

Statutory Financial Examination of  
**ALASKA NATIONAL INSURANCE COMPANY**

FE 11-03

as of December 31, 2010

Issued by  
**STATE OF ALASKA**  
**DEPARTMENT OF COMMERCE, COMMUNITY, AND**  
**ECONOMIC DEVELOPMENT**  
**DIVISION OF INSURANCE**

NAIC Company Code: 38733  
NAIC Group Code: 00000

**FINAL REPORT:**  
**May 31, 2012**

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CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

STATE OF ALASKA  
DEPARTMENT OF COMMERCE, COMMUNITY AND  
ECONOMIC DEVELOPMENT  
DIVISION OF INSURANCE  
550 WEST 7TH AVENUE, SUITE 1560  
ANCHORAGE, AK 99501-3567

Order FE 11-03 )  
In the Matter of Examination of )  
Alaska National Insurance Company )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. A report of examination of Alaska National Insurance Company, domiciled in the State of Alaska, has been issued by the State of Alaska, Division of Insurance, to Alaska National Insurance Company.

2. The Report of Examination of Alaska National Insurance Company (FE 11-03) has been transmitted to Mr. Craig L. Nodtvedt, President, and Mr. Richard B. Suddock, Executive Vice President, Alaska National Insurance Company (Examinee), and Examinee has been accorded at least 30 days opportunity to review and comment on this Report of Examination. A response from the examinee was received on June 29, 2012.

3. The Director of the Division of Insurance has fully considered and reviewed the report, the examinee response and any relevant portions of the examiner's work papers to the extent he considered necessary.

CONCLUSIONS OF LAW

1. The written Report of Examination referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).

2. The actions set forth in Finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).

3. The Director of the Division of Insurance has reviewed the Report of Examination, the examinee response and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent he considered necessary in accordance with AS 21.06.150(b).

STATE OF ALASKA  
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT  
DIVISION OF INSURANCE  
550 WEST SEVENTH AVENUE, SUITE 1560  
ANCHORAGE, ALASKA 99501-3567  
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ORDER

IT IS ORDERED

1 Pursuant to AS 21.06.150(b)(1), the Report of Examination of Alaska  
2 National Insurance Company (FE 11-03) is approved as filed.

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5 Pursuant to AS 21.06.060, the Report of Examination shall be kept in the  
6 Office of the Director of the Division of Insurance and be open to public inspection.

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3 The Examinee will implement all recommendations within a reasonable  
amount of time but no later than one year from the issue date of this examination report,  
unless otherwise recommended in the Report of Examination. Failure to implement  
compliance recommendations may result in action against the Examinee for violation of  
this order.

This order is effective June 29, 2012.

Dated this 29<sup>th</sup> day of June, 2012 at Anchorage, Alaska.



\_\_\_\_\_  
Bret S. Kolb, Director  
State of Alaska  
Division of Insurance

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STATE OF ALASKA  
DEPARTMENT OF  
**COMMERCE**  
COMMUNITY AND  
ECONOMIC DEVELOPMENT  
Alaska Division of Insurance

*Sean Parnell, Governor*  
*Susan K. Bell, Commissioner*  
*Linda S. Hall, Director*

May 31, 2012

Mr. Bret S. Kolb, Director  
Division of Insurance  
Department of Commerce, Community  
and Economic Development  
State of Alaska  
550 West 7<sup>th</sup> Avenue, Suite 1560  
Anchorage, AK 99501-3567

Dear Director Kolb:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, an examination has been made of the financial condition and business affairs of:

Alaska National Insurance Company  
7001 Jewel Lake Road  
Anchorage, Alaska 99502

(NAIC CoCode 38733)

**SCOPE OF EXAMINATION**

This examination covers the period of January 1, 2008 through December 31, 2010. Transactions subsequent to this period were reviewed where deemed appropriate. The most recent prior examination of the Company covered the period from January 1, 2005 through December 31, 2007.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the Company and evaluating 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.

