

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

IN THE MATTER OF:)
)
Property-Owners Insurance Company)
6101 Anacapri Boulevard)
Lansing, MI 48917-3968)

Examination of: **Property-Owners 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 Property-Owners Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 12, 2018, 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 Property-Owners 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.

June 25, 2018
Date



Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7016 2070 0001 1479 8674

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6101 Anacapri Boulevard)
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Examination of: **Property-Owners Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Property-Owners Insurance Company (hereinafter "Company") for the time period January 1, 2014 through December 31, 2016.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on June 15, 2018.

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 June 12, 2018 and was received by the Company on June 18, 2018.

The Company did not file any objections.

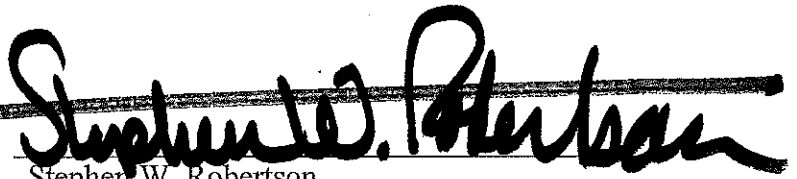
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Property-Owners Insurance Company as of December 31, 2016.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Property-Owners Insurance Company to comply with the 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, 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 25 day of
June, 2018.


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.

Robert J. Albrecht

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STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

PROPERTY-OWNERS INSURANCE COMPANY

NAIC Co. CODE 32905
NAIC GROUP CODE 0280

As of

December 31, 2016

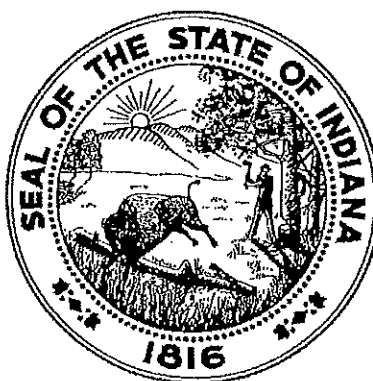


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STATE OF INDIANA

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

June 15, 2018

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 3957, an examination has been made of the affairs and financial condition of:

**Property-Owners Insurance Company
6101 Anacapri Boulevard
Lansing, Michigan 48917**

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

The Report of Examination, reflecting the status of the Company as of December 31, 2016, 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
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SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI), and covered the period from January 1, 2011 through December 31, 2013. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2014 through December 31, 2016, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The examination of the affiliated Michigan domestic insurance companies of the Auto-Owners Group (Group) was called by the Michigan Department of Insurance and Financial Services (DIFS) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The DIFS served as the lead state on the examination, and the INDOI and the Ohio Department of Insurance served as participants.

Evelyn Toni Mulder, FCAS, MAAA, FCA of Taylor & Mulder, Inc. was retained by the DIFS to provide all actuarial services throughout the examination and conducted a review of the Company's actuarially determined balances as of December 31, 2016.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

Auto-Owners Insurance Company (AOIC) commenced business July 1, 1916, as a mutual company under the laws of the state of Michigan. AOIC subsequently formed POIC which was incorporated on January 12, 1976, and commenced business under the laws of the state of Indiana on September 1, 1976.

CAPITAL AND SURPLUS

POIC's stock was 100% owned by AOIC throughout the current examination period. The Company has 500,000 common shares of stock authorized and 150,000 shares outstanding, with a par value of \$10.

DIVIDENDS TO STOCKHOLDERS

The Company paid no dividends during the examination period.

TERRITORY AND PLAN OF OPERATION

POIC is licensed to write business in seventeen (17) states, but actively writes in the following three (3) states: 93.0% Indiana, 3.5% Michigan, and 3.5% Georgia. POIC is a multiple line carrier with the following distribution of net premiums by line of business: 48.0% homeowners and farmowners, 25.2% commercial multiple peril, 8.3% commercial auto liability, 7.0% workers' compensation, 5.6% auto physical damage, and 5.9% all other.

The Group is represented by 6,000 independent agencies, which operate across twenty-six (26) states, primarily in the Midwest and Southeast regions.

