

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

AMERICAN RESOURCES INSURANCE COMPANY

MOBILE, ALABAMA

AS OF DECEMBER 31, 2012

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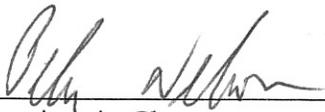
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STATE OF ALABAMA  
COUNTY OF MOBILE

Palmer Nelson, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of American Resources Insurance Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of American Resources Insurance Company was performed in a manner consistent with the standards and procedures required by the state of Alabama.

The affiant says nothing further.

  
\_\_\_\_\_  
Examiner-in-Charge

Subscribed and sworn before me by Palmer Nelson on this 7<sup>th</sup> day of March, 2014.

(SEAL)

  
\_\_\_\_\_  
(Signature of Notary Public)

NOTARY PUBLIC STATE OF ALABAMA AT LARGE  
MY COMMISSION EXPIRES: July 11, 2015  
BONDED THRU NOTARY PUBLIC UNDERWRITERS

My commission expires \_\_\_\_\_.



ROBERT BENTLEY  
GOVERNOR

JIM L. RIDLING  
COMMISSIONER

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DEPARTMENT OF INSURANCE  
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DEPUTY COMMISSIONER  
CHARLES M. ANGELL

CHIEF EXAMINER  
RICHARD L. FORD

STATE FIRE MARSHAL  
EDWARD S. PAULK

GENERAL COUNSEL  
REYN NORMAN

March 7, 2014

Jim L. Ridling  
State of Alabama  
Department of Insurance  
201 Monroe Street, Suite 502  
Montgomery, AL 36104

Dear Commissioner Ridling:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

**American Resources Insurance Company  
Mobile, Alabama**

at its home office located at 1111 Hillcrest Road, Mobile, Alabama 36695, as of December 31, 2012. The report of examination is submitted herewith.

Where the description "Company" or "AMIC" appears herein, without qualification, it will be understood to indicate American Resources Insurance Company.

## SCOPE OF EXAMINATION

The Company was last examined for the four year period ended December 31, 2007. The current examination covers the intervening period January 1, 2008 through December 31, 2012, and was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities, and similar items subsequent to December 31, 2012, were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the State of Alabama Insurance Code and the Alabama Department of Insurance regulations and bulletins in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination of the Company was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2012, and to identify the Company's prospective risks by obtaining information about the Company including corporate governance. In addition, the examination was planned and performed to identify and assess inherent risks within the Company and to evaluate system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements, management's compliance with statutory accounting principles and annual statement instructions.

An examination of the Company's information systems (IS) was conducted in conjunction with the financial examination. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in application controls, system and program development controls, contingency planning controls, service provider controls, operation controls, processing controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Company's plan of operations, territory, producers' licensing, claims processing, marketing and sales, rates and forms, statistical reporting, dividends to policyholders, underwriting and rating, policyholder complaints, and privacy standards.

The Company's annual statements for each year under examination were compared with and reconciled to the corresponding general ledger account balances. During the period covered by the examination, the Company was audited by Russell, Thompson, Butler & Houston, LLP, Mobile, Alabama (RTBH). RTBH's workpapers were reviewed and were used in the examination as deemed appropriate by the examiners.

A signed certificate of representation was obtained during the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2011.

## ORGANIZATION AND HISTORY

The Company was incorporated in Mobile County, under the laws of the State of Alabama on January 27, 1981, as a wholly owned subsidiary of ARIC Investments, Inc., an Alabama corporation. Article II of the Articles of Incorporation of the Company stated that the purposes for which the Company was organized was to issue policies and enter into contracts of property insurance, casualty insurance, surety insurance, marine, wet marine and transportation insurance, as well as various other property and casualty insurance and coverages which may be considered insurance under the laws of the State of Alabama.

Article IV of the original charter provided for authorized capital of \$1,000,000 comprised of 1,000,000 shares of \$1 par value per share common stock. On December 8, 1992, the Company's charter was amended to increase the total authorized capital to \$5,000,000 comprised of 5,000,000 shares of \$1 par value per share common stock.

Per the previous examination report, the Company's capital structure as of December 31, 2007, the date of the most recent full scope examination conducted by the Alabama Department of Insurance examiners, consisted of 5,000,000 authorized shares of common stock with a par value of \$1 per share, with 1,500,000 shares issued and outstanding for a total capital of \$1,500,000, and \$5,100,000 of gross paid in and contributed surplus. The Company had a surplus note of \$3,000,000. The Company had unassigned funds of \$3,301,529 and a total capital and surplus of \$12,901,529. The surplus note has been paid off during the current examination period and no longer existed at December 31, 2012.

