

MARKET CONDUCT EXAMINATION REPORT OF  
ADDISON INSURANCE COMPANY  
CEDAR RAPIDS, IOWA  
AS OF DECEMBER 31, 2013

Cedar Rapids, Iowa  
March 12, 2014

HONORABLE NICK GERHART  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, a market conduct examination has been made of the records, business affairs and marketing practice of the

ADDISON INSURANCE COMPANY

CEDAR RAPIDS, IOWA

AS OF DECEMBER 31, 2013

at its Home Office, 118 Second Avenue SE, Cedar Rapids, Iowa.

#### INTRODUCTION

This market conduct examination report, containing applicable comments, explanations and findings, is presented herein. In general, this is a report by exception. Comments regarding practices and procedures reviewed during the examination have been omitted from the report if no improprieties were found.

#### SCOPE OF EXAMINATION

Addison Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2008. This market conduct examination covers the intervening period from January 1, 2009 to the close of business on December 31, 2013 and was conducted by examiners for the Iowa Insurance Division. A general review and survey was made of the Company's marketing operations and treatment of policyholders for statutory compliance during the stated period. Other supporting evidences have been examined and evaluated to the extent deemed necessary.

Concurrently with the examination of the Company, the Company's parent, United Fire & Casualty Company, was also examined. As business operations are performed for the companies as a whole, market conduct examination procedures have been performed on the companies as a whole and not on an individual company basis.

#### HISTORY

The Company was originally incorporated August 6, 1985. In June 1990, the United Fire & Casualty Company acquired all of the common stock shares of Addison Farmers' Insurance Company. March 1997, Addison Farmers' Insurance Company changed its name to Addison Insurance Company.

The Company re-domesticated from Illinois to Iowa effective July 1, 2010.

On February 1, 2012, a reorganization of United Fire & Casualty Company and all the subsidiary/affiliated companies was completed. United Fire Group, Inc. (UFG), an Iowa corporation, replaced UFC as the publicly held corporation. The holders of UFC common stock were issued the same number of shares and same ownership percentage of UFG as they held immediately prior to the reorganization. On February 2, 2012, shares of UFG common stock commenced trading on the NASDAQ Global Select Market under the symbol "UFCS". The directors and executive officers remained the same.

#### INSURANCE HOLDING COMPANY SYSTEM

United Fire Group, Inc. (UFG) is the Ultimate Parent member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The authorized capital stock of UFG is 75,000,000 shares of common stock having a par value of \$.001, and 10,000,000 share of serial preferred stock having no par value per share. At December 31, 2013, 25,360,893 common shares were outstanding and stockholders' equity totaled \$782,833,000.

An organizational chart identifying the Holding Company System as of December 31, 2013 follows:

Dee Ann McIntyre (13.59% Owner of United Fire Group, Inc.)  
United Fire Group, Inc. (Iowa Holding Company)  
United Fire & Casualty Company (IA)  
    **Addison Insurance Company (IA)**  
    American Indemnity Financial Corporation  
    Texas General Indemnity Company (CO)  
    Lafayette Insurance Company (LA)  
    Mercer Insurance Group, Inc.  
        Financial Pacific Insurance Group, Inc.  
        Financial Pacific Insurance Company (CA)  
    Mercer Insurance Company (PA)  
        Franklin Insurance Company (PA)  
        Mercer Insurance Company of New Jersey, Inc. (NJ)  
        BICUS Servicers Corporation  
    United Fire & Indemnity Company (TX)  
        United Fire Lloyds (TX)  
    United Life Insurance Company (IA)  
    United Real Estate Holdings, LLC

#### AFFILIATED COMPANY AGREEMENT

##### Intercompany Pooling

With the exception of Texas General Indemnity Company, the United Fire Group property/casualty companies are members of an intercompany reinsurance pooling arrangement, with United Fire & Casualty Company being the lead pooling insurer. Each of the subsidiary participants cede their net premiums, losses, loss adjustment expenses and other underwriting expenses to UFC. The business is accumulated for pooling with unaffiliated reinsurance ceded on UFC's annual statement Schedule F. Each subsidiary records their allocation from the pool as assumed business. Direct and net pooled premiums totaled \$754 and \$723 million, respectively, for 2013.

