

**AIMCO Mutual Insurance Company**

Greensboro, North Carolina

**Report on Limited-Scope Examination**

As of December 31, 2013

# AIMCO Mutual Insurance Company

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# AIMCO Mutual Insurance Company

## Report on Limited-Scope Examination

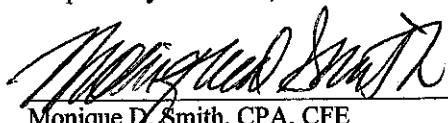
Honorable Wayne Goodwin  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted a limited-scope examination of **AIMCO Mutual Insurance Company** (“Company”) as of December 31, 2013. The Department’s last full-scope examination was as of December 31, 2008. This limited-scope examination was performed to address specific areas based on the Department’s review and analysis of the Company’s 2013 Annual Statement (“AS”).

This examination was performed in accordance with auditing standards established by the Department. The purpose of this examination was to review specific aspects of the Company’s 2013 AS as specified in the Scope of the Examination on page 4. The scope of this examination was not comprehensive, but included a limited review of the Company’s practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2013. This report is not intended to communicate all matters of importance for an understanding of the Company’s financial condition as of December 31, 2013. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas of concern and are provided in the Summary of Examination Objectives and Findings on page 5.

Respectfully submitted,

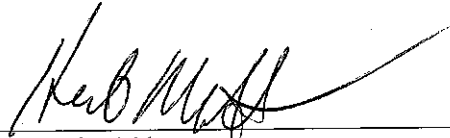


Monique D. Smith, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

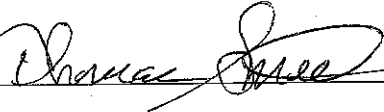
October 10, 2014

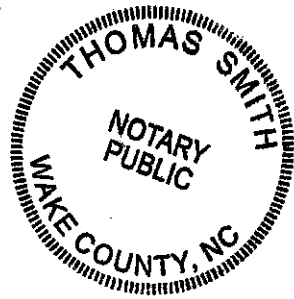
STATE OF NORTH CAROLINA  
COUNTY OF WAKE

Herb Maltba, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature:  Date: 11/12/14  
Herb Maltba

Sworn and subscribed before me this 12 day of November, 2014.

Notary Public Signature:  Notary Public Seal:



# **AIMCO Mutual Insurance Company**

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### **1. Company Background**

The North Carolina Associated Industries Workers' Compensation Fund ("Fund") was organized September 1, 1981, as an unincorporated association of employers to self-insure for workers' compensation. The Fund became incorporated on January 1, 1998. The Fund merged into Associated Industries Mutual Insurance Company ("AIMIC") effective January 1, 2003, with the approval of the Department. AIMIC was created as a non-assessable mutual company during 2002 to effect this merger and to allow the Fund to become a mutual insurance company. The merger was accounted for using statutory methods. During 2005, AIMIC changed its name to AIMCO Mutual Insurance Company.

On December 1, 1998, the Company entered into a Loss Portfolio Transfer Agreement with Signet Star Reinsurance of Wilmington, Delaware which reinsured all claim liabilities for the 1998 and prior policy years. This transaction was recorded using prospective reinsurance accounting based upon instructions from the Department. Therefore, the Company is only at risk for the underwriting results of policy years 1999 and forward.

The Company exited the workers compensation market as of March 31, 2007, due to the limited need for its market niche for employers it had chosen to serve. No new business has been accepted with inception dates after March 31, 2007. The Company's license was restricted on April 1, 2007, by the Department to "no new or renewal business". While no new business is being written, there is still claims activity.

Key Risk Management Services ("KRMS") is the third party administrator for the Company and provides, or has provided, policy issuance, underwriting, loss control, marketing, claims, and financial services.

### **2. Appointed Actuary**

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for the examination period. The appointed actuary evaluated the data of the loss and loss adjustment expense reserves provided by the Company for reasonableness and consistency. According to the actuarial opinion, the Company's reserves for losses and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Company.

### **3. Scope of the Examination**

The scope of this examination was limited to the following areas relative to the 2013 AS:

- a) Bonds, Stocks, Cash and Short-term Investments
- b) Reserves for Losses
- c) Operations - President's salary and bonus
- d) Management fees incurred by the Company
- e) Compensation paid to the Board of Directors ("Board")
- f) Review of contracts and agreements

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### 4. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Detailed review and verification of supporting documentation for balances reported;
- 2) Substantive testing of underlying data and transactions;
- 3) An actuarial review of the Company's reserves by the Department's Actuarial Services Division ("ASD");
- 4) Independent confirmation of balances with third parties when possible; and
- 5) Other examination procedures deemed necessary to meet the established objectives.