At December 31, 2012, the Company's capital structure reported, per its 2012 Annual Statement, consisted of 5,000,000 authorized shares of common stock with a par value of \$1 per share, with 1,500,000 shares issued and outstanding for a total capital of \$1,500,000; \$5,100,000 in gross paid in and contributed surplus; special surplus allowed in connection with a deferred tax asset of \$405,100; and, unassigned funds of \$2,018,856. The Company's total capital and surplus reported by the Company in its 2012 Annual Statement was \$9,023,956.

## MANAGEMENT AND CONTROL

### Stockholder

The Company is a stock corporation with ultimate control vested in its stockholder. As of December 31, 2012, 100% of the Company's issued and outstanding stock was owned by ARIC Investments, Inc.

### Board of Directors

The business and affairs of the Company are managed by its Board of Directors. The Company amended its By-Laws during the examination period to change the number of directors from four to not less than three or more than seven directors. The Directors of the Company as of December 31, 2012 were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
James Perry Bryan Houston, Texas	Retired
Thomas Louis, Ferreri Naples, Florida	Attorney at Law
Anthony Phillip Marino Birmingham, Alabama	Entrepreneur
Stephen Gregory Pate Pensacola, Florida	President American Resources Insurance Company
James Lyle Riddle Madisonville, Kentucky	Insurance agent

### Officers

The Company's officers at December 31, 2012 were as follows.

<u>Officer</u>	<u>Position</u>
Stephen Gregory Pate	President and Treasurer
James Charles Wilson	Secretary
John Edward Wells	Vice President Claims
Nina Simons O'Hara	Vice President Finance
Michael Reeves Brady	Vice President Underwriting

### Management and Service Agreements

The Company had two service agreements during the examination period. Both agreements have expired. The Company did not have any management or service agreements as of December 31, 2012. The management and service agreements that the Company had during the examination period were discussed below.

#### Claims Service Agreement

The Company entered into a claims service agreement with Tower Risk Management (Tower) on March 27, 2011. The term of the agreement was March 27, 2011 to June 30, 2011. The agreement provided for Tower to handle claims processing for the Company. The Company agreed to pay Tower \$40,000 for the services provided.

#### Service Agreement

The Company entered into a service agreement on March 27, 2008 with American Resources Insurance Consultants, LLC (Consultants). Consultants agreed to provide management, accounting, and clerical services for the Company. The Company agreed to reimburse Consultants in accordance with the actual cost of the services provided. The term of the agreement was two years commencing from the effective date of March 27, 2008. The agreement was amended twice to

provide for a budget to be established, agreement on the cost of services to be provided, and to extend the agreement for another year. The agreement has expired without renewal and is no longer in effect.

#### Conflicts of Interest

The Company had a conflict of interest policy that required its officers and directors to file conflict of interest statements annually to disclose any personal interests that may conflict with the Company's interests. The examination indicated that all officers and directors filed conflict of interest statements annually. There were no conflicts reported, with the following exception. Director James Lyle Riddle reported that he was a part owner of the Riddle Agency that is an agent for the Company.

#### CORPORATE RECORDS

The Company's Articles of Incorporation and By-Laws were inspected during the course of the examination and the documents appeared to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations. Minutes of the stockholder and Board of Directors meetings that took place during the examination period were reviewed. The minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

#### HOLDING COMPANY AND AFFILIATE MATTERS

The Company is subject to the Alabama Insurance Company Regulatory Act of 1973 as defined in ALA. CODE §27-29-1(1975). The review of the holding company filings made during the examination period indicated that the appropriate disclosures were made regarding the Company.