GROWTH OF THE COMPANY

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

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2016	\$ 280,605,114	\$ 156,519,590	\$ 124,085,524	\$ 94,931,080	\$ 5,571,981
2015	232,368,443	116,693,146	115,675,298	76,354,841	6,509,127
2014	216,165,735	106,518,344	109,647,392	70,220,760	5,032,819

Cash and invested assets are the largest assets of the Company and have increased throughout the exam period, to \$246 million. Liabilities increased in 2016, \$40 million or 34%, and unearned premiums are the largest liability of the Company. Premiums earned increased in 2016, \$18.5 million or 24%, due to net premiums written of \$119.6 million. The most significant increases occurred in the commercial casualty, homeowners and farmowners casualty, workers' compensation, and commercial and private auto liability and physical damage.

The Company has a history of increases in surplus primarily due to net underwriting and investment gains. It was noted that surplus increased by \$8.4 million in 2016, primarily due to the net income reported.

Net income was \$5.6 million in 2016 compared with \$6.5 million in 2015, a decrease of \$900,000 or 14%. The decrease in net income in 2016 was due to a decrease in capital gains and an increase in income taxes incurred.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of no less than five (5) and no more than twenty-one (21) directors. At least one (1) of the directors must be a resident of Indiana. The shareholders, at each annual meeting, elect the members of the Board.

The following is a listing of persons serving as directors as of December 31, 2016, and their principal occupations as of that date:

Name and Address	Principal Occupation
John W. Abbott East Lansing, Michigan	Retired Auto-Owners Insurance Company
Rick A. Arens Sweetser, Indiana	Regional Vice President Auto-Owners Insurance Company
Stuart R. Birn Okemos, Michigan	Retired Auto-Owners Insurance Company
Gregg L. Cornell Greenville, South Carolina	Retired Auto-Owners Insurance Company
Jeffrey F. Harrold Grand Ledge, Michigan	Chairman and Chief Executive Officer Auto-Owners Insurance Company
Mark E. Hooper Okemos, Michigan	Partner Andrews Hooper and Pavlik, PLC
Roger L. Looyenga Traverse City, Michigan	Retired Auto-Owners Insurance Company
Lori A. McAllister East Lansing, Michigan	Attorney Dykema Gossett PLLC
Carolyn B. Muller DeWitt, Michigan	Senior Vice President Auto-Owners Insurance Company
Katherine M. Noirot Lansing, Michigan	Retired Auto-Owners Insurance Company
Cheri L. Pero St. Johns, Michigan	Professor Michigan State University
Rodney J. Rupp Manitou Beach, Michigan	Retired Auto-Owners Insurance Company
Jeffrey S. Tagsold DeWitt, Michigan	President and Chief Operating Officer Auto-Owners Insurance Company
Daniel J. Thelen DeWitt, Michigan	Executive Vice President Auto-Owners Insurance Company
William F. Woodbury DeWitt, Michigan	Senior Vice President, Secretary, and General Counsel Auto-Owners Insurance Company

Officers

The Bylaws state that the elected officers of the Company shall consist of a Chairman, a President, an Executive Vice President, a Secretary, a Treasurer, and such other officers as may be chosen by the Board. The same person may hold any two (2) or more offices, with the exception that the duties of the Chairman, the President, and/or the Secretary may not be performed by the same persons.

The following is a list of key officers and their respective titles as of December 31, 2016:

<u>Name</u>	<u>Office</u>
Jeffrey F. Harrold	Chairman and Chief Executive Officer
Jeffrey S. Tagsold	President and Chief Operating Officer
Daniel J. Thelen	Executive Vice President
Eileen K. Phaner	Senior Vice President, Treasurer, and Chief Financial Officer
William F. Woodbury	Senior Vice President, Secretary and General Counsel
Carolyn B. Muller	Senior Vice President
Mary S. Pierce	Senior Vice President
Michael D. Pike	Senior Vice President
Jonathan R. Riekse	Senior Vice President
Theodore W. Reinbold	Senior Vice President
James C. Schumacher	Senior Vice President
Ian R. Ward	Senior Vice President
Denise G. Williams	Senior Vice President

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2016.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2016.

