

# STATE OF MISSOURI



## DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

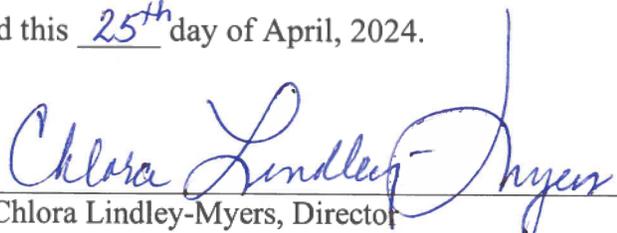
### ORDER

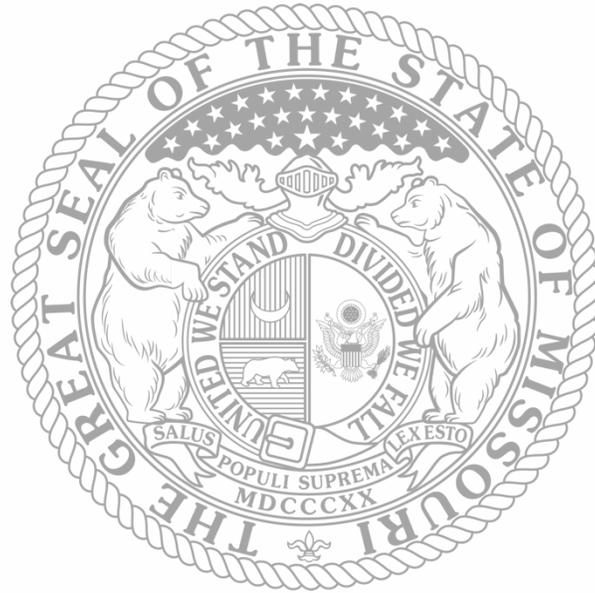
After full consideration and review of the report of the financial examination of National Fire and Indemnity Exchange for the period ended December 31, 2022, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of National Fire and Indemnity Exchange as of December 31, 2022, be and is hereby ADOPTED as filed and for National Fire and Indemnity Exchange to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 25<sup>th</sup> day of April, 2024.



  
Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF  
FINANCIAL EXAMINATION OF

# NATIONAL FIRE AND INDEMNITY EXCHANGE

AS OF  
DECEMBER 31, 2022

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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St. Louis, MO  
January 16, 2024

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Commerce and Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

**National Fire and Indemnity Exchange (NAIC #15679)**

hereinafter referred to as such, as NFIE, or as the Company. Its administrative office is located at 6030 Bancroft Avenue, St. Louis, MO 63109, telephone number (314) 832-1118. The fieldwork for this examination began on November 7, 2023, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The Missouri Department of Commerce and Insurance (Department) has performed a multiple-state financial examination of National Fire and Indemnity Exchange. The last examination of the Company by the Department covered the period of January 1, 2013 through December 31, 2017. The current examination covers the period of January 1, 2018 through December 31, 2022, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

**Procedures**

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to NFIE included Claims and Reserving, Investments, Premiums and Underwriting, and Reinsurance. The examination also included a review and evaluation of information technology general controls.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company 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 are separately communicated to other regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance or material changes to the financial statements noted during the examination.

### **COMPANY HISTORY**

#### **General**

National Fire and Indemnity Exchange was originally formed and commenced business in 1915 as a reciprocal inter-insurance exchange operating pursuant to Chapter 379 of the Revised Statutes of Missouri (Insurance other than life) under the name of National Association of Dyers and Cleaners Inter-Insurance Exchange. The Company provided insurance coverage exclusively to owners of cleaning and dyeing operations. In 1924, the name was changed to National Fire Insurance Exchange. On December 31, 1968, the Company's current name was adopted as a result of a merger with another exchange.

As a reciprocal inter-insurance exchange, the Company is not incorporated and therefore has not authorized or issued any capital stock. The subscribers, through the approval of the Subscriber Agreement, have each appointed John L. Corley, Inc. (Corley) as the attorney-in-fact and manager of the Company. Corley receives a portion of the premiums as compensation for services provided. Corley is owned and managed by Greg Mouldon, President of NFIE.