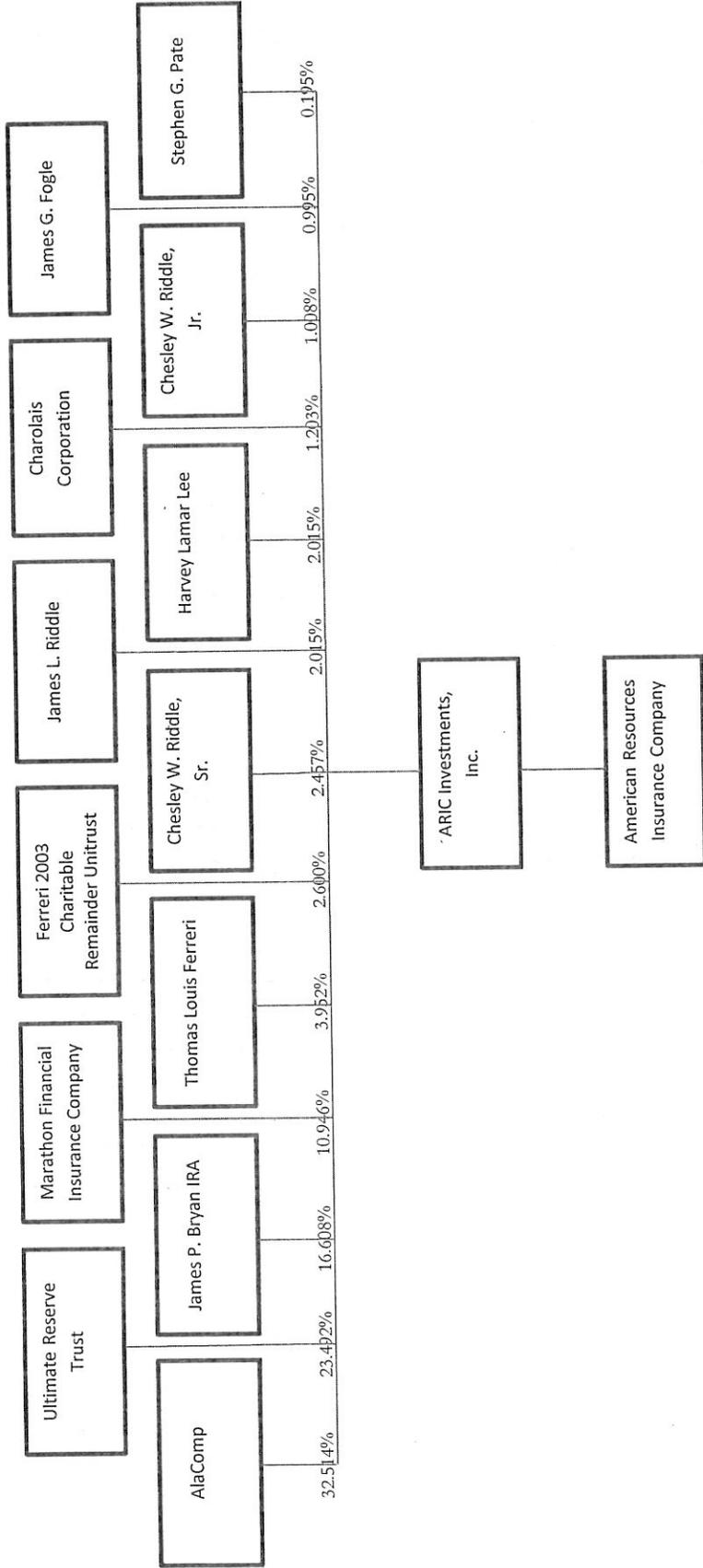
#### Dividends to Stockholders

<u>Year</u>	<u>Dividends Paid</u>
2008	\$690,400
2009	\$343,200
2010	\$343,200
2011	\$164,297
2012	\$172,515

#### Organizational Chart

The organizational chart on the following page depicts the insurance holding company system with which the Company was affiliated as of December 31, 2012.

American Resources Insurance Company  
Organizational Chart  
December 31, 2012



## FIDELITY BONDS AND OTHER INSURANCE

At December 31, 2012, the Company was a named insured under a crime coverage policy, issued by Cincinnati Insurance Company, Cincinnati, Ohio. The Company's fidelity coverage exceeded the minimum suggested amount by the *NAIC Examiners Handbook*.

In addition to the fidelity bond coverage, the Company was a named insured under policies providing the following protection at December 31, 2012.

- Errors and Omission Coverage
- Comprehensive Automobile
- Comprehensive Automobile
- Comprehensive Business Umbrella Policy
- Commercial Property
- Inland Marine

The coverage and limits of the Company's insurance were reviewed and were determined to adequately protect the Company's interest.

## EMPLOYEE AND AGENT WELFARE

As of December 31, 2012, benefits provided by the Company to its employees included the following:

- Life Insurance
- Short and Long Term Disability Insurance
- Paid Vacation
- Paid Holidays and Personal Days
- Paid Sick Days
- Deferred Compensation

The Company's marketing strategy involved the use of independent agents and the Company does not provide any benefits, other than paid commissions to agents.

## STATUTORY DEPOSITS

At December 31, 2012, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows.

