

**EXAMINATION REPORT**  
**OF THE**  
**AMERICAN BUSINESS & MERCANTILE INSURANCE MUTUAL, INC.**  
**AS OF**  
**DECEMBER 31, 2016**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2016 of

**AMERICAN BUSINESS & MERCANTILE INSURANCE MUTUAL, INC.**

is a true and correct copy of the document filed with this Department.

Attest By: *Rafael Brown*

Date: March 29, 2018



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 29<sup>th</sup> day of March, 2018.

*Trinidad Navarro*  
Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF  
AMERICAN BUSINESS & MERCANTILE INSURANCE MUTUAL, INC.  
AS OF  
DECEMBER 31, 2016

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink that reads "Trinidad Navarro".

---

Trinidad Navarro  
Insurance Commissioner

Dated this 29<sup>th</sup> day of March, 2018

## TABLE OF CONTENTS

<u>SALUTATION</u> .....	1
<u>SCOPE OF EXAMINATION</u> .....	1
<u>SUMMARY OF SIGNIFICANT FINDINGS</u> .....	3
<u>COMPANY HISTORY</u> .....	4
SURPLUS NOTES .....	4
DIVIDENDS TO POLICYHOLDERS .....	5
<u>MANAGEMENT AND CONTROL</u> .....	5
MEMBERSHIP .....	5
DIRECTORS .....	5
OFFICERS .....	6
CORPORATE RECORDS .....	6
HOLDING COMPANY SYSTEM .....	6
MANAGEMENT AND SERVICE AGREEMENTS .....	7
<u>TERRITORY AND PLAN OF OPERATION</u> .....	10
<u>REINSURANCE</u> .....	10
<u>FINANCIAL STATEMENTS</u> .....	12
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS .....	13
STATEMENT OF INCOME .....	14
RECONCILIATION OF CAPITAL AND SURPLUS .....	15
<u>ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION</u> .....	15
<u>COMMENTS ON FINANCIAL STATEMENT ITEMS</u> .....	15
<u>SUBSEQUENT EVENTS</u> .....	15
<u>SUMMARY OF RECOMMENDATIONS</u> .....	15
<u>CONCLUSION</u> .....	16

## **SALUTATION**

February 15, 2018

Honorable Trinidad Navarro  
Insurance Commissioner  
Delaware Department of Insurance  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 17.006, dated April 5, 2017, an examination has been made of the affairs, financial condition and management of the

### **AMERICAN BUSINESS & MERCANTILE INSURANCE MUTUAL, INC.**

hereinafter referred to as (“Company” or “ABMIM”), incorporated under the laws of the State of Delaware as a mutual company with its home office located at 2711 Centerville Road, Wilmington, Delaware 19808. The main administrative office is located at 307 North Michigan Avenue, Chicago Illinois 60601.

The examination report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

In coordination with the Pennsylvania Insurance Department (“PID”), we have performed our examination of American Business & Mercantile Insurance Mutual, Inc., a multi-state insurer.

The previous examination was conducted as of December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2016.

The PID is the lead state for the coordinated examination of the groups of U.S. based insurance companies controlled by Old Republic International Corporation (“ORI”). The examination was conducted for the three following subgroups of ORI: the General Insurance and Life Group, the Title Group and the Mortgage Group. ABMIM is part of the General Insurance Group. The other companies in the General Insurance Group are as follows:

Company	State
BITCO General Insurance Corporation (“BGI”)	IL
BITCO National Insurance Company (“BNI”)	IL
Old Republic General Insurance Corporation (“ORGENCO”)	IL
Old Republic Life Insurance Company (“ORLIC”)	IL
Old Republic Security Assurance Company (“ORSAC”)	IL
Old Republic Union Insurance Company (“ORUIC”)	IL
Republic Credit Indemnity Company (“RCIC”)	IL
Great West Casualty Company (“GWCC”)	NE
Manufacturers Alliance Insurance Company (“MAICO”)	PA
Old Republic Insurance Company (“ORINSCO”)	PA
PA Manufacturers’ Association Insurance Company (“PMAIC”)	PA
PA Manufacturers Indemnity Company (“PMIC”)	PA
Old Republic Lloyds of TX (“ORLOT”)	TX
Old Republic Surety Company (“ORSC”)	WI

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“NAIC Handbook”). The NAIC 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.