#### **Mergers, Acquisitions, and Major Corporate Events**

There were no mergers, acquisitions, or other major corporate events during the examination period.

#### **Dividends and Capital Contributions**

The Company is not authorized to issue stock; therefore, it pays no dividends. However, as a reciprocal exchange, its members can build equity through a subscribers' savings plan. Distributions from the plan are made at the discretion of the Advisory Committee subject to approval from the Department.

<b>Year</b>	<b>Amount</b>
2018	\$ 60,216
2019	66,574
2020	51,534
2021	42,672
2022	30,837
<b>Total</b>	<b>\$ 251,833</b>

#### **Surplus Notes**

There were no surplus notes issued or outstanding during the examination period.

## **MANAGEMENT AND CONTROL**

### **Advisory Committee**

Management of the Company is vested in an Advisory Committee that are elected by the subscribers. The Company's Subscribers' Agreement calls for eight members to serve on the Advisory Committee. Seven members are to be subscribers and the eighth member is to be a representative of the attorney-in-fact. The Advisory Committee elected and serving as of December 31, 2022, were as follows:

<b><u>Name and Address</u></b>	<b><u>Principal Occupation and Business Affiliation</u></b>
Jeanne M. Wolf, Chairperson Glendale, Missouri	Owner Morganthaler's Drapery Cleaners
Gary R. Dawson Largo, Florida	Owner Belleair Bluffs Cleaners
Curt A. Hopkins Longmont, Colorado	Owner Curt's Cleaners
George D. Johnson Corpus Christi, Texas	Owner Peerless Cleaners
Russell J. Petrozzi Niagara Falls, New York	Vice-President Petrozzi Enterprises, Inc.
Mark C. Rhee Whitestone, New York	President Daisy Fresh Dry Cleaners, Inc.
Emery S. Wetzel Billings, Montana	Owner Wetzel's Quality Cleaners
Richard J. Miller Pompano Beach, Florida	President Barton & Miller, Inc.

### **Senior Officers**

The officers elected and serving, as of December 31, 2022, were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Greg E. Mouldon	President & Treasurer
Gloria J. Ransom	Secretary

### **Corporate Records**

The Company follows the governance rules set forth in the Subscriber's Agreement and the Governance Rules of National Fire and Indemnity Exchange. There were no revisions to either document during the examination period. The minutes of the Advisory Committee were reviewed for the period under examination.

### **Holding Company, Subsidiaries, and Affiliates**

NFIE is not a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). However, Statement of Statutory Accounting Principles No. 25 (Affiliates and Other Related Parties), paragraph 4.I., includes attorney-in-fact of a reciprocal reporting entity as a related party.

**Attorney-In-Fact**

In addition to being the Company’s attorney-in-fact, Corley is also an insurance agency. Corley writes business with other carriers for lines of business that the Company does not offer or in states the Company is not authorized to write. Pursuant to the Subscribers’ Agreement, Corley receives twenty-five percent (25%) of gross written premium as compensation for services. Corley pays all expenses related to the issuance of insurance contracts. Corley is also responsible for purchasing the necessary books, supplies, records and equipment, which remain the property of the attorney-in-fact.

**TERRITORY AND PLAN OF OPERATION**

The Company is licensed by the Department as a reciprocal insurance exchange to write multiple lines of property and casualty insurance under Sections 379.650 through 379.800, RSMo (Reciprocals or Interinsurance Exchanges). The Company provides multi-peril coverage for primarily fabric care businesses under commercial package policies and business owner policies. The Company is licensed to write business in 33 states. In 2022, the Company wrote business in 32 states, and the states of Texas, Florida, and New York accounted for over half of the total premium written. NFIE writes business directly through the Attorney-in-Fact and through independent agents.

The Company subscribes to the Insurance Services Office for rates and policy forms. NFIE underwrites its business internally. All applications are reviewed by the Company prior to binding coverage.