<u>State</u>	<u>Statement Value</u>	<u>Market Value</u>
Alabama	\$1,006,327	\$1,011,175
Georgia	\$99,973	\$100,453
Oklahoma	\$300,000	\$300,000
South Carolina	\$256,453	\$258,773
Virginia	\$249,933	\$251,133

## FINANCIAL CONDITION/GROWTH OF THE COMPANY

	<u>2012*</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Admitted Assets	\$21,503,098	\$23,892,464	\$25,503,520	\$28,753,344	\$39,823,182
Liabilities	12,867,547	14,097,485	15,896,865	18,976,226	26,904,544
Common Capital Stock	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Paid in and Contributed Surplus	5,100,00	5,100,000	5,100,000	5,100,000	5,100,000
Unassigned Funds	1,630,451	2,655,877	2,471,644	2,807,989	3,318,638
Gross Written Premiums	1,260,756	0	(149,427)	(322,963)	10,908,382
Loss and LAE Incurred	(219,120)	(361,945)	821,918	(150,918)	(1,617,538)

\*Per Examination

## MARKET CONDUCT ACTIVITIES

### Plan of Operation

The Company was not issuing policies and in run-off during the examination until August of 2012. On August 1, 2012, the Company began to issue commercial property and casualty insurance and workers' compensation insurance policies again. Their primary product lines are commercial multi-peril, workers' compensation and commercial auto. The Company's plan is to grow its book of business in the territories in which the Company is licensed in its former territories writing its traditional lines of business.

### Territory

At the examination date, the Company was licensed to transact business in the following nine states: Alabama, Georgia, Indiana, Kentucky, Mississippi, Oklahoma, South Carolina, Tennessee, and Virginia. The Certificates of Authority for the respective jurisdictions were inspected for the period under review and found to be in order. Authorized lines were compared with the lines of business shown in the Underwriting and Investment Exhibits of the 2012 Annual Statement, and no discrepancies were noted.

### Policy Forms and Underwriting

### Statistical Reporting

The Company was a member of the National Council on Compensation Insurance (NCCI) and the Insurance Services Office (ISO) was the Company's designated statistical agent.

### Underwriting and Rating

A random sample of seventy-nine Alabama premium transactions was selected from a population of ninety-three premium transactions in 2012. The examiners recalculated the premium amounts and verified that the premium was calculated in accordance with the Company's underwriting guidelines. It was verified that Company's policies and endorsements were issued to the applicants in a timely

manner. The examiner also reviewed samples of Alabama canceled policies and rejected applications for insurance for completeness and accuracy and whether notices were sent timely. No noteworthy discrepancies were noted during the review.

#### Policy Forms

The examination indicated that all of the forms endorsements and premium rates utilized in Alabama during the examination period had been properly filed and approved by the Alabama Department of Insurance.

#### Advertising and Marketing

The Company did not have a formal advertising program at December 31, 2012. The Company utilized independent producers to write business. The independent producers must get approval from the Company's management for any advertisement in which the Company's name is utilized. No such requests were made during the examination period. The Company had an Internet website, www.aric.cc, which indicated the physical location of the Company and its lines of business being sold.

#### Claims Handling

The examiners selected a sample of 82 Alabama paid claims during the year 2012 from a population of 256 paid claims. The examiners completed a time study of the sample of Alabama paid claims. The claims were paid in a timely manner and were completely documented to support the ultimate claim settlement determination. The examiners also reviewed the Company's Alabama closed-without payment claims during the examination period. The Company had a total of 34 Alabama closed-without payment claims. The Company's closed-without payment claims were determined to be denied for a reasonable basis and referenced a specific policy provision. The Company provided the examiners with the Alabama population of litigated claims during the examination period. The examiner elected to review the entire population of the closed Alabama litigated claims. The litigated files did not indicate any problematic claim handling practices.

#### Policyholder Complaints

The examiner made an inspection of the Company's complaint register during the examination period. The Company recorded five complaints during the examination period. Two of the five complaints were Alabama complaints received by the Alabama Department of Insurance. The examiner reviewed the two Alabama complaints and determined that the Company fully addressed the complaints. The Company's management indicated that no consumer direct complaints were received.

The Company provided the proper documentation for its complaints and fully addressed the issues raised. The Company provided timely responses to those complaints in accordance with ALA. ADMIN. CODE 482-1-118.06(1999), which states,

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the

insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

### Compliance with Producer's Licensing Requirements

#### Appointment of Producers

The examiners reviewed 56 commission payments paid to the Company's Alabama producers. It was determined that the Company paid commissions to five producers that were not properly appointed with the Department by the Company prior to the agent receiving the commission payment in accordance with ALA. CODE §27-7-30(1975)(a), which states,

Each insurer appointing a producer in this state shall file with the commissioner, in a format approved by the commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted, whichever occurs first. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request.

It was also determined that the Company was subject to ALA. CODE §27-7-4.1(1975), which states,

(a) No insurer or producer shall pay, directly or indirectly, any commission or other valuable consideration to any person for services as a producer or service representative within this state unless the person holds a currently valid license as a producer or service representative as to the kind or class of business involved as required by this chapter.