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, pursuant to the General Corporation Law of the State of Delaware as required by 18 Del. C. §321, along with 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.

During the course of this examination, consideration was given to work performed by the Company's external auditing firm, KPMG LLP ("KPMG"). Certain auditor work papers have been incorporated into the work papers of the examination.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material adjustments to the Company's financial statements that warranted disclosure in this examination report.

## **COMPANY HISTORY**

The Company was incorporated on July 9, 1981 as American Business & Mercantile Insurance Mutual Inc., and commenced business January 29, 1982 under the laws of the State of Delaware. On October 16, 1995 the Company's Articles of Incorporation were amended to change the Company's name to American Business & Personal Insurance Mutual, Inc. On October 11, 2012, the Company's Articles of Incorporation were amended to change the Company's name back to American Business & Mercantile Insurance Mutual, Inc. The Company's bylaws were restated on September 7, 2012 to reflect the Company's name change to American Business & Mercantile Insurance Mutual, Inc.

As set forth in its Charter, the Company was organized as a mutual insurance company under 18 Del. C. § 4905(b) Mutual insurers – Initial qualifications, under the aegis of the Old Republic group of insurance companies. The Company was originally formed to provide insurance coverage (mostly workers' compensation) to small coal mining companies. The coal mining insurance business proved to be unprofitable and the line (covering both occupational and traumatic workers' compensation exposures) was placed in run-off in the late 1980's, as it remains today.

### Surplus Notes

On December 24, 2008 the Company issued a Variable Rate Subordinated Surplus ("VRSS") Note No. 8 payable in the amount of \$5,000,000 to Inter Capital Group, Inc. ("ICG"). VRSS Note No. 8 was due September 23, 2023 and carried a variable interest rate equal to 400 basis points over the one month London Interbank Offered Rate ("LIBOR"). In September 2014, the Company redeemed the note issued to ICG with a \$5,000,000 cash transfer.

On December 15, 2011 the Company issued VRSS notes, payable in the aggregate amount of \$10,500,000 to ORI. The VRSS Notes are issued for a 30 year term and carry variable interest rates equal to 450 basis points over the one month LIBOR. Interest is payable quarterly on the last

business day of March, June, September and December of each year. As of December 31, 2016, capital totaling \$10,500,000 consisted of variable rate subordinated surplus notes to ORI.

Dividends to Policyholders

No dividends were paid to policyholders during the period under examination.

**MANAGEMENT AND CONTROL**

Membership

The bylaws were restated as of September 7, 2012. The bylaws state that every person, partnership, firm, association, corporation, estate, trustee and fiduciary insured by the Company as a policyholder under one or more policies issued by the Company, other than a reinsurance contract, shall be a member of the Company.

Directors

The bylaws state that the Company's business and affairs are to be managed by a Board of Directors consisting of not less than three (3) or more than seven (7) directors. The directors are to be elected at the annual meeting of the Membership and hold office until a successor is elected and qualified. It is not necessary for the directors to be members.

The following individuals, elected by unanimous vote, constituted the Board of Directors as of December 31, 2016:

<u>Name</u>	<u>Principal Business Affiliation</u>
Aldo Charles Zucaro	Board Chairman and Chief Executive Officer Old Republic International
Karl William Mueller	Senior Vice President and Chief Financial Officer Old Republic International
Richard Scott Rager	President Old Republic International

## Officers

The bylaws state that the officers of the Company shall consist of a Chairman of the Board, a President, as many Vice Presidents for general and specific purposes as needed, a Secretary and a Treasurer, and one or more Assistant Vice Presidents, Assistant Secretaries or Assistant Treasurers.

The following key officers were elected for the year ending December 31, 2016:

<u>Name</u>	<u>Title with ABMIM</u>
Aldo Charles Zucaro	Board Chairman and Chief Executive Officer
Richard Scott Rager	President
Craig Richard Smiddy	Executive Vice-President and Chief Operating Officer
Karl William Mueller	Senior Vice-President and Chief Financial Officer
Charles Stuart Boone	Senior Vice-President and Treasurer
John Robert Heitkamp, Jr.	Senior Vice-President, Secretary and General Counsel
Fred Mario Savaglio	Vice-President, Controller and Assistant Treasurer

## Corporate Records

The recorded minutes were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del. C. §1304 “Authorization; record of investments”.