The examination was conducted in accordance with the guidelines and procedures recommended by the Financial Condition (E) Committee of the NAIC and the rules, regulations, and directives of the Division of Insurance, State of Alaska. The work papers of the independent certified public accountants, KPMG, LLP, were reviewed and used where it was determined to be appropriate. The appropriate KPMG, LLP work papers have been incorporated into the examination work paper file.

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The Company's assets were evaluated and verified, and liabilities were analyzed to determine its financial condition as of December 31, 2010. Also, an actuarial evaluation of the reserves as of December 31, 2010, was performed by Sarah K. McNair-Grove, ACAS, MAAA, Actuary for the Division of Insurance, State of Alaska, as a part of this examination.

## **SUMMARY OF EXAMINATION FINDINGS**

### **Significant Findings**

The Company was found to be out of compliance and/or conformity with the following items:

- Investment custodial agreement did not contain all provisions required by State of Alaska regulation.
- Board of Directors' formal resolution covering investment transactions does not comply with specified language in State of Alaska regulation.
- The amounts reported for guaranty fund receivable and payable were overstated by similar amounts.
- Lack of comprehensive written Information Systems Business Continuity Plan / Disaster Recovery Plan.

## **DESCRIPTION OF COMPANY**

### **Company History**

Alaska National Insurance Company (ANIC) is an Alaska-domiciled stock insurance company organized pursuant to Title 21, Chapter 69, of the Alaska Statutes. ANIC was incorporated on April 30, 1979, and received a Certificate of Authority (license #1285) from the State of Alaska effective September 30, 1980, authorizing it to transact the business of property, casualty, surety, health, marine, wet marine, and transportation policies. The Company currently maintains the same authorities. As of December 31, 2010, ANIC was licensed in 26 states.

### **Corporate Records**

The Articles of Incorporation, bylaws and minutes of the Board of Directors of ANIC and of the parent company, Alaska National Corporation, were reviewed during this examination. Annual shareholder meetings were held each year covered by the examination. Board of Directors' meetings were called and held according to the Articles and bylaws. All actions requiring board approval were taken by resolution at a meeting or by resolution without a meeting as provided by the bylaws. All elections were held in accordance with bylaws and statute. The corporate bylaws were last amended in 1998.

The stockholders' meetings were held within six months of the end of each year followed by the Board of Directors' meetings. The Board of Directors holds an additional meeting in December of each year. Attendance at all meetings was nearly 100 percent. All investment transactions of ANIC were approved by the Board upon presentation and recommendation from the Investment Committee. All salaries were approved by the Board-appointed Compensation Committee.

**Management and Control**

ANIC is a member of a holding company system and is wholly owned by Alaska National Corporation. No significant ownership or management control changes have occurred since the previous examination. Alaska National Corporation, the Company's parent, is closely owned by the Directors, and current and former officers of Alaska National Corporation, as well as the management and employees of ANIC. The shares are not actively traded.

There have been no significant changes in the executive management of ANIC during the period covered by this examination.

The following officers and directors were serving as of December 31, 2010:

NAME	TITLE	AS OF
George S. Suddock	Chairman	1980 – Present
	Director	1980 – Present
David P. Jones	Vice Chairman	2005 – Present
	President	1994 – 2005
	Director	1991 – Present
Craig Nodtvedt	President	2005 – Present
	Director	2003 – Present
James E. Pfeifer	Director	2005 – Present
	Vice Chairman	1994 – 2005
	President & Director	1986 – 1994
	Treasurer	1980 – 1990
Takashi Azegami	Treasurer	1990 – Present
Pamela K. Macksey	Secretary	2006 – Present
Robert C. Alexander	Director	2009 – Present
Jonathan L. Block	Director	2005 – Present
Richard L. Block	Director	1980 – Present
	President	1980 – 1986
June V. Hill	Executive VP	2006 – Present
	Director	2007 – Present
Norman F. Kaelber	Director	2004 – Present
Terrence E. Kordewick	Director	2009 – Present
Roger L. Moseley	Director	2008 – Present
Gary B. Oehler	Director	1997 – Present
	Executive VP	1999 – Present
John L. Ramey	Director	2008 – Present
Bernie D. Raven	Director	2003 – Present
	Executive VP	2006 – Present
Richard B. Suddock	Director	2003 – Present
	Executive VP	2006 – Present

In addition to the positions listed above, majority of directors held additional previous offices either as Senior Vice President or Vice President, or both. Table above limited listing of positions down to the level of Executive Vice President.

