

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

IN THE MATTER OF:)
)
Arsenal Insurance Corporation)
11711 North Pennsylvania Street, Suite 110)
Carmel, Indiana 46032)


Examination of: **Arsenal Insurance Corporation**

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 Arsenal Insurance Corporation, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 14, 2019, 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 Arsenal Insurance Corporation 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.

June 19, 2019 _____  _____
Date Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7017 3040 0000 9295 0007

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this June 19 day of June, 2019.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

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: Robert W. ...

Handwritten signature: Paul

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

ARSENAL INSURANCE CORPORATION
NAIC COMPANY CODE 11865

As of

December 31, 2017

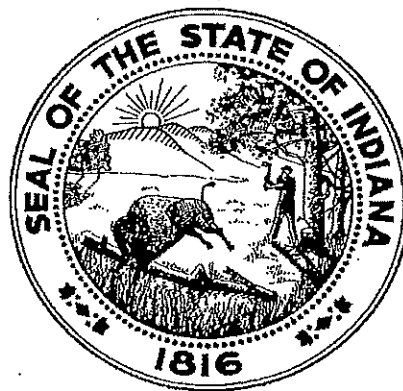


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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Stephen W. Robertson, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/idoi

May 29, 2019

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 3977, an examination has been made of the affairs and financial condition of:

Arsenal Insurance Corporation
11711 North Pennsylvania Street, Suite 110
Carmel, Indiana 46032

an Indiana domestic title insurance company, hereinafter referred to as the "Company." The examination was conducted at the corporate offices of the Company located at 11711 North Pennsylvania Street, Suite 110, Carmel, Indiana 46032.

The Report of Examination, showing the financial status of the Company as of December 31, 2017, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2413 COMPANY COMPLIANCE 317-232-3495 CONSUMER SERVICES 317-232-2395/1-800-622-4461 FINANCIAL SERVICES 317-232-2390 MEDICAL MALPRACTICE 317-232-2402 COMPANY RECORDS 317-232-5692 STATE HEALTH INSURANCE PROGRAM 1-800-452-4800

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2012. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2013 through December 31, 2017, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by CliftonLarsonAllen LLP for 2014 through 2017. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

In accordance with the 2017 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Thomas Consulting 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 (IC). All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was formed under the General Business Code IC 23-1 on August 15, 2003. The Company received a certificate of authority and commenced business on January 22, 2004.

CAPITAL AND SURPLUS

Pursuant to the Articles of Incorporation, the capital stock authorized for the Company is 1,000 shares of common stock with no par value. As of December 31, 2017, the Company's total capital and surplus was \$3,953,997, which included: common capital stock of \$500,000, consisting of 109 issued and outstanding shares; and unassigned funds (surplus) of \$3,453,997. All issued and outstanding shares were held by the Company's three (3) directors.

DIVIDENDS TO STOCKHOLDERS

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

TERRITORY AND PLAN OF OPERATION

The Company is licensed solely in the state of Indiana where it issues residential title insurance policies and endorsements on the American Land Title Association form including owners, loan, and leasehold

policies. The Company also issues closing protection letters as required by IC 27-7-3-22. The Company primarily markets its business through its affiliate, Meridian Title Corporation (MTC), an independent title agency domiciled in Indiana that has over thirty (30) offices in Illinois, Indiana, and Michigan.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company for the period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Premiums Earned</u>	<u>Net Income (Loss)</u>
2017	\$4,074,797	\$120,800	\$3,953,997	\$5,416,150	\$755,179
2016	3,844,631	639,477	3,205,154	5,436,208	739,531
2015	2,966,263	507,705	2,458,559	5,254,456	263,745
2014	2,508,395	137,511	2,370,884	5,072,989	719,033
2013	1,793,992	134,516	1,659,476	4,353,045	514,754

Note: Amounts are shown in whole dollars and rows may not total due to rounding.

