

Statutory Financial Examination of
ALASKA NATIONAL INSURANCE COMPANY

FE 14-02

as of December 31, 2013

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

NAIC Company Code: 38733
NAIC Group Code: N/A

FINAL REPORT:
May 25, 2015



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

550 West Seventh Avenue, Suite 1560
Anchorage, Alaska 99501-3567
Main: 907.269.7900
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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 14-02)
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 14-02) 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 25, 2015.
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 she 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).

ORDER FE 14-02
ALASKA NATIONAL INSURANCE COMPANY
As of December 31, 2013

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 she considered necessary in accordance with AS 21.06.150(b).

ORDER


IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Alaska National Insurance Company (FE 14-02) is approved as filed.

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

This order is effective June 25, 2015.

Dated this 25th day of June 2015 in Anchorage, Alaska.



Lori K. Wing-Heier, Director
State of Alaska
Division of Insurance

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May 25, 2015

Lori Wing-Heier, Director
Division of Insurance
Department of Commerce, Community
and Economic Development
State of Alaska
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Dear Director Wing-Heier:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, we have performed an examination of the financial condition and business affairs of:

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

(NAIC CoCode 38733)

SCOPE OF EXAMINATION

We conducted a multi-state full-scope examination of Alaska National Insurance Company (“the Company”) covering the three-year period of January 1, 2011 through December 31, 2013. The last examination covered the period of January 1, 2008 through December 31, 2010.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). 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 identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating 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.

This examination report contains findings of fact pursuant to AS 21.06.150, and general information about the insurer 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 separately communicated to other regulators and/or the Company.

SUMMARY OF EXAMINATION FINDINGS

Significant Findings

There were no material adverse or significant non-compliant statutory findings noted as a result of the examination of Alaska National Insurance Company as of December 31, 2013.

DESCRIPTION OF COMPANY

Company History

Alaska National Insurance Company is an Alaska-domiciled stock insurance company organized pursuant to Title 21, Chapter 69 of the Alaska Statutes. The Company was incorporated on April 30, 1979, and received a Certificate of Authority (license #D-1285) from the State of Alaska effective September 30, 1980, authorizing them to transact the business of property, casualty, surety, health, marine, wet marine, and transportation policies. The Company currently holds the same authorities. As of December 31, 2013, the Company was licensed in 26 states.

Management and Control

The Company is the single member of a holding company system and is wholly owned by Alaska National Corporation (the Parent). There are no other affiliates or members of the holding company. The Parent is closely owned by its Officers and Directors along with current and past management and employees of the Company. The shares are privately-held and not actively traded. No significant ownership or management control changes have occurred since the previous examination.

Corporate governance can be defined as the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. The Board of Directors and management are the principal players in an insurer's corporate governance and are tasked with monitoring an organization's risk management activities and with establishing a control environment. The control environment represents an organization's first line of defense to mitigate all risks, including the risks of financial errors.

The Company's Board of Directors is responsible for the control and management of the affairs, property and interests of the Company. The Board appoints executive officers to conduct the day-to-day operations of the Company. The composition of the Company's Board of Directors and executive management consisted of the following individuals at December 31, 2013:

Board of Directors

George S. Suddock, Chairman
David P. Jones, Vice Chairman
Jonathan L. Block
Richard L. Block
June V. Hill
Norman F. Kaelber
Terrence E. Kordewick
Pamela K. Macksey
Roger L. Moseley
Craig L. Nodtvedt
Gary B. Oehler
James E. Pfeifer
John L. Ramey
Richard B. Suddock
Bernie D. Raven

Executive Officers

Craig L. Nodtvedt
Pamela K. Macksey
Takashi Azegami
June V. Hill
Bernie D. Raven
Richard B. Suddock
Kristine S. Bottomley
Wayne W. Bryan
Elizabeth A. Humphries
Terrence E. Kordewick
Scott C. Lincoln
Roger L. Moseley
Jeffrey T. Mouck
John L. Ramey

Position

President
Secretary & Sr Vice President
Treasurer
Executive Vice President
Executive Vice President
Executive Vice President
Senior Vice President
Senior Vice President
Senior Vice President
Senior Vice President
Senior Vice President
Senior Vice President
Senior Vice President
Senior Vice President

Related Party Activity

Conflict of Interest

The Company has established a formal code of conduct outlining procedures for disclosure of potential conflicts of interest. Annual conflict of interest disclosure questionnaires are to be completed by all officers and directors. They are submitted to the Company's Secretary and reviewed by the Board of Directors for resolution of any potential conflicts. These statements identify any material interest or affiliation which may conflict with the duties of such person on behalf of the Company or the Parent.