ANIC is party to an inter-company tax allocation agreement with the Alaska National Corporation whereby the federal income tax return is filed on a consolidated basis.

### **Fidelity Bond and Other Insurance**

ANIC has fidelity bonding of \$1.5 million issued by Travelers through Alaska USA Insurance Brokers of Anchorage. The policy provision for forgery or alteration is for \$1.5 million single loss limit of liability, \$1.5 million aggregate limit of liability, and \$100,000 single loss deductible and was effective to January 1, 2011. Coverage of the same amount was in place during the examination period. Bonding covers all offices of ANIC and all employees and officers of the Company. Coverage exceeds the minimum amount recommended by the NAIC.

The Company's other insurance coverage, placed by Seattle Business Insurance, LLC, includes general liability (\$2 million aggregate, \$1 million each occurrence); property (blanket limit of \$7 million for buildings); fine arts (\$5.6 million limit); difference in conditions/flood and earthquake (\$15 million limit); auto (\$1 million limit); umbrella liability (\$25 million limit); and worker's compensation/employer's liability/stop-gap (\$1 million each occurrence). ANIC is also covered for boiler and machinery. Coverage is deemed adequate.

### **Employees' and Agents' Pensions, Stock Ownership, and Other Insurance**

ANIC provides a comprehensive package of employee benefit programs for its employees. The Company makes available and pays the cost of comprehensive medical and life insurance, and short- and long-term disability programs for regular, full-time employees.

All employees are covered by the Federal Social Security Act. ANIC carries insurance to cover the cost of work-related injury or illness. ANIC offers eligible employees a profit-sharing plan to assist in providing for future welfare and financial security. The Company also has a voluntary employee-elected cash or deferred profit-sharing plan. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The Company offers a financial incentive to employees to advance their education under specific guidelines. Regular, full-time employees accrue vacation and sick leave at various rates depending on length of service.

There has been no significant change in employee welfare and benefit plans since the last examination.

### **Territory and Plan of Operation**

As of December 31, 2010, ANIC was licensed in 26 states, with Alaska accounting for 70% of premium written during the year, and the next four states – California, Washington, Oregon, and Idaho – accounting for another 27% of written premium during the year. In addition to its home office in Anchorage, Alaska, the Company maintains offices in Seattle, Washington, and San Francisco, California, while opening up its fourth office in Boise, Idaho, during the examination period. The Company does not employ an agency system to write new business, and relies on advertisement and independent producers to develop growth.

ANIC's major line of business is workers' compensation which accounted for 65% of the Company's \$154 million direct written premium in 2010. Other significant lines of business included: other liability (9.6%), commercial auto (9.2%), and commercial multiple peril (7.9%); no other line of business accounted for more than 2% of Company premium in 2010.



The Company receives 96% of its \$7.6 million assumed premium under mandatory participation in the national workers' compensation pool managed by NCCI.

Per inquiry of management, ANIC does not maintain a written plan for the acquisition of business but rather prefers to be constantly evaluating the market for potential future opportunities. The Company strategy is to provide excellent customer service, build long-term relationships, and write profitable business without the use of sales quotas.

ANIC relies on reviews of expenses and comparisons of current-to-prior year actual totals to identify significant variances for investigation instead of employing a prescriptive budgeting and forecasting system. Major projects, including the development of support systems or the opening of a new branch office, are presented to the Board of Directors for review and evaluation for potential before any capital outlay.

