



Report of Examination of

Owners Insurance Company
Lima, Ohio

As of December 31, 2010

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Columbus, Ohio
April 5, 2012

Mr. Joseph Torti, III
National Association of Insurance Commissions
Financial Condition (E) Committee
Deputy Director and Superintendent of Insurance
Rhode Island Department of Business Regulation Division of Insurance Regulation
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920-4407

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam and Sir:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”) the Ohio Department of Insurance (“Department”) conducted an examination of

Owners Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company”.

Scope of Examination

The Department last examined the Company as of December 31, 2007. The Department’s current examination covers the period from January 1, 2008 to and including December 31, 2010.

Representatives of the Michigan Office of Financial & Insurance Regulation, as the coordinating state regulator of the insurance company affiliates of Auto-Owners Insurance Company, led the multi-state coordinated examination that included representatives from the States of Indiana and Ohio. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement

presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For each year during the period under examination, the Certified Public Accounting ("CPA") firm of PricewaterhouseCoopers LLP ("PWC") has provided an unqualified opinion based on Statutory Accounting Principles. The audited financial reports and work papers were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
John W. Abbott	President & Chief Executive Officer, Summit Community Bank
James F. Anderton, IV	Chief Executive Officer, Maplegrove Property Management, LLC
Herman J. Arends	Retired Chairman and Chief Executive Officer, Auto-Owners Insurance Company
Stuart R. Birn	First Vice-President, Secretary & General Counsel, Auto-Owners Insurance Company
Thaddeus J. Buda, Jr.	Retired First Vice-President, Secretary & General Counsel, Auto-Owners Insurance Company
Gregg L. Cornell	Retired Treasurer, Auto-Owners Insurance Company
Jeffrey F. Harrold	Chief Executive Officer, Auto-Owners Insurance Company
Mark E. Hooper	Partner, Andrew, Hooper & Pavlic, PLC

Roger L. Looyenga	Retired Chairman and Chief Executive Officer, Auto-Owners Insurance Company
Lori A. McAllister	General Counsel, Dykemic, Gossett, PLLC
Katherine M. Noirot	Senior Vice-President Marketing & Sales, Auto-Owners Insurance Company
Rodney J. Rupp	Executive Vice-President, Auto-Owners Insurance Company
Ronald H. Simon	Chairman, Auto-Owners Insurance Company
Jeffrey S. Tagsold	President, Auto-Owners Insurance Company

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
Jeffrey F. Harrold	Chief Executive Officer
Stuart R. Birn	First Vice President, Secretary and General Counsel
Eileen K. Fhaner	Senior Vice President, Treasurer and Chief Financial Officer
Jeffrey S. Tagsold	President
Rodney J. Rupp	Executive Vice President
Robert I. Buchanan	Senior Vice President
Katherine M. Noirot	Senior Vice President
Jonathan R. Riekse	Senior Vice President
Kenneth R. Schroeder	Senior Vice President
Daniel J. Thelen	Senior Vice President
Ian R. Ward	Senior Vice President

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The parent company, Auto-Owners Insurance Company ("Auto-Owners"), an insurance company domiciled in the State of Michigan, owns 99.9% of the stock of the Company.

Territory and Plan of Operations

The Company is licensed to operate in thirty-one states and the Company is actively writing and assuming business in 25 states. The Company writes primarily property and casualty lines in both personal and commercial lines. The Company's products and services are distributed exclusively through the independent agency system.