**GROWTH OF COMPANY AND LOSS EXPERIENCE**

Net premiums written increased during the examination period due to premium rate increases and the Company retaining all premium for equipment breakdown coverage effective October 2019. Capital and surplus decreased during the examination period due to underwriting losses in 2020 and 2021 and the return of subscriber savings accounts to former subscribers. The table below summarizes the Company’s premium writings and writing ratios for the period under examination:

*(\$000s omitted)*

<b>Year</b>	<b>Net Premiums Written</b>	<b>Change in Net Premiums</b>	<b>Capital and Surplus</b>	<b>Ratio of Net Premiums to Surplus</b>
2018	\$ 3,639	\$ (39)	\$ 6,098	60%
2019	3,677	38	6,649	55%
2020	4,134	457	5,671	73%
2021	4,223	89	5,061	83%
2022	4,328	105	5,186	84%

Losses fluctuated during the examination period with underwriting gains reported in three of the five years of the examination period. The increase in losses during 2020 and 2021 were the result of several large dollar claims and exposure to catastrophe events. The table below summarizes the Company’s incurred losses and loss ratios for the period under examination:

(\$000s omitted)

Year	Net Premiums Earned	Net Losses and Loss Adjustment Expenses	Loss Ratio
2018	\$ 3,580	\$ 1,350	38%
2019	3,634	1,375	38%
2020	3,966	3,113	78%
2021	4,142	2,844	69%
2022	4,221	1,984	47%

## REINSURANCE

### General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2018	2019	2020	2021	2022
Direct Premiums Written	\$ 4,307	\$ 4,287	\$ 4,773	\$ 4,921	\$ 5,125
Reinsurance Ceded:					
Non-Affiliates	668	610	639	698	797
<b>Net Premiums Written</b>	<b>\$ 3,639</b>	<b>\$ 3,677</b>	<b>\$ 4,134</b>	<b>\$ 4,223</b>	<b>\$ 4,328</b>

### Assumed Reinsurance

The Company did not assume any premiums during the period under examination.

### Ceded Reinsurance

The Company utilizes reinsurance broker BMS Intermediaries, Inc. for placement of reinsurance coverage. The Company's reinsurance includes a multiple line excess of loss agreement and a property catastrophe occurrence agreement. Each agreement has multiple participating reinsurers.

The multiple line excess of loss agreement, which covers policies classified as property and casualty, has two layers. The first layer covers \$600,000 of losses in excess of the Company's retention of \$400,000. The second layer covers \$2,000,000 in excess of the Company's retention of \$1,000,000.

The property catastrophe occurrence agreement has three layers of coverage. The first layer covers \$500,000 of losses in excess of the Company's retention of \$500,000. The second layer covers \$2,000,000 of losses in excess of a \$1,000,000 retention. The third layer covers \$2,000,000 of losses in excess of a \$3,000,000 retention.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

## ACCOUNTS AND RECORDS

### **Independent Auditor**

The certified public accounting (CPA) firm, Conner Ash P.C., in St. Louis, Missouri, performed the statutory audit of the Company for the years under examination. Reliance was placed upon the CPA workpapers as deemed appropriate. Such reliance included, but was not limited to, narrative descriptions of processes and internal controls, journal entry testing, fraud risk analysis, and testing of account balances.

### **Actuarial Opinion**

The Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Robert F. Scott, Jr., for all years in the examination period. Mr. Scott, Jr. is employed by CAI Casualty Actuaries, Inc. in St Louis, Missouri.

### **Actuarial Review**

In conjunction with this examination, Julie Lederer, FCAS, MAAA, the Department's Property and Casualty Actuary, reviewed the underlying actuarial assumptions and methodologies used by NFIE to determine the adequacy of loss reserves and LAE reserves.