(b) Any insurer or producer violating this section shall be liable for a fine in an amount of up to three times the amount of the commission paid. The fine shall be levied and collected by the commissioner. Upon failure to pay the fine the commissioner may, in the commissioner's discretion, revoke the license of the producer or the insurer's certificate of authority.

The examiners determined that the commissions paid to the five producers were equal to \$23,799, which represents the commissions paid prior to being appointed with the Company.

#### Terminated Producers

The examiner selected a sample of 79 Alabama producer terminations from a population of 140. The Company did not send notifications to the Department for 79 of the terminated producers notifying the Department of the terminations within thirty days following the effective date of the terminations in accordance with ALA. CODE §27-7-30(e)(1975), which states,

Subject to the producer's contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized, representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the

termination, using a format prescribed by commissioner, give notice of the termination to commissioner.

### Privacy Standards

The Company wrote only commercial and workers' compensation insurance during the period under review. ALA. ADMIN. CODE 482-1-122.02(b)(2002) states,

... This regulation does not apply to information about companies or about individuals who obtain or seek to obtain products or services for business, commercial or agricultural purpose nor does it apply to workers compensation claims, workers compensation insurance, workers compensation program or employee welfare benefits plans as defined in 29 U.S. CODE §1002(1) or any third party administrator to the extent it provides services to a workers compensation program or employee welfare benefit plan.

The Company is not required to comply with ALA. ADMIN. CODE 482-1-122(2002) because the Company only writes commercial and workers' compensation insurance policies.

### REINSURANCE

#### Assumed Reinsurance

The Company had no assumed premiums during the period covered by the examination. At December 31, 2012, the Company reported \$351,000 of Known Case Loss and LAE Reserves in Schedule F – Part 1 of the 2012 Annual Statement. The assumed business related to a former affiliate, Kentucky National Insurance Company, which is in run-off. The reinsurance treaties have not been renewed since 1986.

#### Ceded Reinsurance

The Company had the following ceded reinsurance programs in place at the examination date of December 31, 2012. The Company had a multiple line excess of loss reinsurance agreement providing excess of loss reinsurance at various limits and retentions per line of coverage. The Company had a Property catastrophe excess of loss reinsurance agreement providing a combined \$2,000,000 excess of \$500,000. The Company had a casualty excess of loss reinsurance agreement providing \$2,000,000 excess of \$1,000,000 reinsurance. The Company had a 100% quota share agreement in which it ceded all of its liabilities for Employment Practices and Liability exposure. The Company had a 100% quota share in which it ceded all of its liability exposure for equipment breakdown.

#### Multiple Line Excess of Loss Reinsurance Agreement

The reinsurance contract period was from August 1, 2012 to July 31, 2013. The reinsurance intermediary was Trean Reinsurance Services, LLC. The business reinsured was all business classified as property insurance and business classified as casualty by the Company. The reinsurer agreed to pay 100% of the ultimate net loss exceeding the retention up to the limit of reinsurance. The retention and limits of reinsurance per line of insurance were as follows.

Property: Retention - \$350,000/Limit - \$650,000 any risk, \$1,950,000 any one occurrence  
 Casualty: Retention - \$350,000/Limit - \$650,000 any one occurrence  
 Property and Casualty combined: Retention - \$350,000/Limit - \$650,000 per contract period

The participating reinsurers were as follows.

Scor Reinsurance Company	40.0%
Platinum Underwriters Reinsurance, Inc.	35.0%
Odyssey Reinsurance Company	25.0%

Property Catastrophe Excess of Loss Reinsurance Agreement

The Company had property catastrophe excess of loss reinsurance providing combined \$2,000,000 excess of \$500,000 reinsurance. The reinsurance contract period was from August 1, 2012 to July 31, 2013. The reinsurance intermediary was Trean Reinsurance Services, LLC. The multiple line excess of loss reinsurance agreement inures to the benefit of the property catastrophe excess of loss agreement. The reinsurance provided was for any one occurrence and the agreement requires that ultimate net loss from at least two risks be ceded before any ultimate net loss can be ceded to the reinsurer. The business reinsured was all business classified as property insurance by the Company. The agreement involved two layers of excess of loss reinsurance. The first layer provided reinsurance for 100% of the ultimate net loss with a limit of \$500,000, excess of the \$500,000 retention. The second layer provided reinsurance for 100% of the ultimate net loss with a limit of \$1,500,000, excess of \$1,000,000. Except for Odyssey Reinsurance Corporation, all of the reinsurers were members of Lloyd's, London. The reinsurers were as follows.