During 2010, the largest 5 states in terms of direct premium written were as follows: Minnesota \$205.5 million (14.6%); Georgia \$151.2 million (10.7%); Illinois \$129.9 million (9.2%); Ohio \$97.1 million (6.9%); North Carolina \$93.5 million (6.6%). The following schedule illustrates the Company's premium written in 2010 by line of business:

Line of Business	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Fire	\$ 2,866,211	\$ 2,888,785	\$ 3,156,755	\$ 2,598,241
Allied lines	3,385,459	3,959,193	4,250,523	3,094,129
Farmowners multiple peril	3,394,731	3,389,747	3,632,695	3,151,783
Homeowners multiple peril	304,871,392	306,533,244	331,415,998	279,988,638
Commercial multiple peril	268,712,809	264,423,205	289,066,756	244,069,258
Inland marine	37,036,121	36,894,794	40,313,921	33,616,994
Earthquake	6,262,493	6,262,493	6,601,229	5,923,757
Workers' compensation	112,000,182	110,893,839	118,530,777	104,363,244
Other liability - occurrence	40,192,515	17,679,994	41,228,492	16,644,017
Private passenger auto liability	248,335,456	248,325,252	261,979,217	234,681,491
Commercial auto liability	109,002,080	109,002,682	115,188,330	102,816,432
Auto physical damage	272,958,277	272,958,278	288,322,686	257,593,869
Fidelity	616,448	616,448	650,443	582,453
Burglary and theft	316,891	316,891	335,016	298,766
Totals	<u>\$1,409,951,065</u>	<u>\$1,384,144,845</u>	<u>\$1,504,672,838</u>	<u>\$1,289,423,072</u>

Reinsurance

The Company has a quota-share reinsurance agreement with Auto-Owners. Under this agreement, the Company ceded 10% of written premiums for all lines of business to Auto-Owners, who retroceded back to the Company 100% of all lines, except certain coverages. Additionally, under the terms of this agreement, Auto-Owners will provide the Company with excess of loss reinsurance on the business retained by the Company. The Company has some non-affiliated reinsurance, which is not material.

Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Premiums earned	\$1,225,469	\$1,112,769	\$1,056,999
Losses incurred	837,039	786,887	763,670
Loss adjustment exp. incurred	71,557	81,239	111,799
Underwriting expenses incurred	<u>330,954</u>	<u>289,343</u>	<u>265,428</u>
Total underwriting deductions	<u>1,239,550</u>	<u>1,157,469</u>	<u>1,140,897</u>
Net underwriting loss	<u>\$ (14,081)</u>	<u>\$ (44,700)</u>	<u>\$ (83,898)</u>
Pure net loss ratio	68.3	70.7	72.2
Pure net LAE ratio	<u>5.8</u>	<u>7.3</u>	<u>10.6</u>
Net loss ratio	74.1	78.0	82.8
Expense ratio	<u>25.7</u>	<u>24.9</u>	<u>24.4</u>
Combined ratio	<u>99.8</u>	<u>102.9</u>	<u>107.2</u>

Financial Statements

The financial condition and the results of its operations for the three year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

- Statement of Assets, Liabilities, Surplus and Other Funds
- Statement of Operations
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2010**

Bonds	\$ 2,234,364,094
Common stock	218,007,954
Cash and short-term investments	21,980,376
Other invested assets	<u>8,212,415</u>
Subtotal, cash and invested assets	2,482,564,839
Investment income due and accrued	24,582,395
Uncollected premiums and agents' balances	9,706,083
Deferred premiums	228,776,298
Amounts recoverable from reinsurers	23,347,920
Net deferred tax asset	60,182,970
Guaranty funds receivables or on deposit	383,532
Receivable from parent, subsidiaries and affiliates	312,429
Miscellaneous assets	4,027,335
Equities and deposits in pools and associations	2,885,597
Group annuity	1,267,226
IGA special assessment	<u>337,459</u>
Total admitted assets	<u><u>\$ 2,838,374,083</u></u>