### Growth of Company

The following schedule shows the annual results of Company operations for the years ended December 31, 2008 through December 31, 2010. The figures are as reported in the Company annual statements for the years 2007 through 2010:

<u>Year</u>	<u>Admitted Assets (\$)</u>	<u>Liabilities (\$)</u>	<u>Net Income (\$)</u>	<u>Surplus (\$)</u>	<u>Net Premiums Written- to-PHS</u>
2008	705,327,394	439,503,609	45,537,953	265,823,785	63.5%
2009	700,351,971	407,337,541	47,444,127	293,014,430	48.6%
2010	677,515,727	405,889,853	38,885,358	271,625,874	48.6%

### Loss Experience

The following schedule shows the loss experience of the Company during the period of examination:

<u>Year</u>	<u>Earned Premiums</u>	<u>Losses</u>		<u>Loss Expenses</u>	
		<u>Incurred</u>	<u>% of Earned Premium</u>	<u>Incurred</u>	<u>% of Earned Premium</u>
2008	165,789,447	49,912,754	30.1%	21,976,891	13.3%
2009	147,647,551	53,069,605	35.9%	22,555,781	15.3%
2010	132,827,628	51,976,206	39.1%	18,110,943	13.6%

### **Reinsurance**

As of December 31, 2010, ANIC had a maximum retention of \$1 million on property, \$2 million on liability, and \$5 million on workers compensation lines of business. The Company has excess of loss reinsurance on lines as follows: workers' compensation reinsurance of \$170 million, liability reinsurance of \$8 million, and property reinsurance of \$4 million. Additionally, ANIC maintains catastrophic property coverage in the amount of 97.5% of \$33 million in excess of \$2 million.

In 2010, the mandatory workers' compensation pool administered by the National Council on Compensation Insurance (NCCI) assumed 45% of the Company's ceded reinsurance premiums. An additional 35% of ceded reinsurance premiums were assumed by two authorized reinsurers with an A.M. Best rating of 'A++,' and another 12% to a single reinsurer rated A+.

ANIC assumes 97% of its reinsurance from mandatory participation in the Alaska workers' compensation pool under agreement with NCCI along with additional cessions from the Alaska Automobile Insurance Plan administered by the Auto Insurance Provider Service Organization (AIPSO). Small amounts are assumed under fronting arrangements with Old Republic Insurance Company.

### **Accounts and Records**

As of year-end 2010, ANIC's data center in Anchorage utilized Windows file servers to run all applications that supported the Anchorage operation locally; and the Seattle, San Francisco and Boise, Idaho (communication servers only) offices remotely.

Review of the Information Systems (IS) organization chart and subsequent discussions with the Company disclosed that the organizational structure is not unusual for a company of this size. The chief information officer reports to the Company president, which gives the IS function independence from the operating groups in the Company. The majority of the IS staff is in Anchorage with additional support staff housed in the San Francisco and Seattle offices. These branch personnel provide personal computer support to the organization.

ANIC has two financially significant in-house developed applications – the claims and the underwriting systems; all others are purchased packages. The Company uses Sungard/EAS software for its general ledger and accounts payable applications; a Great Plains payroll application, EPS 3.90.36, for investment accounting; and BNA Fixed Asset for fixed assets software. Agent balances receivable are on an internally-developed application.

The Company has been increasing the electronic retention of records over the years covered by this examination. Data processing for all offices is centralized in Anchorage.