### **Information Systems**

In conjunction with this examination, Ken Tang, CFE, Information Systems Financial Examiner, and Kimberly Dobbs, CFE, AES, CISA, Information Systems Financial Examiner-in-Charge, with the Department, conducted a review of the Company's information systems.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of National Fire and Indemnity Exchange for the period ending December 31, 2022. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

**ASSETS**

As of December 31, 2022

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 7,001,973	\$ 0	\$ 7,001,973
Stocks:			
Common Stocks	340,695	0	340,695
Cash, Cash Equivalents, and Short- Term Investments	1,088,603	0	1,088,603
Investment Income Due and Accrued	46,112	0	46,112
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances in the Course of Collection	50,116	0	50,116
Reinsurance:			
Amounts Recoverable from Reinsurers	1,906,933	0	1,906,933
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	112,367	0	112,367
Net Deferred Tax Asset	104,359	0	104,359
<b>TOTAL ASSETS</b>	<b>\$ 10,651,158</b>	<b>\$ 0</b>	<b>\$ 10,651,158</b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

As of December 31, 2022

Losses	\$ 1,920,657
Loss Adjustment Expenses	599,661
Other Expenses	123,798
Taxes, Licenses, and Fees	33,786
Unearned Premiums	2,574,074
Provision for Reinsurance	212,000
Aggregate Write-Ins for Liabilities	851
<b>TOTAL LIABILITIES</b>	<b>\$ 5,464,827</b>
Unassigned Funds (Surplus)	5,186,331
<b>TOTAL CAPITAL AND SURPLUS</b>	<b>\$ 5,186,331</b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$ 10,651,158</b>

**STATEMENT OF INCOME**  
For the Year Ended December 31, 2022

Premiums Earned	\$ 4,220,926
DEDUCTIONS:	
Losses Incurred	1,069,052
Loss Adjustment Expenses Incurred	914,498
Other Underwriting Expenses Incurred	2,196,770
Total Underwriting Deductions	<u>\$ 4,180,320</u>
<b>Net Underwriting Gain (Loss)</b>	<b>\$ 40,606</b>
Net Investment Income Earned	157,406
<b>Net Investment Gain (Loss)</b>	<b>\$ 157,406</b>
Federal and Foreign Income Taxes Incurred	<u>(37,439)</u>
<b>NET INCOME (LOSS)</b>	<b><u>\$ 160,573</u></b>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
Changes from January 1, 2018 to December 31, 2022

*(\$000s omitted)*

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Capital and Surplus, Beginning of Year	\$ 5,722	\$ 6,098	\$ 6,649	\$ 5,671	\$ 5,061
Net Income (Loss)	426	490	(809)	(552)	161
Change in Net Unrealized Capital Gains (Losses)					
Less Capital Gains Tax	(21)	36	(21)	59	(4)
Change in Net Deferred Income Tax	8	(2)	13	7	(2)
Change in Nonadmitted Assets	(4)	4	(2)	2	
Change in Provision for Reinsurance	26	89	(107)	(84)	2
Aggregate Write-Ins for Gains and Losses in Surplus	(60)	(67)	(52)	(43)	(31)
Net Change in Capital and Surplus	<u>376</u>	<u>551</u>	<u>(978)</u>	<u>(611)</u>	<u>126</u>
<b>Capital and Surplus, End of Year</b>	<b><u>\$ 6,098</u></b>	<b><u>\$ 6,649</u></b>	<b><u>\$ 5,671</u></b>	<b><u>\$ 5,061</u></b>	<b><u>\$ 5,186</u></b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None.

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None.

**SUMMARY OF RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

There were no significant subsequent events noted from December 31, 2022 through the date of the report.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of National Fire and Indemnity Exchange during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Rebecca Edwards, APIR, Examiner for the Missouri Department of Commerce and Insurance, also participated in this examination.

**VERIFICATION**

State of Missouri            )  
  )    ss  
County of Cole             )

I, Brian D. Hammann, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of National Fire and Indemnity Exchange, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Brian D. Hammann  
Brian D. Hammann, CPA, CFE  
Examiner-In-Charge  
Missouri Department of Commerce and  
Insurance

Sworn to and subscribed before me this 21<sup>st</sup> day of February, 2024.

My commission expires: May 18, 2024 Kimberly Landers  
Notary Public



KIMBERLY LANDERS  
My Commission Expires  
May 18, 2024  
Callaway County  
Commission #12558402

**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.

*Michael R. Shadowens*

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Michael Shadowens, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce and  
Insurance