## Holding Company System

The Company is a member of the ORI holding company system as defined under 18 Del. C. 50, “Insurance Holding Companies”. ORI, a Delaware corporation, is the ultimate controlling entity of the holding company system. Because the Company is a mutual insurer, it is not owned by any ORI subsidiary or affiliate, however, ORI exerts significant influence and direction over the Company’s daily business affairs because key management, officers and directors within the holding company system comprise the Company’s Board of Directors and hold all the key officer positions.

The following organizational chart reflects the direct subsidiaries of the Company:



### Management and Service Agreements

The Company is party to several intercompany agreements; whereby, ORI affiliated companies perform management and general services on behalf of the Company. The agreements are as follows:

#### *Management Agreement*

The Company entered into a management agreement with affiliate Old Republic Marketing, Inc. (“ORM”), effective October 15, 1981. ORM performed management, underwriting, claims, accounting, and general services for the workers' compensation and employers' liability insurance for coal mining operators. The business is currently in run-off mode, with only the accounting and claims or loss servicing duties required. Effective January 1, 1983, ORINSCO was designated as agent to perform these services as set forth in the Management Agreement with ORM.

#### *Tax Allocation Agreement*

The Company entered into a tax sharing arrangement with its subsidiaries effective July 1, 1983. Addendums dated January 1, 1987 and January 1, 2001 include additional subsidiaries. Per the agreement, the Company files a consolidated federal tax return on behalf of itself and its subsidiaries. Funds are transferred between entities annually based on the differences between the consolidated filing and filing on a stand-alone basis.

*Reinsurance Management Agreement*

The Company entered into a reinsurance management agreement effective January 1, 1997 with an affiliate, Brummel Brothers, Inc. (f/k/a International Business & Mercantile Insurance Managers) (Brummel). The terms of the agreement allow Brummel to perform various administrative services pertaining to the Company's reinsurance operation including providing assistance in the administration, underwriting, preparation and placement of reinsurance. Brummel also provides assistance in the collection of premiums and payment of claims pursuant to the reinsurance it places. Brummel additionally provides assistance in the preparation and maintenance of reinsurance statements and reports and processing of related financial records and transactions. The charge to the Company for services and facilities provided is based upon a percentage of reinsurance premiums on a program by program basis not to exceed ten percent (10%).

*Administrative Services Agreement*

The Company entered into an administrative service agreement effective July 1, 2004 with affiliate Old Republic General Services, Inc. ("ORGS"). ORGS performs certain administrative services on behalf of the Company to include, but not limited to, accounting services, actuarial services, telecommunications services, legal services, computer services, electronic data processing services, facilities and integration, software programming, and computer hardware.

*Agency Contract*

The Company entered into an agency contract effective April 1, 2008 with Joe Morten & Son, Inc. ("JMS"), an ORI affiliated agency. Pursuant to the contract, JMS acts as an agent for the Company in the placement of property and casualty insurance.

*Service Agreement*

The Company entered into a service agreement with affiliate GWCC effective January 1, 2008. Pursuant to the agreement, GWCC performs underwriting, accounting, reporting, premium

collection/disbursement, and claims service to the Company and its reinsurers with respect to Commercial Automobile Physical Damage, Cargo & Non-Trucking use liability coverages.

*Claims Servicing Agreement*

The Company entered into a claims servicing agreement with affiliate GWCC effective July 1, 2009. Pursuant to the agreement, GWCC performs claims reporting and loss settlement duties on behalf of the Company with respect to the workers' compensation business for independent leased trucking operators.

*Managing General Agent Agreement*

The Company entered into a Managing General Agent agreement with affiliate Old Republic Agribusiness Underwriters, Inc. ("ORAU") effective June 30, 2009. ORAU will underwrite, administer, market, and consult with respect to commercial general liability, commercial automobile, and workers' compensation business on behalf of the Company. ORINSCO is the direct writer for premium. All ORAU business is assumed from ORINSCO under the Master Facultative Reinsurance Agreement described below in the section entitled "Reinsurance".