**Statutory Deposits**

State	Deposits with the State of Domicile <u>For the Benefit of All</u> <u>Policyholders</u>		<u>All Other Special Deposits</u>	
	Book Value	Fair Value	Book Value	Fair Value
Alaska	\$ 4,202,685	\$4,313,800	\$ -	\$ -
Arizona	0	0	1,034,636	1,133,210
California	0	0	80,390,480	84,938,788
Idaho	0	0	499,566	515,303
New Mexico	0	0	575,913	584,529
Oregon	0	0	1,971,333	2,076,165
Aggregate Alien and Other-U.S. Dept. of Labor	0	0	5,596,146	5,791,567
Total	\$ 4,202,685	\$4,313,685	\$90,068,074	\$ 95,039,563

Pursuant to the Insurance Laws of the State of Alaska, the Company is required to maintain assets in a trust account in an amount not less than the total of the Company's reserves and other liabilities (determined in accordance with AS 21.09.310) plus the greater of the minimum basic capital (determined in accordance with AS 21.09.070) or the authorized control level risk-based capital calculated under AS 21.14. A review of the trustee's statements verified minimum assets were maintained as required.

**SUMMARY OF ACTUARIAL REVIEW**

As of December 31, 2010, the Company held \$320,182,492 in gross loss reserves, \$34,778,000 in gross loss adjustment expense reserves, \$259,902,947 in net loss reserves and \$71,544,562 in net loss adjustment expense reserves.

The Company provided loss and expense data by accident-year by line of business. Using this information, along with information obtained by interviewing Company staff, the division actuary reviewed the reserves held by ANIC as well as the Milliman, Inc. actuarial report in support of the 2010 Statement of Actuarial Opinion. The reserve analysis was performed on both a gross and net of reinsurance basis. Based on this review, the overall reserve position was determined to be within a reasonable range of reserve estimates and is accepted as stated.

**FINANCIAL STATEMENTS**

The following pages contain statutory financial statements for the Company as of December 31, 2010 as reported to the division and as determined by the examiners:

Alaska National Insurance Company  
As of December 31, 2010  
FE 11-03

**FINANCIAL STATEMENTS**  
**STATEMENT OF ASSETS, LIABILITIES AND SURPLUS**  
As of December 31, 2010

	As Reported 12/31/2010	Adjustments	As Adjusted 12/31/2010
<u>Assets</u>			
Bonds	\$ 576,200,489		\$ 576,200,489
Preferred stock	6,042,798		6,042,798
Common stock	4,793,800		4,793,800
Properties occupied by the company	1,644,153		1,644,153
Properties held for the production of income	297,133		297,133
Cash, cash equivalents & short term investments	11,803,376		11,803,376
Other invested assets	12,954,400		12,954,400
Investment income due and accrued	7,158,856		7,158,856
Premiums and agents' balances in course of collection	12,739,142		12,739,142
Accrued retrospective premiums	5,504,471		5,504,471
Amounts recoverable from reinsurers	895,951		895,951
Current income tax recoverable	1,911,948		1,911,948
Net deferred tax assets	14,826,598		14,826,598
Guaranty funds receivable or on deposit	18,251,005		18,251,005
Electronic data processing equipment and software	87,885		87,885
Loss reimbursement receivable	682,084		682,084
Receivable from NCCI	1,721,638		1,721,638
Total Admitted Assets	<u>\$ 677,515,727</u>		<u>\$ 677,515,727</u>
<u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Losses	\$ 259,902,947		\$ 259,902,947
Loss adjustment expenses	71,544,562		71,544,562
Commission payable and contingent commissions	3,328,251		3,328,251
Other expenses (excluding taxes, licenses and fees)	7,007,580		7,007,580
Taxes, licenses and fees	989,870		989,870
Borrowed money	15,000,000		15,000,000
Unearned premiums	25,583,777		25,583,777
Ceded reinsurance premiums payable	1,462,113		1,462,113
Amounts withheld or retained for others	2,368,641		2,368,641
Provision for reinsurance	73,000		73,000
Payable to parent, subsidiaries and affiliates	1,250,000		1,250,000
Guarantee association payable	17,121,030		17,121,030
Other liabilities	258,082		258,082
Total Liabilities	<u>\$ 405,889,853</u>		<u>\$ 405,889,853</u>
<u>Surplus</u>			
Common capital stock	25,000,000		25,000,000
Gross paid-in and contributed surplus	25,000,000		25,000,000
Unassigned funds (surplus)	221,625,874		221,625,874
Surplus as regards policyholders	<u>\$ 271,625,874</u>		<u>\$ 271,625,874</u>
Total Liabilities and Surplus	<u>\$ 677,515,727</u>		<u>\$ 677,515,727</u>