CORPORATE RECORDS

Articles of Incorporation

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

Bylaws

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

Minutes

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

IC 27-1-7-7(b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws specify the annual meeting of shareholders shall be held on the second Monday of May, each year, unless such be a holiday, then the next following business day. For each year under review, the annual meeting was held within five (5) months following the close of each fiscal year.

The committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee Executive Committee, ERM Committee, and Finance Committee.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the Company's parent and subsidiaries as of December 31, 2016:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
Auto-Owners Insurance Company	18988	MI
Auto-Owners Life Insurance Company	61190	MI
Home-Owners Insurance Company	26638	MI
Property-Owners Insurance Company	32905	IN
Owners Insurance Company ^A	32700	OH
Southern-Owners Insurance Company	10190	MI
Strickland Insurance Group, Inc.		NC
Atlantic Casualty Insurance Company	42806	NC
Auto-Owners Specialty Insurance Company	12508	DE

^A 99.97% owned by AOIC

Affiliated Agreements

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

Administrative Services Agreement

On January 1, 2003, AOIC and POIC became parties to an Agreement for Administrative Services. Pursuant to the agreement, AOIC provides administrative services sufficient to carry on the normal business functions of a property and casualty insurance company, such as, but not limited to; executive administration, sales, policy underwriting, claim settlement, actuarial, advertising and accounting, tax matters, systems and programming, electronic data processing, investments, housing, and all other essential general services. The amount paid by the Company for services rendered by AOIC during 2016 under the agreement was \$12,334,792.

Tax Sharing Agreement

First effective August 1, 1996, and amended as of January 1, 2016, all entities in the holding company system entered into a Tax Allocation Agreement to allow AOIC and its subsidiaries to file a consolidated federal income tax return. The consolidated federal income tax return is filed by AOIC.

Intercompany Reinsurance Agreement

Details of the Intercompany Reinsurance Agreement in place for the Company are outlined in the Reinsurance section of this Report of Examination.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by The Cincinnati Insurance Company. The bond has a blanket coverage limit of \$900,000, with a \$10,000 deductible. The fidelity bond does not meet the prescribed minimum coverage specified by the NAIC. See the Other Significant Issues section of this Report of Examination.

The Company had additional types of coverage in-force as of December 31, 2016, including but not limited to, auto liability, directors and officers liability, excess liability, fiduciary, general liability, professional liability, property, and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has no employees therefore this section does not apply.

SPECIAL AND STATUTORY DEPOSITS

The Company reported the following deposits as of December 31, 2016:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$2,050,127	\$2,052,113
All Other Special Deposits:		
Georgia	52,634	51,699
Nevada	323,678	319,231
Virginia	261,490	256,104
Total Deposits*	<u>\$2,687,929</u>	<u>\$2,679,147</u>

* The balances may include immaterial rounding differences.

REINSURANCE

The Company cedes 100% of its direct written premium to AOIC under the terms of an Intercompany Reinsurance Agreement for the following classes of business: Umbrella, Pollution, Cyber Liability, Miscellaneous Professional Liability, Equipment Breakdown, Identity Recovery and Data Compromise, Employment Practices Liability, Mine Subsidence, Sinkhole insurance, Involuntary Worker's Compensation, and certified Terrorism.

The Company does not assume any financially significant reinsurance.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2015 and December 31, 2016, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2014 through December 31, 2016, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

PROPERTY-OWNERS INSURANCE COMPANY

Assets

As of December 31, 2016

	<u>Per Examination*</u>
Bonds	\$ 218,228,741
Stocks:	
Preferred stocks	1,847,820
Common stocks	16,573,270
Cash, cash equivalents and short-term investments	2,054,345
Other invested assets	7,366,413
Subtotals, cash and invested assets	<u>246,070,589</u>
Investment income due and accrued	1,864,475
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	593,515
Deferred premiums, agents' balances and installments booked but deferred and not yet due	26,734,323
Reinsurance:	
Amounts recoverable from reinsurers	157,767
Current federal and foreign income tax recoverable and interest thereon	202,026
Net deferred tax asset	4,689,942
Guaranty funds receivable or on deposit	18,178
Aggregate write-ins for other than invested assets	274,299
Totals	<u>\$ 280,605,114</u>