Pooling participation at December 31, 2013 is as follows:

United Fire & Casualty Company	65%
<b>Addison Insurance Company</b>	<b>4</b>
Financial Pacific Insurance Company	8
Franklin Insurance Company	1
Lafayette Insurance Company	7
Mercer Insurance Company	9
Mercer Insurance Company of New Jersey, Inc.	3
United Fire & Indemnity Company	2
United Fire Lloyds	1

TERRITORY AND PLAN OF OPERATION

In addition to Iowa, the Company holds certificates of authority and is authorized to transact business in the following jurisdictions:

Colorado	Kansas	North Dakota
Florida	Minnesota	South Dakota
Illinois	Missouri	Texas
Indiana	Nebraska	Wisconsin

Property and casualty insurance business for the United Fire Group is produced by approximately 1,200 independent agencies and underwritten through six regional offices:

Denver Regional Office	Westminster, CO
East Coast Regional Office	Pennington, NJ and Lock Haven, PA
Great Lakes Regional Office	Cedar Rapids, IA
Gulf Coast Regional Office	Galveston, TX
Midwest Regional Office	Cedar Rapids, IA
West Coast Regional Office	Rocklin, CA

Each regional office is staffed with administrative, claims, loss control, marketing and underwriting personnel to service the policies written. A claims office is also maintained in New Orleans, Louisiana.

While the Company writes both personal and commercial lines, approximately 90% of the premium volume is written in traditional commercial line products.

COMPLAINT HANDLING

The Company has written processes and best practices for complaint handling procedures. Written complaints received by the Company are primarily administered by the regional underwriting and claims managers with records maintained in a central repository. The Company maintains complaint records in accordance with Iowa Administrative Code 191-15.13 (507B).

MARKETING AND SALES

All Company advertising materials are the responsibility of the Corporate Marketing Department and its communications area. Materials are submitted to Legal Compliance for review to ensure they comply with state regulations. A website is also maintained at [www.unitedfiregroup.com](http://www.unitedfiregroup.com).

Products are marketed exclusively through independent insurance agencies. The Group offers a competitive commissions program and a profit-sharing plan as

incentives for agents to place high-quality property and casualty insurance business.

POLICYHOLDER SERVICES

In addition to the regional offices, the Company maintains policyholder service centers for direct billing, policy and claim inquiries. Representatives are provided training and are subject to regular quality performance reviews. Registered producers and policyholders may utilize online services for policy, billing and claim information.

CLAIM PRACTICES

The Company maintains written processes and best practices for the adjudication of claims. Loss adjusters are provided training and are subject to regular quality performance reviews.

A study, of claim files from the Group, was conducted for a statutory compliance review of unfair trade practices. The sample included 52 property claim payments. A time study was performed which demonstrated that, with the exception of one claim settled through mediation, all of the property claims were acknowledged within 15 days of receipt of claim notification and payment was made within 30 days of the liability being confirmed and sufficient information was received, in accordance with Iowa Administrative Code 191-15.41 and 15.42 (507B).

DIRECT UNDERWRITING EXPERIENCE

Direct underwriting experience, as taken from data filed with the N.A.I.C. for each of the years, is as follows:

<u>Classification</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Premiums earned	<u>\$ 77,731,674</u>	<u>\$ 69,504,657</u>	<u>\$ 68,600,939</u>
<u>Incurred deductions</u>			
Losses incurred	\$ 41,388,309	\$ 33,991,268	\$ 31,287,296
Defense and cost containment	4,546,501	8,599,050	1,584,893
Adjusting and other expenses	4,688,000	3,959,000	4,633,000
Commission and brokerage	11,212,457	10,334,026	10,763,702
Taxes, licenses and fees	1,315,293	1,293,611	1,122,014
Other acquisition expenses	1,725,000	1,712,000	1,634,000
General expenses incurred	<u>593,000</u>	<u>596,000</u>	<u>1,014,000</u>
Total deductions	<u>\$ 65,468,560</u>	<u>\$ 60,484,955</u>	<u>\$ 52,038,905</u>
Underwriting gain (loss)	<u>\$ 12,263,114</u>	<u>\$ 9,019,702</u>	<u>\$ 16,562,034</u>