**FINANCIAL STATEMENTS**  
**STATEMENT OF UNDERWRITING AND INVESTMENTS**  
As of December 31, 2010

	As Reported 12/31/2010	Adjustments	As Adjusted 12/31/2010
<u>Underwriting Income</u>			
<u>Revenue</u>			
Premiums earned	\$ 132,827,628		\$ 132,827,628
Total Revenue	\$ 132,827,628		\$ 132,827,628
<u>Deductions</u>			
Losses incurred	\$ 51,976,206		\$ 51,976,206
Loss adjustment expenses incurred	18,110,943		18,110,943
Other underwriting expenses	43,388,385		43,388,385
Total underwriting deductions	\$ 113,475,534		\$ 113,475,534
Net underwriting gain or loss	\$ 19,352,094		\$ 19,352,094
<u>Investment Income</u>			
Net investment income earned	\$ 25,738,755		\$ 25,738,755
Net realized capital gains or (losses)	(630,965)		(630,965)
Net investment gain or (loss)	\$ 25,107,790		\$ 25,107,790
<u>Other Income</u>			
Net (Loss) from agents' or premium balances charged off	\$ (158,253)		\$ (158,253)
Aggregate write-ins for miscellaneous income	483,856		483,856
Total other income	\$ 325,603		\$ 325,603
Net income before federal income tax	\$ 44,785,487		\$ 44,785,487
Federal income tax incurred	5,900,129		5,900,129
Net income (loss)	\$ 38,885,358		\$ 38,885,358
<u>Capital and Surplus Account</u>			
Surplus, December 31, prior year	\$ 293,014,430		\$ 293,014,430
<u>Gains and (Losses) in Surplus</u>			
Net income (loss)	\$38,885,358		\$ 38,885,358
Change in net unrealized capital gains (losses)	21,912		21,912
Change in net deferred income tax	(2,825,809)		(2,825,809)
Change in nonadmitted assets	2,540,983		2,540,983
Change in provision for reinsurance	(11,000)		(11,000)
Dividends to stockholder	(60,000,000)		(60,000,000)
Change in surplus as regards policyholders	\$ (21,388,556)		\$ (21,388,556)
Surplus for the period ended December 31, 2010	\$ 271,625,874		\$ 271,625,874

**FINANCIAL STATEMENTS**  
**STATEMENT OF CAPITAL AND SURPLUS ACCOUNT**  
As of December 31, 2010

	Common Stock <sup>(1)</sup>	SURPLUS		TOTAL
		Paid-In	Unassigned	
Balance at December 31, 2007	\$ 25,000,000	\$ 25,000,000	\$ 195,025,117	\$ 245,025,117
Net income – 2008			45,537,953	45,537,953
Change in net unrealized capital gains (losses)			(15,789,145)	(15,789,145)
Change in net deferred income tax			7,792,254	7,792,254
Change in nonadmitted assets			(1,703,394)	(1,703,394)
Change in provision for reinsurance			(39,000)	(39,000)
Dividends to stockholder			(15,000,000)	(15,000,000)
Balance at December 31, 2008	\$ 25,000,000	\$ 25,000,000	\$ 215,823,785	\$ 265,823,785
Net income – 2009			47,444,127	47,444,127
Change in net unrealized capital gains (losses)			(7,624,987)	(7,624,987)
Change in net deferred income tax			251,815	251,815
Change in nonadmitted assets			2,142,690	2,142,690
Change in provision for reinsurance			(23,000)	(23,000)
Dividends to stockholder			(15,000,000)	(15,000,000)
Balance at December 31, 2009	\$ 25,000,000	\$ 25,000,000	\$ 243,014,430	\$ 293,014,430
Net income – 2010			38,885,358	38,885,358
Change in net unrealized capital gains (losses)			21,912	21,912
Change in net deferred income tax			(2,825,809)	(2,825,809)
Change in nonadmitted assets			2,540,983	2,540,983
Change in provision for reinsurance			(11,000)	(11,000)
Dividends to stockholder			(60,000,000)	(60,000,000)
Balance at December 31, 2010	\$ 25,000,000	\$ 25,000,000	\$ 221,625,874	\$ 271,625,874