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2010**

Losses	\$ 758,670,605
Loss adjustment expenses	239,296,848
Commissions payable, contingent commissions and other charges	32,643,687
Other expenses	3,448,633
Taxes, licenses and fees	15,181,886
Unearned premiums	647,233,849
Advance premium	17,022,464
Ceded reinsurance premiums payable	21,742,297
Amounts withheld or retained by company for accounts of others	4,616,857
Payable to parent, subsidiaries and affiliates	107,297,860
Miscellaneous liabilities	<u>396,711</u>
Total liabilities	1,847,551,697
Additional admitted deferred tax assets	2,645,734
Common capital stock	6,500,000
Gross paid in and contributed surplus	220,998,592
Unassigned funds	<u>760,678,060</u>
Surplus as regards policyholders	<u>990,822,386</u>
Total liabilities, surplus and other funds	<u>\$ 2,838,374,083</u>

**Statement of Income
As of December 31, 2010**

Premiums earned	<u>\$ 1,225,469,114</u>
Losses incurred	837,038,959
Loss adjustment expenses incurred	71,556,782
Other underwriting expenses incurred	330,961,367
NC private passenger auto escrow	<u>(7,010)</u>
Total underwriting deductions	<u>1,239,550,098</u>
Net underwriting loss	<u>(14,080,984)</u>
Net investment income earned	97,998,888
Net realized capital gains	<u>5,860,227</u>
Net investment gain	<u>103,859,115</u>
Net loss from balances charged off	(2,968,799)
Finance and service charges not included in premiums	3,741,356
Miscellaneous income	<u>392,728</u>
Total other income	<u>1,165,285</u>
Net Income before federal income taxes	90,943,416
Dividends to policyholders	798,600
Federal income taxes incurred	<u>16,393,403</u>
Net income	<u><u>\$ 73,751,413</u></u>

Statement of Changes in the Capital and Surplus Account
(In thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus December 31, previous year	\$893,515	\$793,802	\$850,963
Net income	73,751	50,548	4,131
Change in net unrealized gains (losses)	14,011	17,830	(28,805)
Change in net deferred income tax	(1,180)	(6,475)	13,111
Change in non-admitted assets	17,877	37,810	(45,598)
Aggregate write-ins for gains and losses in surplus	(7,152)	-	-
Net change in capital and surplus	<u>97,307</u>	<u>99,713</u>	<u>(57,161)</u>
Capital and surplus December 31, current year	<u>\$990,822</u>	<u>\$893,515</u>	<u>\$793,802</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Christopher P. Walker, FCAS, MAAA, of PricewaterhouseCoopers, LLP, to provide the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Walker prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2010 Annual Statement.

Bartlett Actuarial Group, LTD was appointed by the Michigan Office of Financial and Insurance Regulation to provide a full actuarial evaluation of the loss and loss adjustment expense reserves for the property and casualty companies in the Auto-Owners Group in connection with the Department's examination of the Company.

Thomas Botsko, ACAS, MAAA, Chief P&C Actuary with the Department, reviewed the Actuarial Report provided by Mr. Walker. Based on his review, Mr. Botsko determined that loss and loss adjustment expense reserves presented in the Company's 2010 Annual Statement appear to be reasonably stated.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Admitted Assets	<u>\$2,838,374,083</u>
Liabilities	\$1,847,551,697
Surplus as Regards Policyholders	<u>990,822,386</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$2,838,374,083</u>

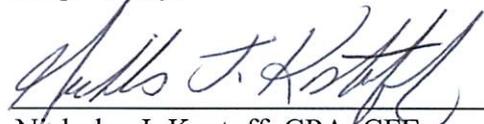
Subsequent Events

There have been no events subsequent to the examination date which would have a material effect on the financial condition of the Company.

Acknowledgement

In addition to the undersigned, the following representatives of the Department participated in this examination: Tom Botsko, ACAS, MAAA; Larry Rice, CFE, CPA, CISA, AES; Brad Schroer; and Patricia Severs, CPA.

Respectfully,



Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

Nicholas J. Kostoff / 4/9/12 Elizabeth Chase 4/9/12
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 9 day of April, 2012.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 9 day of April, 2012.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires



ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2019

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2019