*Investment Counsel Services Agreement*

The Company entered into an investment counsel services agreement effective July 1, 2012 with affiliate Old Republic Asset Management Corporation ("ORAM") to advise and assist in the maintenance of its investment portfolio and perform certain investment counsel, management, and accounting services on behalf of the Company. ORAM will direct the Company's asset custodian, The Northern Trust Company, to investment instructions. The Company pays a service fee quarterly to ORAM based on the market value of the investment portfolio at the end of each quarter.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to transact business in the following jurisdictions:

Alaska	Iowa	Montana	Pennsylvania
Arizona	Kansas	Nebraska	Texas
Delaware	Kentucky	Nevada	Utah
District of Columbia	Michigan	New Mexico	Wisconsin
Georgia	Minnesota	North Carolina	
Illinois	Mississippi	North Dakota	
Indiana	Missouri	Oregon	

In 2008, the Company began to write direct workers' compensation coverage for the trucking industry, specifically for independent contractors who are on lease to motor carriers. This business is underwritten by an affiliate, GWCC.

## **REINSURANCE**

### Assumed

In 2009, the Company assumed 100% of policies for the coverage to animal feed processors written by ORAU and issued by ORINSCO under a Master Facultative Reinsurance Agreement. This business was placed in run-off in 2016. Additionally, the Company's excess capacity is utilized by assumption of small layer participations of ORI's general insurance subsidiaries. As of December 31, 2016, the Company's participation on various treaties was as follows:

- Aircraft Excess of Loss (Whole Account Excess) Treaty: ABMIM assumes 5% of the \$25M xs \$13M layer (Ceded by ORINSCO-business underwritten by OR Aerospace, Inc.)
- Casualty Excess of Loss Treaty: 5% of \$11.5M xs \$0.5M layer (Ceded by PMIC, MAICO and ORUIC to PMAIC and retroceded by PMAIC to ABMIM for business written by Old Republic Specialty Underwriters, Inc.)
- CORE Workers' Compensation Catastrophe Treaty: ABMIM assumes 3% of \$100M xs \$100M layer (Ceded by ORI general insurance group companies)
- Property Catastrophe Treaty: ABMIM assumes 5% of \$3M xs \$2M, \$5M xs \$5M and \$10M xs \$5M layers (Ceded by BNI to BGI and retroceded by BGI to ABMIM)
- Property Catastrophe Treaty: ABMIM assumes 5% of \$10M xs \$5M layer (Ceded by GWCC and Old Republic Insurance Company of Canada)

- PMA Property Catastrophe Excess of Loss - ABMIM assumes 5% of \$20M xs \$5M layer (Ceded by PMIC, MAICO and ORUIC to PMAIC and retroceded by PMAIC to ABMIM)

The Company also participates in layers ceded primarily by certain branches of ORINSCO for workers' compensation which are now inactive. This business includes ABMIM's participation in the National Workers' Compensation Reinsurance Pool.

### Ceded

The Company cedes a run-off block of workers' compensation business through quota share and excess of loss agreements. Originally, as of March 1, 1983, the Company retained 10% for the quota share treaty, however this was amended as January 1, 1985 to retain 15%. Per the quota share treaty, the Company retains 15% and cedes 60% of the business to affiliates and 25% to Munich Reinsurance America, Inc. (Munich). For the excess of loss coverage, the Company cedes 80% of the first excess other than occupational disease (\$1,700,000 each accident in excess of \$300,000 each accident) to Munich and 20% to ORINSCO. The Company cedes 100% of the second excess other than occupational disease (\$4,000,000 each accident in excess of \$2,000,000 each accident) to Munich Re America Corporation. The Company maintains separate occupational disease coverage.

The Company cedes \$4.5M in excess of \$500,000 of the business written by ORAU and assumed from ORINSCO through an excess of loss agreement placed primarily with external reinsurers. This agreement was terminated in 2016 due to discontinuation of the business.

The Company has an agreement of quota share and excess of loss reinsurance with GWCC. The Company cedes 20% of the business written for workers' compensation coverage for the trucking industry to GWCC through a quota share agreement, subject to a maximum retention per occurrence of \$400,000 with excess of loss coverage attaching at \$500,000 subject to a maximum loss of \$5M each occurrence.

**FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Delaware Department of Insurance and present the financial condition of the Company for the period ending December 31, 2016:

Statement of Assets, Liabilities, Surplus and Other Funds  
Statement of Income  
Reconciliation of Capital and Surplus

Statement of Assets, Liabilities, Surplus and Other Funds  
December 31, 2016

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$ 17,669,212	\$ 0	\$ 17,669,212
Preferred Stocks			
Common Stocks	38,393,179	0	38,393,179
Cash	5,206,491	0	5,206,491
Subtotals, cash and invested assets	<u>\$ 61,268,882</u>	<u>\$ 0</u>	<u>\$ 61,268,882</u>
Investment income due and accrued	220,312	0	220,312
Uncollected premiums, agents' balances in the course of collection	1,037,638	0	1,037,638
Deferred premiums and agents' balances and installments booked but deferred and not yet due	1,623,290		1,623,290
Amounts recoverable from reinsurers	317,184	0	317,184
Current federal income tax recoverables	30,596	0	30,596
Receivables from parent, subsidiaries and affiliates	149,085	0	149,085
<b>Totals</b>	<u><u>\$ 64,646,987</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 64,646,987</u></u>
Losses			\$ 28,528,605
Reinsurance payable on paid losses and LAE			931,024
Loss adjustment expenses			2,107,278
Commissions payable, contingent commissions			1,517
Other expenses			33,297
Taxes, licenses and fees due and accrued			96,000
Unearned premiums			1,895,614
Ceded reinsurance premiums payable			416,512
Amounts withheld or retained by company for account of others			602
Drafts outstanding			3,748
Aggregate write-ins for liabilities			6,051
<b>Total Liabilities</b>			<u>\$ 34,020,248</u>
Surplus notes			\$ 10,500,000
Unassigned funds (surplus)			20,126,739
Surplus as regards policyholders			<u>\$ 30,626,739</u>
<b>Totals</b>			<u><u>\$ 64,646,987</u></u>

Statement of Income  
For the year ending December 31, 2016

<u>Underwriting Income</u>	
Premiums earned	\$ 3,743,430
<u>Deductions</u>	
Losses incurred	4,287,305
Loss adjustment expenses incurred	541,166
Other underwriting expenses incurred	1,474,192
Total underwriting deductions	<u>\$ 6,302,663</u>
Net underwriting gain or (loss)	<u>\$ (2,559,233)</u>
<u>Investment Income</u>	
Net investment income earned	\$ 1,713,917
Net realized capital gains or (losses)	211,836
Net investment gain or (loss)	<u>\$ 1,925,753</u>
Net income before dividends to policyholders and before federal income taxes	\$ (633,480)
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders and before federal income taxes	<u>\$ (633,480)</u>
Federal income taxes incurred	<u>\$ 78,983</u>
Net income (loss)	<u><u>\$ (712,463)</u></u>

**Reconciliation of Capital and Surplus**  
**December 31, 2012 to December 31, 2016**

Capital and Surplus, December 31, 2012	\$ <u>27,447,886</u>
Net income	\$ (3,835,888)
Change in net unrealized capital gains or (losses)	11,147,414
Change in unrealized foreign exchange capital	(9)
Change in net deferred income tax	902,567
Change in non-admitted assets and related items	5,002,000
Change in surplus notes	(5,000,000)
Aggregate write in - Prior year correction	<u>(5,037,231)</u>
Change in surplus as regards policyholders	<u>\$ 3,178,853</u>
Capital and Surplus, December 31, 2016	<u>\$ 30,626,739</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes in the financial statements resulting from the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

There were no comments on financial statement items as a result of the examination.

**SUBSEQUENT EVENTS**

There were no significant subsequent events that warranted disclosure in this report.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations that warrant disclosure in this report.

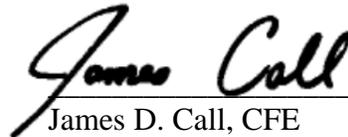
**CONCLUSION**

The assistance of the Delaware Insurance Department's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's external audit firm, KPMG and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Lu Ann D. Therrell, CFE  
Examiner In-Charge  
Delaware Department of Insurance



James D. Call, CFE  
Supervisor In-Charge  
Delaware Department of Insurance