Layer 1

MAP Syndicate #2791	22.37%
Amlin Syndicate	22.37%
Novac Syndicate #2007	22.37%
Amlin Bermuda	17.89%
Odyssey Reinsurance Corporation	15.00%

Layer 2

MAP Syndicate #2791	22.37%
Amlin Syndicate	22.37%
Novac Syndicate #2007	22.37%
Amlin Bermuda	17.89%
Odyssey Reinsurance Corporation	15.00%

Casualty Excess of Loss Reinsurance Agreement

The reinsurance contract period was from August 1, 2012 to July 31, 2013. The reinsurance intermediary was Trean Reinsurance Services, LLC. The business reinsured was all business classified as casualty by the Company. The reinsurer agreed to pay 100% of the ultimate net loss exceeding the retention of \$1,000,000 up to the limit of reinsurance of \$2,000,000, any one loss occurrence. The participating reinsurers were as follows.

Scor Reinsurance Company	40.0%
Platinum Underwriters Reinsurance, Inc.	35.0%
Odyssey Reinsurance Company	25.0%

#### Employment Practices and Liability Reinsurance Agreement

The Company had an employment practices and liability 100% quota share agreement. The reinsurance contract period began October 1, 2012, and the agreement was to remain in effect until terminated. The agreement may be terminated on the anniversary date by either party giving the other party 90 days prior written notice. Under the terms of the agreement, the Company is obligated to cede and the reinsurer is obligated to accept the Company's net liability under all policies issued or renewed on or after the effective date classified by the Company as Employment Practices Liability Insurance. The intermediary was NAS Insurance Services, Inc. The intermediary is to investigate, negotiate, and enter into settlement agreements and defend all claims and losses in accordance with the terms of coverage. The participating reinsurers were syndicate members of Lloyd's, London. The participating reinsurers were as follows.

R J Kiln & Company, Ltd. Syndicate #510	32.16%
Amlin Underwriting, Ltd., Syndicate #2001	18.65%
Atrium Underwriters, Ltd. Syndicate #609	16.72%
Chaucer Syndicates, Ltd. Syndicate #1084	9.32%
Ark Syndicate Management, Ltd. Syndicate #4020	8.04%
Aegis Managing Agency, Ltd. Syndicate #1225	6.43%
S A Meacock & Company, Ltd. Syndicate #727	4.50%
Canapious Managing Agents, Ltd. Syndicate #4444	1.61%
Canapious Managing Agents, Ltd. Syndicate #958	1.61%
Hiscox Syndicates, Ltd. Syndicate #33	0.96%

#### Equipment Breakdown 100% Quota Share Reinsurance Agreement

The reinsurer is Hartford Steam Boiler Inspection and Insurance Company. The reinsurance contract period began September 15, 2012, and the agreement was to remain in effect until terminated. The agreement may be cancelled by either party giving the other party 180 days prior notice in writing. Under the terms of the agreement, the Company is obligated to cede and the reinsurer is obligated to accept 100% of the equipment breakdown liability of the Company under its policies as respects accidents occurring on or after the effective date of the contract. The limit of liability to the reinsurer is \$25,000,000 for any one accident. The reinsurer has the right to inspect each risk reinsured. In the event any cession becomes unsatisfactory to the reinsurer due to underwriting reasons, the reinsurer may cancel the reinsurance with respect to such cession by giving 30 days written notice to the Company.

#### ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums, losses, and underwriting and policy records electronically.

The Company was audited annually by the certified public accounting (CPA) firm of Russell Thompson Butler & Houston, LLP for each year under examination. The Company has been

audited by the same CPA firm since 1993. The examination indicated that the engagement partner was properly rotated. The CPA workpapers were utilized for the examination to the extent determined to be appropriate.

During the years under examination, the Company's opining actuary was Mr. N. Terry Godbold, ACAS, MAAA, FCA, of Pinnacle Actuarial Resources, Inc.

## FINANCIAL STATEMENTS

The financial statements included in this report were reported on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2012. Amounts shown in the comparative statements for the years 2008, 2009, 2010, and 2011 were compiled from the Company's copies of Annual Statements. The statements were presented in the following order.

