

Report of Examination of

**Scottsdale Indemnity Company**  
Columbus, Ohio

As of December 31, 2011

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Columbus, Ohio  
December 14, 2012

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

Dear Madam:

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

**Scottsdale Indemnity Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company.”) The Company is 100% owned by Nationwide Mutual Insurance Company (“NMIC.”) The examination was conducted at NMIC home office, located at One West Nationwide Boulevard, Columbus, Ohio.

**Scope of Examination**

The Department last examined the Company as of December 31, 2006. The current examination covers the period of January 1, 2007 through and including December 31, 2011.

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

The State of Ohio took the lead role to perform the coordinated exam of NMIC and affiliates and the States of Arizona, California, Indiana, Iowa, Michigan, Texas, Vermont and Wisconsin were all participants on the group examination.

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

For years covered by this examination, the certified public accounting firm of KPMG, LLP (“KPMG”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by KPMG during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers’, employees’, and agents’ welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

## **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.

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Peter W. Harper	Vice-President and Treasurer – (Scottsdale Companies)
Kenneth A. Levine	Vice-President - Chief Actuary – (Scottsdale Companies)
Michael D. Miller	President and Chief Operating Officer – (Scottsdale Companies)
Gary L. Tiepelman	Senior Vice-President – Underwriting (Scottsdale Companies)
Susan F. Wain	Senior Vice-President – Claims (Scottsdale Companies)

## **Officers**

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

<u>Name</u>	<u>Title</u>
Michael D. Miller	President and Chief Operating Officer
Peter W. Harper	Vice-President and Treasurer
Robert W. Horner III	Vice-President and Secretary
Randall L. Orr	Vice-President and Assistant Secretary

## **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. NMIC and Nationwide Mutual Fire Insurance Company are the ultimate controlling parties of the insurance holding company system.

## **Territory and Plan of Operations**

The Company is an approved surplus lines carrier in Canada and the states of Arizona and Delaware and is further licensed to transact business in the District of Columbia and the following states:

Alabama	Alaska	Arkansas	California	Colorado
Connecticut	Florida	Georgia	Hawaii	Idaho
Illinois	Indiana	Iowa	Kansas	Kentucky
Louisiana	Maine	Maryland	Michigan	Minnesota
Mississippi	Missouri	Montana	Nebraska	Nevada
New Mexico	New York	North Carolina	North Dakota	Ohio
Oregon	Pennsylvania	Rhode Island	South Carolina	South Dakota
Tennessee	Texas	Utah	Vermont	Virginia
Washington	West Virginia	Wisconsin	Wyoming	

The following schedule illustrates the Company's direct written premium in 2011 by line of business:

Other liability – claims made	\$ 82,785,550
Commercial auto liability	27,659,724
Other liability – occurrence	22,857,858
Commercial multiple peril	9,471,078
Auto physical damage	7,978,217
Inland marine	1,631,957
Allied lines	1,558,088
Homeowners multiple peril	911,208
Fire	683,273
Medical professional liability – claim made	439,349
Boiler and machinery	252,116
Products liability – occurrence	145,529
Burglary and theft	99,259
Earthquake	80,618
Fidelity	2,195
Credit	<u>287</u>
Totals	<u>\$ 156,556,306</u>

### Reinsurance

The Company is a participant in a 100% quota share reinsurance agreement with Scottsdale Insurance Company. Scottsdale Insurance Company then retrocedes this business to NMIC.

The examination noted that the Company has policies and procedures in place to comply with SSAP 62 and 63.