<u>Classification</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Premiums earned	<u>\$73,651,826</u>	<u>\$80,885,162</u>	<u>\$370,374,258</u>
<u>Incurred deductions</u>			
Losses incurred	\$19,152,894	\$22,456,637	\$148,276,404
Defense and cost containment	1,579,435	2,410,869	18,720,748
Adjusting and other expenses	4,618,000	7,017,000	24,915,000
Commission and brokerage	12,995,871	14,569,729	59,875,785
Taxes, licenses and fees	1,405,481	1,593,102	6,729,501
Other acquisition expenses	2,113,000	2,372,000	9,556,000
General expenses incurred	<u>867,000</u>	<u>923,000</u>	<u>3,993,000</u>
Total deductions	<u>\$42,731,681</u>	<u>\$51,342,337</u>	<u>\$272,066,438</u>
Underwriting gain (loss)	<u>\$30,920,145</u>	<u>\$29,542,825</u>	<u>\$98,307,820</u>

Expressed as a ratio of incurred deductions to premiums earned the percentages are:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Average</u>
<u>Incurred deductions</u>						
Losses incurred	53.2%	48.9%	45.6%	26.0%	27.8%	40.0%
Defense and cost containment	5.8	12.4	2.3	2.1	3.0	5.1
Adjusting and other expenses	6.0	5.7	6.8	6.3	8.7	6.7
Commission and brokerage	14.4	14.9	15.7	17.6	18.0	16.2
Taxes, licenses and fees	1.7	1.9	1.6	1.9	2.0	1.8
Other acquisition expenses	2.2	2.5	2.4	2.9	2.9	2.6
General expenses incurred	<u>0.8</u>	<u>0.9</u>	<u>1.5</u>	<u>1.2</u>	<u>1.1</u>	<u>1.1</u>
Total deductions	<u>84.2%</u>	<u>87.0%</u>	<u>75.9%</u>	<u>58.0%</u>	<u>63.5%</u>	<u>73.5%</u>
Underwriting gain (loss)	<u>15.8%</u>	<u>13.0%</u>	<u>24.1%</u>	<u>42.0%</u>	<u>36.5%</u>	<u>26.5%</u>

Direct underwriting experience by state, as taken from data filed with the N.A.I.C. for each of the years, is as follows:

<u>State</u>	<u>Five-Year Average Earned Premium</u>	<u>Five-Year Operating Ratio</u>	<u>2013 Earned Premium</u>	<u>2013 Operating Ratio</u>
Colorado	\$ 16,375,018	54.8%	\$ 16,620,912	42.8%
Florida	8,719,273	62.6	9,114,380	56.2
Illinois	6,564,040	76.6	5,934,538	63.8
Indiana	999,230	113.2	1,401,419	94.2
Iowa	11,181,123	92.0	13,381,633	62.6
Kansas	4,789,515	83.8	5,538,793	96.3
Minnesota	3,503,391	67.1	3,909,362	80.1
Missouri	8,940,841	80.2	10,020,296	51.0
Nebraska	5,266,622	74.3	6,361,589	75.9
North Dakota	473,519	72.8	1,252,940	43.8
South Dakota	3,658,403	69.8	4,332,959	96.1
Texas	891,450	69.6	210,080	238.2
Wisconsin	2,712,427	94.6	2,806,261	71.7
Totals	<u>\$ 74,074,852</u>	<u>73.5%</u>	<u>\$ 80,885,162</u>	<u>63.5%</u>

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

In addition to the undersigned, Dan Mathis, CFE; Bob Wong, CFE and Bouavan Kha, examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

/s/ Virginia West  
 VIRGINIA R. WEST, CFE  
 Examiner-in-Charge  
 Insurance Division  
 State of Iowa