Statement of Assets, Liabilities, Surplus and Other Funds	Page 16
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Capital and Surplus Account	Page 18

American Resources Insurance Company  
Statement of Assets, Liabilities, Surplus and Other Funds  
For the Year Ended December 31, 2012

Assets

	<u>Asset</u>	<u>Non-Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$14,951,843		\$14,951,843
Common stocks	597,995		597,995
Mortgage loans on real estate	593,182		593,182
Real estate: Properties held for the production of income	1,269,198		1,269,198
Cash and short-term investments	2,305,841		2,305,841
Investment income due and accrued	137,046		137,046
Premiums and considerations: Uncollected premiums and agents balances in the course of collection	118,205		118,205
Premiums and considerations: Deferred premium, agents' balances and installments booked but deferred and not yet due	664,507		664,507
Reinsurance: Amounts recoverable from reinsurers	237,656		237,656
Net deferred tax asset	2,915,865	2,383,581	532,284
Electronic data processing equipment	15,447		15,447
Furniture and equipment, including healthcare delivery asset	30,528	30,528	
Other assets	400	400	
Other receivable	32,400		32,400
Remaining write-in assets	47,494		47,494
<b>Total</b>	<b>\$23,917,607</b>	<b>\$2,414,509</b>	<b>\$21,503,098</b>

Liabilities, Surplus and Other Funds

Losses	\$10,487,331
Loss adjustment expenses	807,264
Commissions payable, contingent liabilities and other similar charges	3,454
Other expenses	91,093
Taxes, licenses and fees	127,991
Unearned premiums	665,734
Ceded reinsurance premiums payable	(183,004)
Funds held by company under reinsurance treaties	171,430
Amounts withheld or retained by company for account of others	7,476
Provision for reinsurance (Note 1)	437,553
Deposits held	12,020
Funds due association	85,967
Other liability	149,220
Remaining write-ins	4,018
<b>Total Liabilities</b>	<b>\$12,867,547</b>
Additional admitted deferred tax assets	405,100
Common capital stock	1,500,000
Gross paid in and contributed surplus	5,100,000
Unassigned funds (Note 2)	1,630,451
Surplus as regards policyholders	\$8,635,551
<b>Totals</b>	<b>\$21,503,098</b>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

American Resources Insurance Company  
 Summary of Operations  
 For the Years Ended December 31, 2008, 2009, 2010, 2011, and 2012

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Underwriting Income</b>					
Premiums earned	\$140,793	\$7,407	\$9,083	\$14,849	\$(3,438,534)
Losses incurred	(748,159)	(944,900)	(385,341)	(1,183,330)	(2,731,434)
Loss adjustment expenses incurred	529,039	582,955	1,207,259	1,032,412	1,113,896
Other underwriting expenses incurred	<u>1,469,826</u>	<u>559,553</u>	<u>554,589</u>	<u>796,819</u>	<u>1,074,550</u>
Total underwriting deductions	<u>\$1,250,706</u>	<u>\$197,608</u>	<u>\$1,376,507</u>	<u>\$645,901</u>	<u>\$(542,988)</u>
Net underwriting gain (loss)	\$(1,109,913)	\$(190,201)	\$(1,367,424)	\$(631,502)	\$(2,895,546)
<b>Investment Income</b>					
Net investment income	\$278,967	\$471,822	\$861,725	\$1,112,841	\$1,499,943
Net realized capital gains (losses) less capital gains tax	<u>333,372</u>	<u>166</u>	<u>163,926</u>	<u>32,697</u>	<u>81,856</u>
Net investment gain or (loss)	\$612,340	\$471,988	\$1,025,651	\$1,145,538	\$1,581,799
<b>Other Income</b>					
Net gain or (loss) from agents or premium balances charged off	\$78	\$3,310	\$1,133	\$(85,221)	\$(64,973)
Finance and service charges not included in premiums	738			7,209	55,103
Other income	<u>106,151</u>	<u>12,024</u>	<u>508,258</u>	<u>203,300</u>	<u>48,547</u>
Total other income	<u>\$106,967</u>	<u>\$15,334</u>	<u>\$509,391</u>	<u>\$125,288</u>	<u>\$38,677</u>
Net income	\$(390,606)	\$297,121	\$167,618	\$639,774	\$1,275,070

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

American Resources Insurance Company  
 Capital and Surplus  
 For the Years Ended December 31, 2008, 2009, 2010, 2011, and 2012

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Surplus as regards policyholders December 31 prior year	\$9,794,979	\$9,606,655	\$9,777,120	\$12,918,638	\$13,046,474
Net income	(390,606)	297,121	167,618	639,774	(1,275,070)
Change in net unrealized capital gains or (losses) less capital gains tax	(34,127)	33,248	9,832	4,126	(37,552)
Change in net deferred income tax	194,602	(50,425)	24,347	(200,967)	545,989
Change in nonadmitted assets	(326,570)	76,020	(141,476)	(171,310)	(542,356)
Change in provision for reinsurance	(430,211)	(3,342)	112,413	(69,941)	1,871,554
Change in surplus notes				(3,000,000)	
Dividends to stockholders	(172,515)	(164,297)	(343,200)	(343,200)	(690,400)
Change in surplus as regards policyholders for the year	\$(1,159,428)	\$188,325	\$(170,466)	\$(3,141,518)	\$(127,836)
Surplus as regards policyholders, December 31 current year	\$8,635,551	\$9,794,979	\$9,606,655	\$9,777,120	\$12,918,638

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Provision for reinsurance

\$437,553

The above captioned amount is \$388,405 more than the \$49,148 reported by the Company in its 2012 Annual Statement.