<sup>(1)</sup> Total authorized shares of Common Stock -- 1,000,000 @ \$100 par value per share  
Total Shares Outstanding -- 250,000 shares

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS  
RESULTING FROM THE EXAMINATION**

This examination did not result in findings that produced adjustments to the financial statements filed as of December 31, 2010.

**COMPLIANCE WITH RECOMMENDATIONS IN  
PRIOR REPORT OF EXAMINATION**

During the examination the following recommendations in the prior report of examination were found to have been implemented or the issue was no longer present:

- Prior Finding 2 – Unrecorded Cash Investment
- Prior Finding 3 – SVO Exception
- Prior Finding 4 – Intercompany Loan
- Prior Finding 5 – Claim Payment Controls
- Prior Finding 6 – Short Sale Transaction

The following prior finding was found to be unresolved during the current examination period:

Prior Finding 1 – Information Systems Business Continuity Plan / Disaster Recovery Plan

The Company Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) does not address all significant business activities and contingencies. A BCP should be based on a business impact analysis which is periodically reviewed to determine the appropriateness of the anticipated maximum recovery times and recovery points. The BCP was not created based on a business impact analysis and the plan has not been formally tested in more than a year. Further, while some components of a DRP have been developed and are being reviewed and updated regularly, there is no comprehensive and formalized plan. There was a similar finding in the two prior examinations which recommended that a disaster recovery and contingency plan be developed.

Prior Recommendation: It is recommended that the Business Continuity Plan be further developed and be based on a business impact analysis that is regularly reviewed to ensure that it continually reflects actual business requirements. The business impact analysis should include periodic reviews of maximum recovery times and recovery points, and the resulting BCP should be updated based on the assessment results. It is also recommended that the Company create a comprehensive and formalized Disaster Recovery Plan.

Current Status: ANIC IS management has yet to create formal business continuity and disaster recovery plans. Additionally, the current Business Continuity Program was not created based on a business impact analysis. (See current Finding 4)

## CURRENT EXAMINATION FINDINGS AND RECOMMENDATIONS

### Finding 1 – Investment custodial agreement does not contain all required provisions pursuant to 3 AAC 21.865

A review of the current custodial agreement, which became effective in 2009, revealed that it does not include all required provisions of 3 AAC 21.865.

Recommendation: It is recommended that the Company amend the custodial agreement or enter into a new agreement that includes the language and provisions required by 3 AAC 21.865.

### Finding 2 – Board of Directors formal resolution covering investment transactions does not include all specified language required in 3 AAC 21.211(b)

Per 3 AAC 21.211(b) (Authorization of investments by the board of directors),

The board of directors shall evidence by formal resolution, at least annually, that it has determined that each investment has been made in accordance with delegations, standards, limitations, and investment objectives prescribed by the board of directors or a committee of the board of directors charged with the responsibility to direct its investments.

The board of directors does, on at least an annual basis, approve the investment transactions as presented and recommended by the Investment Committee with an annual resolution; however, it does not use the wording specified in regulation that “each investment has been made in accordance with delegations, standards, limitations, and investment objectives prescribed by the board of directors...”

Recommendation: It is recommended that the Board of Directors’ annual resolution state “that each investment has been made in accordance with delegations, standards, limitations, and objectives of the board of directors” to indicate their robust understanding and review of the investment transactions for the year past.