### 5. Summary of Examination Objectives and Findings

#### a) Bonds, Stocks, Cash and Short-term Investments

- 1) Examination Objective: To verify existence, valuation, and ownership of the bonds, stocks, cash and short-term investments as reported in the Company's 2013 AS.

##### Findings

We noted no material adverse findings with regard to the Company's reported balances for bonds, common stocks, cash and short-term investments totaling \$7,150,718, \$898,448 and \$996,828, respectively, as of December 31, 2013.

#### b) Reserves for Losses

- 1) Examination Objective: To review reserving assumptions and methodologies for reasonableness, appropriateness and accuracy.

##### Findings

We noted no adverse findings regarding the reserving assumptions and methodologies used by the Company.

- 2) Examination Objective: To verify the accuracy, completeness, and validity of the underlying data for unpaid claims reported on the Underwriting and Investment Exhibit, Part 2A of the Company's 2013 AS.

##### Findings

We noted no adverse findings during our review of the Company's direct losses reported in the Company's 2013 AS totaling \$7,779,920.

- 3) Examination Objective: To verify the existence, completeness, valuation, and adequacy of the reserves for losses and loss adjustment expenses reported on the Statement of Liabilities, Surplus and Other Funds of the Company's 2013 AS.

##### Findings

We noted no adverse findings regarding the reserves for losses and loss adjustment expenses totaling \$3,219,392 and \$255,519, respectively, as of December 31, 2013.

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**c) Operations - President's Salary and Bonus**

- 1) Examination Objective: Obtain an understating of the justification and reasonableness of the Company President's increasing base salary schedule particularly in light of the declining operating results of the Company since its license restriction.

Findings

The Company incurred expenses totaling approximately \$248,000, \$258,507 and \$295,669 in 2013, 2012 and 2011, respectively, for salary and bonus expenses paid to the Company's President.

We compared the expenses incurred for the President's salary and bonuses to the Company's total general operating expenses for the years 2011 through 2013, noting that the President's salary and bonuses were more than 40% of the Company's total expenses for each of those years.

Considering that the Company's has not written any new business since 2007 and that the Company is currently in run-off, the Department recommends that the Company review the President's compensation schedule to determine whether the salary and bonuses paid to the President are fair, reasonable, and commensurate with the services being provided to the Company.

- 2) Examination Objective: To verify that the compensation payments made to the Company's President were properly approved, recorded and disclosed.

Findings

Based on our review, the President's compensation was properly approved and disclosed in the Board minutes and recorded in the Company's Underwriting and Investment Exhibit, Part 3 – Expenses.

**d) Management fees incurred by the Company**

- 1) Examination Objective: To verify the administrative service agreement between the Company and KRMS is current and fees incurred for services are calculated correctly and properly recorded.

Findings

We noted no adverse findings with regard to the Company's reported incurred management fees of \$115,000 as reported in the Company's Underwriting and Investment Exhibit, Part 3 – Expenses, as of December 31, 2013.

**e) Compensation paid to the Board of Directors**

- 1) Examination Objective: Obtain an understanding of the justification and reasonableness of the retainer fees paid to the Company's Board with regards to the current run-off status of the Company.

Findings

The Company incurred expenses related to retainer fees for six Board members totaling \$123,000 in 2013 and 2012, and \$143,500 in 2011. In January 2014, the annual retainer fees for each Board member increased to \$25,000, totaling \$150,000 on an annual basis. Based on our review of the Board minutes, we noted that two Board meetings were held in 2011 and 2012 and that only one Board meeting was held in 2013.

We compared the Company's expense for directors' fees to amounts incurred by eight other mutual companies domiciled in North Carolina. We noted that the total annual directors' fees incurred by the other mutual companies reviewed ranged from \$8,300 to \$62,500 per year.

## **AIMCO Mutual Insurance Company**

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The Department recommends that the Company review its Board compensation schedule to determine whether the directors' fees paid to the Board are fair, reasonable, and commensurate with the services being provided to the Company.

- 2) Examination Objective: To verify compensation payments made to the Company's Board were properly approved, recorded and disclosed.

#### **Findings**

We noted no adverse findings regarding the Company's approval, recording and disclosure of the Board fees totaling \$123,000 as reported in the Company's Underwriting and Investment Exhibit, Part 3 – Expenses, as of December 31, 2013.

#### **f) Review of Contracts and Agreements**

- 1) Examination Objective: To determine whether contracts and agreements approved by the Department are still in effect and current, and whether any arrangements with affiliated and unaffiliated entities exist, for which no written agreement is in place.

#### **Findings**

We noted no adverse findings with regard to the Company's contracts and agreements during our review.



**AIMCO Mutual Insurance Company**  
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**Appendix A – Report Distribution**

Bobby Biggerstaff, President and Chief Executive Officer  
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