The Company reported net income in all years covered by the examination. In addition, the Company’s surplus as regards policyholders increased by \$2,294,521 from year-end 2013 to year-end 2017. The Company’s business is aligned with the real estate and mortgage refinance markets. As a result, the variances in net premiums earned during the examination period were primarily related to movements in those markets.

MANAGEMENT AND CONTROL

Directors

The Company’s Bylaws specify that the Board of Directors (Board) shall be comprised of three (3) members. Board members are elected at the Annual Meeting of the Stockholders for the term of one (1) year and until a successor shall be elected and shall qualify, or until an earlier resignation or removal. The following is a listing of persons serving as directors as of December 31, 2017:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Debra A. Collins Pendleton, Indiana	Senior Vice President, Sales and Marketing Meridian Title Corporation
Andrew R. Drake Zionsville, Indiana	Senior Vice President/Senior Counsel Meridian Title Corporation
Mark T. Meyers South Bend, Indiana	President Meridian Title Corporation

Officers

Pursuant to the Bylaws, the officers of the Company shall be chosen by the directors and shall include a President, Secretary and Treasurer. The Board may also choose one (1) or more Vice Presidents and such other officers as it shall deem necessary. Any number of offices may be held by the same person. The following is a list of key officers and their respective titles as of December 31, 2017:

<u>Name</u>	<u>Title</u>
Andrew R. Drake	President
Debra A. Collins	Secretary and Treasurer

CONFLICT OF INTEREST

The Company's conflict of interest disclosure process requires directors and officers to complete a conflict of interest disclosure statement on an annual basis. From a review of the directors and officers signed statements, there were no material conflicts of interest noted for the period under examination.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Company's Articles of Incorporation during the period under examination.

Bylaws

There were no amendments made to the Company's Bylaws during the period under examination.

Minutes

The Board and Stockholders Meeting minutes were reviewed for the period under examination through the fieldwork completion date and significant actions taken during each meeting were noted. For the period under examination, the Annual Meetings of the Stockholders were held in accordance with IC 23-1-29-1 and the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

The Company is owned by three (3) individuals. Andrew R. Drake, President and director, and Debra A. Collins, Secretary, Treasurer and director, each own 46% of the Company. The remaining .8% of the Company's stock is owned by Mark T. Myers, director. All three (3) persons also have ownership interest in MTC, the Company's largest producer.

Affiliated Agreements

Employee Services Agreement

Effective March 1, 2004, the Company and MTC entered into an Employee Services Agreement in which MTC agrees to provide the services of MTC employees to the Company. In consideration for the performance of services of MTC employees, the Company pays MTC a monthly leasing fee, which includes an agreed upon salary for each employee, as well as charges for payroll tax costs, employee benefit contributions, and other amounts paid by MTC on account of the MTC employees included in the agreement. In 2017, the Company paid \$150,000 to MTC for services provided under this agreement.

Shared Services Agreement

Effective March 1, 2004, the Company and MTC entered into an agreement for the sharing of services provided by MTC. These services include clerical, accounting, systems access, as well as furniture, fixtures, equipment, and supplies. In 2017, the Company paid \$6,000 to MTC for services provided under this agreement.

Sublease Agreement

Effective March 1, 2004, the Company and MTC entered into a Sublease Agreement which allows the Company to use MTC office space to conduct its business. In 2017, the Company paid \$3,600 to MTC for office space provided under this agreement.

Issuing Agency Contract

Effective February 25, 2004, the Company entered into an Issuing Agency Contract with MTC which allows MTC to produce title insurance business for the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company is protected under an insurance policy that covers employee dishonesty for a single loss up to \$100,000 with a \$500 deductible. The \$100,000 limit was adequate to meet the prescribed minimum fidelity bond coverage specified by the NAIC. Other various interests of the Company were protected by appropriate policies of insurance.

STATUTORY DEPOSITS

The Company reported a statutory deposit for the State of Indiana for all policyholders with a book value and a fair value of \$50,829 as of December 31, 2017. The statutory deposit was comprised of a money market fund.