### Finding 3 – Prior year market share percent allocation used in computation of Guaranty Fund receivable/payable balances

Due to the timing requirements of filing the annual statement, the Company calculates its Guaranty Fund receivable and payable balances based on prior year market share information as market share information is not available from the Guaranty Fund until after this time. The use of prior year information can cause a discrepancy between the values reported in the annual statement filing and those calculated and confirmed by the Company’s independent auditors following the filing of the annual statement. Depending on the materiality of change in market share between year-ends, the reported and audited balances can show a significance discrepancy.

Recommendation: It is recommended that the Company recalculate the Guaranty Fund receivable/payable balances within a reasonable time of receiving the current year market share allocation from AIGA and to update these values by the 2Q financial statement filing.



Finding 4 – Lack of comprehensive Information Systems Business Continuity Plan / Disaster Recovery Plan

The Company Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) does not address all significant business activities and contingencies. A BCP should be based on a business impact analysis which is periodically reviewed to determine the appropriateness of the anticipated maximum recovery times and recovery points. The BCP was not created based on a business impact analysis and the plan has not been formally tested in more than a year. Further, while some components of a DRP have been developed and are being reviewed and updated regularly, there is no comprehensive and formalized plan. There was a similar finding in the prior two examinations which recommended that a full disaster recovery and contingency plan to be developed.

Recommendation: It is recommended that the Business Continuity Plan be further developed and be based on a business impact analysis that is regularly reviewed to ensure that it continually reflects actual business requirements. The business impact analysis should include periodic reviews of maximum recovery times and recovery points, and the resulting BCP should be updated based on the assessment results. It is also recommended that the Company create a comprehensive and formalized Disaster Recovery Plan, and that this plan be tested at least annually.

Alaska National Insurance Company  
As of December 31, 2010  
FE 11-03

**CLOSING**

This examination was conducted in accordance with practices and procedures promulgated by the NAIC. This examination also included a compliance review of applicable Alaska Statutes and Regulations.

In addition to the undersigned, the following Division of Insurance examiners participated in the examination: Actuary Sarah McNair-Grove, FCAS, MCAA; Douglas Hartman, AFE; and W. David Phifer. The following examiners from Risk & Regulatory Consulting, LLC (formerly RSM McGladrey, Inc.) also participated: Margaret C. Spencer, CFE, Managing Director; Cathie A. Stewart, CFE, Director; Adam Sarote, AES, IT Manager; Darin D. Benck, CFE, Manager; Mary R. Hartell, and Ashley E. Ennis.

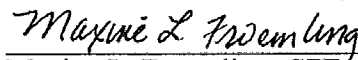
We wish to express our appreciation for the courteous cooperation and assistance extended to us by the management and staff of Alaska National Insurance Company during the course of this examination.

This report is respectfully submitted,



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Richard B. Foster, CFE  
Examiner-in-Charge



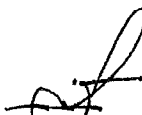
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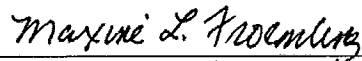
Maxine L. Froemling, CFE  
Chief Financial Examiner

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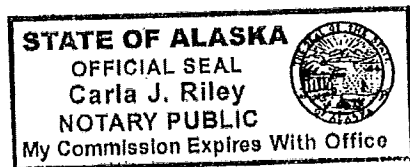
Anchorage, Alaska )  
June 22, 2012 )  
STATE OF ALASKA )  
THIRD JUDICIAL DISTRICT )

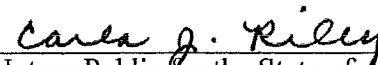
We, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2010, of Alaska National Insurance Company, an Alaska domiciled company holding Certificate of Authority D-1285, is true to the best of our knowledge and belief.

  
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Richard B. Foster, CFE  
Examiner-in-Charge

  
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Maxine L. Froemling, CFE  
Chief Financial Examiner

Subscribed and sworn to before me this 22 day of June, 2012.



  
\_\_\_\_\_  
Notary Public for the State of Alaska

My commission expires: with office