federal income tax	47,217		47,217
Furniture and equipment	238,133	238,133	
Receivables from parent, subsidiaries and affiliates	6,261,067		6,261,067
Receivable from third party claims admin.	330,040		330,040
Prepaid expenses and deposits	162,688	162,688	
Miscellaneous assets	176,892	176,892	
State premium taxes recoverable	<u>68,074</u>	<u>68,074</u>	
Totals	<u>\$241,564,176</u>	<u>\$687,189</u>	<u>\$240,876,987</u>

Liabilities, Surplus, and Other Funds

Losses	\$ 43,922,124
Loss adjustment expenses	9,100,004
Commission payable	2,583,169
Other expenses	784,610
Taxes, licenses and fees	109,452
Net deferred tax liability	11,401,382
Unearned premiums	27,207,690
Ceded reinsurance premiums payable	3,273,992
Funds held by company under reinsurance treaties	11,773,632
Payable to parent, subsidiaries and affiliates	1,145,214
Payable to 3 rd party claims administrator	309,649
Surcharge charges payable	42,814
Assumed reinsurance payable	32,073
Recoupment - CA & NJ	<u>9,489</u>
Total liabilities	<u>\$111,695,294</u>
Common capital stock	\$ 5,000,000
Gross paid-in and contributed surplus	13,613,145
Unassigned funds	<u>110,568,548</u>
Total capital and surplus	<u>\$129,181,693</u>
Totals	<u>\$240,876,987</u>

STATEMENT OF INCOME – 2014

Underwriting Income

Premiums earned	\$64,144,046
Losses incurred	\$38,884,357
Loss adjustment expenses incurred	10,181,081
Other underwriting expenses incurred	<u>19,784,084</u>
Total underwriting deductions	<u>\$68,849,522</u>
Net underwriting loss	<u>\$(4,705,476)</u>

Investment Income

Net investment income earned	\$ 3,485,042
Net realized capital gain	<u>982,784</u>
Net investment gain	<u>\$ 4,467,826</u>

Other Income

Net gain from agents' or premium balances charged off	\$ 11,541
Miscellaneous other income	<u>(2,370)</u>
Total other income	<u>\$ 9,171</u>
Net income before dividends to policyholders and federal income taxes	\$ (228,479)
Federal income taxes incurred	<u>(576,408)</u>
Net income	<u>\$ 347,929</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2013</u>	<u>2014</u>
Capital and surplus, beginning	\$ <u>99,979,857</u>	\$ <u>124,077,978</u>
Net income	\$ 332,670	\$ 347,929
Change in net unrealized capital gains	23,190,064	4,732,994
Change in net deferred income tax	743,931	121,339
Change in nonadmitted assets	(167,744)	(99,347)
Change in provision for reinsurance	<u>(800)</u>	<u>800</u>
Net change for the year	<u>\$ 24,098,121</u>	<u>\$ 5,103,715</u>
Capital and surplus, ending	<u>\$124,077,978</u>	<u>\$129,181,693</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$110,568,548, as reported in the Company's 2014 Annual Statement has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

1. **Multi-Cedent Reinsurance Allocation Agreements-** The Company has filed a Multi-Cedent Reinsurance Allocation Agreement, along with its affiliates, which has been approved in Illinois for the Illinois domestic affiliates, not yet reviewed in North Carolina for the North Carolina domestic affiliates, and disapproved by the Nebraska Department of Insurance for the Company and ACIC due to certain perceived deficiencies. Pursuant to SSAP 62R, these perceived deficiencies should be addressed in a re-draft of the agreement which should be filed with the director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, Section §44-2133(2) of the Nebraska Insurance Statutes.

Action: The Company is currently in the process of re-drafting a Multi-Cedent Reinsurance Allocation Agreement. See recommendation under "Commentary on Current Examination Findings".

2. **Investments-Custodial Agreements-** It is recommended that the Company revise its custodial agreement with the broker holding securities on its behalf to include provisions related to safeguards and controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

Action: The Company has complied and this recommendation is no longer applicable.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Multi-Cedent Reinsurance Allocation Agreements

It was noted that the Company is currently in the process of re-drafting a Multi-Cedent Reinsurance Allocation Agreement that was previously disapproved by the Nebraska Department of Insurance due to certain perceived deficiencies pursuant to SSAP 62R. It is again

recommended that the Company refile the Multi-Cedent Reinsurance Allocation Agreement with the Director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, Section §44-2133(2) of the Nebraska Insurance Statutes.

Written Investment Plan

It was noted that the Company is not in compliance with Section §44-5105(1) of the Nebraska Insurance Statutes as the corporate minutes do not reflect an annual review by the Board of the written investment plan or review of the investment transactions for compliance with the requirements of the written investment plan. It is recommended that the Board annually review the written investment plan and review the investment transactions for compliance with the requirements of the written investment plan as stated in Section §44-5105(1) of the Nebraska Insurance Statutes.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

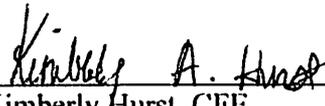
1. **Multi-Cedent Reinsurance Allocation Agreements** - It is again recommended that the Company refile the Multi-Cedent Reinsurance Allocation Agreement with the Director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, Section §44-2133(2) of the Nebraska Insurance Statutes.
2. **Written Investment Plan** - It is recommended that the Board annually review the written investment plan and review the investment transactions for compliance with the requirements of the written investment plan as stated in Section §44-5105(1) of the Nebraska Insurance Statutes.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Erin Garvin, CFE, Financial Examiner; Linda Scholl, AES, CFE, Information Systems Specialist; and Gordon Hay, FCAS, MAAA, Property and Casualty Actuarial Examiner; all with the Nebraska Department of Insurance; AGI Services, Jennan Enterprises LLC, and staff from the North Carolina, Florida Illinois, and Texas Departments of Insurance participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Kimberly Hurst, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

Kimberly A. Hurst, being duly sworn, states as follows:

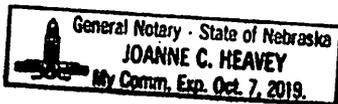
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Acceptance Indemnity Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Acceptance Indemnity Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Kimberly A. Hurst
Examiner-in-Charge's Signature

Subscribed and sworn before me by March Joanne Heavey on this 23 day of March, 2016.

(SEAL)



Joanne C. Heavey
Notary Public

My commission expires Oct 7, 2019 [date].