REINSURANCE

The Company did not have a reinsurance program during the period covered by this examination.

RESERVES

Joseph L. Petrelli, ACAS, ASA, MAAA, FCA, of Demotech, Inc., is the Company's Appointed Actuary. Mr. Petrelli was appointed by the Board to render an actuarial opinion on the statutory-basis reserves of the Company for 2014 to 2017. The Company was not required to have an actuarial opinion in 2013.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss and loss adjustment expense reserves and related actuarial items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2017. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used, and such tests of the calculations as considered necessary.

The 2017 opinion stated the amounts carried in the balance sheet on account of the actuarial items identified in the opinion: a) meet the requirements of the insurance laws of the State of Indiana, b) are consistent with reserves computed in accordance with actuarial standards and principles, and c) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company as of December 31, 2017 under the terms of its contracts and agreements.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2017, was agreed to the Annual Statement without exception. The Company's independent auditors issued unqualified opinions on the Company's audited Statutory Financial Statements for each year during the examination period. The audited Statutory Financial Statements were agreed to the Annual Statement for the year ending December 31, 2017, with no exceptions noted. All of the independent audit work papers were made available to Thomas Consulting during the examination.

Overall, Thomas Consulting determined the Company's accounting procedures, practices, and account records were satisfactory.

FINANCIAL EXHIBITS

Comparative Exhibit – Statutory Statement of Assets
Comparative Exhibit – Statutory Statement of 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.

ARSENAL INSURANCE CORPORATION

FINANCIAL STATEMENTS

Assets

As of December 31, 2017

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Bonds	\$ 332,319	\$ -	\$ 332,319	\$ 327,716
Cash, cash equivalents and short-term investments	<u>3,657,100</u>	<u>-</u>	<u>3,657,100</u>	<u>3,326,004</u>
Subtotals, cash and invested assets	<u>\$ 3,989,419</u>	<u>\$ -</u>	<u>\$ 3,989,419</u>	<u>\$ 3,653,720</u>
Investment income due and accrued	\$ 1,784	\$ -	\$ 1,784	\$ 3,014
Uncollected premiums and agents' balances in the course of collection	<u>83,594</u>	<u>-</u>	<u>83,594</u>	<u>187,897</u>
Totals	<u>\$ 4,074,797</u>	<u>\$ -</u>	<u>\$ 4,074,797</u>	<u>\$ 3,844,631</u>

ARSENAL INSURANCE CORPORATION

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

As of December 31, 2017

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Statutory premium reserve	\$ 50,000	\$ -	\$ 50,000	\$ 50,000
Aggregate of other reserves required by law	50,000	-	50,000	50,000
Other expenses	13,985	-	13,985	-
Taxes, licenses and fees (excluding federal and foreign income taxes)	6,038	-	6,038	75,384
Current federal and foreign income taxes	(14,000)	-	(14,000)	274,700
Payable to parent, subsidiaries and affiliates	14,777	-	14,777	14,393
Aggregate write-ins for other liabilities	-	-	-	175,000
Total liabilities	<u>\$ 120,800</u>	<u>\$ -</u>	<u>\$ 120,800</u>	<u>\$ 639,477</u>
Common capital stock	\$ 500,000	\$ -	\$ 500,000	\$ 500,000
Unassigned funds (surplus)	3,453,997	-	3,453,997	2,705,154
Surplus as regards policyholders	<u>\$ 3,953,997</u>	<u>\$ -</u>	<u>\$ 3,953,997</u>	<u>\$ 3,205,154</u>
Totals	<u><u>\$ 4,074,797</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,074,797</u></u>	<u><u>\$ 3,844,631</u></u>