The Company reported two reinsurers, Hermitage Insurance Company and Excalibur Reinsurance Corporation, as authorized reinsurers in its 2012 Annual Statement. The examination indicated that the two reinsurers were not approved reinsurers of the Alabama Department of Insurance and the reinsurance was determined to be unauthorized. The Company did not hold any collateral for unauthorized reinsurance in connection with balances due from either of these reinsurers. The balances with each of these reinsurers were reclassified as balances with unauthorized reinsurers and the Provision for reinsurance was recalculated. The recalculation resulted in an additional Provision for reinsurance necessary for these two reinsurers of \$388,405.

### Note 2 – Unassigned funds

\$1,630,451

The above captioned amount is \$388,405 less than the \$2,018,856 reported by the Company in its 2012 Annual Statement. The following is a reconciliation of Unassigned funds per the examination.

Unassigned funds per Company	\$2,018,856
Examination decrease (increase) to liabilities:	
Provision for reinsurance	<u>\$ (388,405)</u>
Total Unassigned funds per examination	<u>\$1,630,451</u>

## COMMENTS AND RECOMMENDATIONS

### Compliance with Producer Licensing Requirements - Page 10

**It is recommended** that the Company properly appoint its producers in accordance with ALA. CODE §27-7-30(1975)(a), which states,

Each insurer appointing a producer in this state shall file with the commissioner, in a format approved by the commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted, whichever occurs first. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request.

**It is recommended** that the Company send notifications to the Commissioner in accordance with ALA. CODE §27-7-30(e)(1975), which states,

Subject to the producer's contract rights, if any, an insurer, or authorized representative of the insurer, may terminate a producer's appointment at any time. An insurer, or authorized representative of the insurer, that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by commissioner, give notice of the termination to commissioner.

**It is recommended** that the Company properly identify unauthorized reinsurance and record the necessary Provision for reinsurance for uncollateralized balances with unauthorized reinsurers.

#### CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of the contingent liabilities and pending litigation included an inspection of representations made by management, consideration of the CPAs work performed with respect to testing unreported contingent liabilities, and a review of the Company's transactions subsequent to the examination date. The review did not indicate any unreported or undisclosed contingent liabilities as of December 31, 2012.

#### COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The examiners performed procedures to verify that the Company complied with the recommendations resulting from the previous combined financial and market conduct examination conducted by the Alabama Department of Insurance. The results of the procedures were that the Company complied with the recommendations with the following exception.

The previous Report of Examination included a recommendation for the Company to record the appropriate Provision for reinsurance for all unauthorized reinsurance. The Company erroneously identified some unauthorized reinsurance as authorized. This examination indicated that the Company erroneously identified reinsurance associated with two reinsurers as authorized that the examination determined was unauthorized reinsurance. The Company did not comply with the recommendation.

#### SUBSEQUENT EVENTS

The review of the events subsequent to December 31, 2012, did not reveal anything material in amount or noteworthy in nature, except for the following.

As of the examination date, the Ultimate Reserve Trust (UR Trust) owned 23.492% of the outstanding stock of ARIC Investments, Inc. (Investments, Inc.), the sole shareholder of the Company. The Company was the beneficiary of the UR Trust and the Company was to receive all of the residual in the UR Trust when all obligations of the UR Trust were settled. On December 31, 2013, the UR Trust was dissolved and all of its assets were distributed to the Company. The Company relinquished the shares of stock in Investments, Inc. to Investments, Inc. Investments, Inc. cancelled all of the shares formally held by the UR Trust.

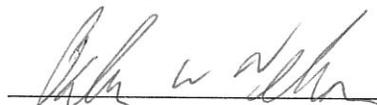
CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing American Resources Insurance Company during this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Theo Goodin, MCM, and Charles Turner, CISA, Examiners; and Brent Sallay, FCAS, MAAA of Taylor Walker & Associates, Consulting Actuary; all representing the Alabama Department of Insurance, participated in this examination of American Resources Insurance Company.

Respectfully submitted,



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Palmer W. Nelson, CFE  
Examiner-in-Charge  
Alabama Department of Insurance