### Financial Statements

The financial condition and the results of its operations for the five 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, Capital and Surplus  
Statement of Income  
Statement of Changes in the Capital and Surplus Account

**Statement of Assets  
December 31, 2011**

**Admitted assets**

Bonds	\$ 33,076,651
Cash and short-term investments	<u>2,189,174</u>
Total cash and invested assets	35,265,825
Investment income due and accrued	293,833
Uncollected premiums and agents' balances in the course of collection	11,975,916
Amounts recoverable from reinsurers	6,097,471
Funds held by or deposited with reinsured companies	38,589
Other amounts receivable under reinsurance contracts	1,728,996
Net deferred tax asset	25,866
Receivable from parent, subsidiaries and affiliates	3
Aggregate write-ins for other than invested assets	
State surcharge / recoupment recoverable	6,090
Equities and deposits in pools and associations	<u>118,127</u>
Total admitted assets	<u>\$ 55,550,716</u>

**Statement of Liabilities, Capital and Surplus  
December 31, 2011**

**Liabilities**

Reinsurance payable on paid losses and loss adjustment expenses	\$ (575,313)
Current federal and foreign income taxes	361,200
Ceded reinsurance premiums payable	9,460,858
Remittances and items not allocated	12,875
Payable to parent, subsidiaries and affiliates	<u>11,321,373</u>
Total liabilities	20,580,993

**Capital and Surplus**

Common capital stock	3,000,000
Gross paid in and contributed surplus	22,365,344
Unassigned funds	<u>9,604,379</u>
Surplus as regards policyholders	<u>34,969,723</u>
Total liabilities, capital and surplus	<u>\$ 55,550,716</u>

**Statement of Income  
As of December 31, 2011**

Net investment income earned	\$ 759,257
Net realized capital gains	<u>136,397</u>
Net investment gain	<u>895,654</u>
Income before dividends to policyholders and before federal income taxes	895,654
Federal and foreign income taxes incurred	<u>321,319</u>
Net income	<u>\$ 574,335</u>

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

<u>Capital and Surplus</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital & surplus, prior year end	<u>\$ 33,952</u>	<u>\$ 33,269</u>	<u>\$ 18,022</u>	<u>\$ 17,426</u>	<u>\$ 16,819</u>
Net income	574	525	713	596	602
Change in net unrealized capital gains less capital gains tax	332	111	-	-	-
Change in deferred income tax	129	66	43	3	5
Change in non-admitted assets	(17)	(19)	(12)	-	-
Change in provision for reinsurance	-	-	3	(3)	-
Paid in surplus adjustment	-	-	<u>14,500</u>	-	-
Net change in capital and surplus	<u>1,017</u>	<u>683</u>	<u>15,247</u>	<u>596</u>	<u>607</u>
Capital and surplus, current year end	<u>\$ 34,970</u>	<u>\$ 33,952</u>	<u>\$ 33,269</u>	<u>\$ 18,022</u>	<u>\$ 17,426</u>

**Notes to Financial Statements**

**Investments**

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

**Subsequent Events**

There are no material subsequent events.

### Conclusion

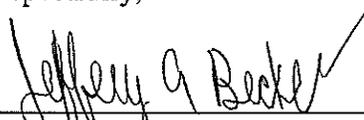
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$ 55,550,716</u>
Liabilities	20,580,993
Surplus as Regards Policyholders	<u>34,969,723</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 55,550,716</u>

### Acknowledgement

In addition to the undersigned, the following representatives of the Department participated in this examination: Methuselah Nyangoro, CFE, CPA; Kim Somogyi, CPA; Edward Nagorny, CFE, CPA; Bryan Radecky, CPA; Patricia Severs, CPA; Mark Boston, CPA; Rick Rhoades, CPA (inactive); William Harrington, CFE, CPA (inactive); Thomas Botsko, ACAS, MAAA; Bradley Schroer; Vicky Hugo, AES, CISA, CPA and Roy Moster, AES, CISA, CPA.

Respectfully,



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Jeffery A. Becker, CFE  
Examiner-In-Charge  
Office of Risk Assessment  
Ohio Department of Insurance



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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, 2011.

Jeffery A. Becker      3/7/2013      David A. Cook      3/7/2013  
Examiner-In-Charge      Date      Assistant Chief Examiner      Date

State of Ohio  
County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, 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 knowledge and belief.

Subscribed and sworn to before me this 7 day of March, 2013.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2017~~  
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 knowledge and belief.

Subscribed and sworn to before me this 7 day of March, 2013.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2017~~  
My Commission Expires