ARSENAL INSURANCE CORPORATION

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2017

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Operating Income				
Title insurance and related income:				
Title insurance premiums earned	\$ 5,416,150	\$ -	\$ 5,416,150	\$ 5,436,208
Other title fees and service charges	713,400	-	713,400	677,400
Total operating income	<u>\$ 6,129,550</u>	<u>\$ -</u>	<u>\$ 6,129,550</u>	<u>\$ 6,113,608</u>
Expenses				
Losses and loss adjustment expenses	\$ 822	\$ -	\$ 822	\$ 16,909
Operating expenses incurred	5,000,978	-	5,000,978	4,934,384
Total operating expenses	<u>\$ 5,001,800</u>	<u>\$ -</u>	<u>\$ 5,001,800</u>	<u>\$ 4,951,293</u>
Net operating gain or (loss)	<u>\$ 1,127,750</u>	<u>\$ -</u>	<u>\$ 1,127,750</u>	<u>\$ 1,162,315</u>
Investment Income				
Net investment income earned	\$ 4,151	\$ -	\$ 4,151	\$ 3,981
Net realized capital gains (losses) less capital gains tax	-	-	-	-
Net investment gain	<u>\$ 4,151</u>	<u>\$ -</u>	<u>\$ 4,151</u>	<u>\$ 3,981</u>
Other Income				
Aggregate write-ins for miscellaneous income or (loss) or other deductions	\$ -	\$ -	\$ -	\$ 1,770
Net income after capital gains tax and before all other federal income taxes	\$ 1,131,901	\$ -	\$ 1,131,901	\$ 1,168,066
Federal and foreign income taxes incurred	\$ 376,722	\$ -	\$ 376,722	\$ 428,535
Net income	<u>\$ 755,179</u>	<u>\$ -</u>	<u>\$ 755,179</u>	<u>\$ 739,531</u>

ARSENAL INSURANCE CORPORATION

FINANCIAL STATEMENTS

Capital and Surplus Account

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Surplus as regards policyholders, December 31, prior year	\$ 3,205,154	\$ 2,458,559	\$ 2,370,884	\$ 1,659,476	\$ 1,146,547
Net income	\$ 755,179	\$ 739,531	\$ 263,745	\$ 719,033	\$ 514,754
Change in nonadmitted assets	(6,336)	7,064	(680)	(7,625)	(1,825)
Aggregate write-ins for gains and losses	-	-	(175,390)	-	-
Change in surplus as regards policyholders for the year	\$ 748,843	\$ 746,595	\$ 87,675	\$ 711,408	\$ 512,929
Surplus as regards policyholders, December 31, current year	<u>\$ 3,953,997</u>	<u>\$ 3,205,154</u>	<u>\$ 2,458,559</u>	<u>\$ 2,370,884</u>	<u>\$ 1,659,476</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2017, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

There were no significant findings noted as a result of this examination.

SUBSEQUENT EVENTS

Pending Acquisition

Subsequent to the period covered by this examination, on February 6, 2019 the Company entered into a Stock Purchase Agreement with an unaffiliated party to acquire control of the Company. The acquisition of the Company is pending the approval of the INDOI.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Thomas Consulting 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 Thomas Consulting.

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 **Arsenal Insurance Corporation** as of **December 31, 2017**.


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 2017 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 standard 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 **Arsenal Insurance Corporation** as of **December 31, 2017**, as determined by the undersigned.



D. Patrick Huth, CFE
The Thomas Consulting Group, Inc.



Jerry Ehlers, CFE, CPA
Indiana Department of Insurance

DARCY L. SHAWVER
NOTARY PUBLIC

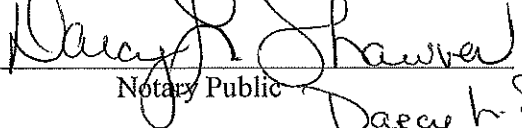
SEAL

MARION COUNTY, STATE OF INDIANA
MY COMMISSION EXPIRES OCTOBER 4, 2025
COMMISSION NO 706053

State of: Indiana
County of: Marion

On this 14th day of June, 2019, before me personally appeared, D. Patrick Huth and Jerry Ehlers 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 October 4, 2025 

Notary Public 