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

PROPERTY-OWNERS INSURANCE COMPANY
 Liabilities, Surplus and Other Funds
 As of December 31, 2016

	Per Examination*
Losses	\$ 43,914,124
Loss adjustment expenses	12,118,779
Commissions payable, contingent commissions and other similar charges	5,093,349
Other expenses	358,875
Taxes, licenses and fees (excluding federal and foreign income taxes)	233,727
Unearned premiums	74,036,494
Advance premium	1,926,403
Ceded reinsurance premiums payable	7,048,932
Amounts withheld or retained by company for account of others	131,649
Payable to parent, subsidiaries and affiliates	11,588,637
Aggregate write-ins for liabilities	68,621
Total liabilities excluding protected cell liabilities	156,519,590
Total liabilities	156,519,590
Common capital stock	1,500,000
Gross paid in and contributed surplus	3,520,000
Unassigned funds (surplus)	119,065,524
Surplus as regards policyholders	124,085,524
Totals	\$ 280,605,114

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

PROPERTY-OWNERS INSURANCE COMPANY
Statement of Income
For the Year Ended December 31, 2016

	Per Examination*
UNDERWRITING INCOME	
Premiums earned	\$ 94,931,080
DEDUCTIONS	
Losses incurred	45,383,893
Loss adjustment expenses incurred	8,257,750
Other underwriting expenses incurred	37,816,636
Total underwriting deductions	91,458,278
Net underwriting gain (loss)	3,472,802
INVESTMENT INCOME	
Net investment income earned	6,118,235
Net realized capital gains or (losses) less capital gains tax	63,174
Net investment gain (loss)	6,181,410
OTHER INCOME	
Net gain (loss) from agents' or premium balances charged off	(81,904)
Aggregate write-ins for miscellaneous income	7,448
Total other income	(74,455)
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	9,579,756
Federal and foreign income taxes incurred	4,007,775
Net income **	\$ 5,571,981

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

**The balance includes immaterial rounding differences.

PROPERTY-OWNERS INSURANCE COMPANY
Capital and Surplus Account Reconciliation

	2016	2015	2014
Surplus as regards policyholders, December 31 prior year	\$ 115,675,298	\$ 109,647,392	\$ 104,488,156
Net income	5,571,981	6,509,127	5,032,819
Change in net unrealized capital gains or (losses) less capital gains tax	1,192,371	(795,306)	151,156
Change in net deferred income tax	1,644,464	396,839	68,034
Change in nonadmitted assets	1,410	(82,755)	(92,774)
Change in surplus as regards policyholders for the year	8,410,226	6,027,906	5,159,236
Surplus as regards policyholders, December 31 current year**	\$ 124,085,524	\$ 115,675,298	\$ 109,647,392

**The balance includes immaterial rounding differences.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2016, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

The fidelity bond in effect at the examination date did not meet the prescribed minimum coverage specified by the NAIC. It is recommended that the Company update its fidelity bond coverage to meet the prescribed minimum coverage specified by the NAIC.

There were no further significant issues identified as of December 31, 2016, based on the results of this examination.

SUBSEQUENT EVENTS

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

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Taylor & Mulder, Inc., performed an examination of Property-Owners Insurance Company, as of December 31, 2016.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of Property-Owners Insurance Company as of December 31, 2016, as determined by the undersigned.

Paul Ellis

Paul Ellis, CFE
Noble Consulting Services, Inc.

Under the supervision of,

Jerry Ehlers

Jerry Ehlers, CFE, ABS
Examinations Manager
Indiana Department of Insurance

State of: Indiana
County of: Marion

DARCY L. SHAWVER
NOTARY PUBLIC
SEAL
MARION COUNTY, STATE OF INDIANA
MY COMMISSION EXPIRES OCTOBER 4, 2025
COMMISSION NO 706053

On this 22nd day of June, 2018, before me personally appeared, Paul Ellis 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

Darcy L. Shawver
Darcy L. Shawver