Affiliated Tax Agreement

The Company is party to an inter-company tax allocation agreement with the Parent whereby the federal income tax return is filed on a consolidated basis.

Dividends

During the period under examination, shareholder cash dividends were declared by the Company and paid as follows:

<u>Payment Date</u>	<u>Amount</u>	<u>Type</u>
January 15, 2012	\$4,000,000	Ordinary
April 15, 2012	\$4,000,000	Ordinary
July 15, 2012	\$4,000,000	Ordinary
September 15, 2012	\$4,000,000	Ordinary
December 17, 2012	\$40,000,000	Ordinary

Territory and Plan of Operation

Alaska National Insurance Company is authorized to transact the following kinds of business: property, casualty, surety, disability, marine, wet marine, and transportation policies. As of December 31, 2013, the Company was licensed in 26 states. Per inquiry of management, the Company does not maintain a written plan for the acquisition of business and does not employ an agency system. Also, per inquiry of management, the Company does not employ a budgeting and forecasting system but rather relies on expense reviews and comparisons of current to prior-year actual totals to identify significant variances for investigation.

Growth of the Company

The following schedule shows the year-end balance sheet from the beginning of the exam period, December 31, 2010, through the end of the exam period, December 31, 2013. The figures are as reported in the annual statements of the Company for the years 2011 through 2013:

Year	Admitted Assets	Liabilities	Surplus
2010	\$ 677,515,727	\$ 405,889,853	\$ 271,625,874
2011	\$ 691,475,475	\$ 387,869,782	\$ 303,605,693
2012	\$ 753,361,206	\$ 459,728,948	\$ 293,632,258
2013	\$ 830,445,066	\$ 478,232,019	\$ 352,213,047

Reinsurance

As of December 31, 2013, the Company had maximum retention of \$1 million on property, \$2 million on liability, and \$5 million on workers compensation policies. The Company had maximum excess of loss reinsurance above retention limits of \$4 million on property, \$8 million on liability, and \$145 million on non-Alaska and \$170 million on Alaska workers' compensation policies. Additionally, the Company maintains catastrophic property coverage of \$33 million in excess of \$2 million.

The Company's reinsurance program has not changed significantly in the three years since the prior examination.

At December 31, 2013, 53% of ceded premiums and 64% of net amounts recoverable from reinsurers are on policies covered by the mandatory workers' compensation pool administered by the National Council on Compensation Insurance (NCCI). In addition, 40% of total ceded premiums were ceded to four reinsurers with an A.M Best rating of 'A+' or better. The Company reported 34% of net amounts recoverable from reinsurers with an A.M. Best rating of 'A+' or better. In total, 98% of net amounts recoverable are due from highly rated reinsurers or mandated secured reinsurance pools.

All reinsurance contracts provided by the Company contained all provisions required by Alaska regulations, including appropriate arbitration and insolvency clauses. Assumed reinsurance is primarily from mandatory participation in the Alaska workers' compensation pool under agreement with NCCI, as well as from the Alaska Automobile Insurance Plan administered by the Auto Insurance Provider Service Organization (AIPSO). A small amount of reinsurance is assumed under a fronting arrangement with Old Republic Insurance Company for states in which the Company is not currently licensed to write.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Alaska Division of Insurance, reflect the financial condition of the company for the period ending December 31, 2013. The accompanying comments on financial statements should be considered an integral part of the financial statements.

FINANCIAL STATEMENTS
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
As of December 31, 2013

	As Reported 12/31/2013
<u>Assets</u>	
Bonds	\$ 498,840,918
Common stocks	139,817,058
Properties occupied by the company	1,692,081
Properties held for the production of income	297,133
Cash and short-term investments	54,223,583
Other invested assets	16,508,534
Total cash and invested assets	711,379,307
Investment income due and accrued	5,739,757
Uncollected premiums and agents' balances in the course of collection	20,535,577
Deferred premiums, agents' balances and installments booked but deferred	50,118,832
Accrued retrospective premiums	5,033,619
Amounts recoverable from reinsurers	119,510
Current federal income tax recoverable	788,069
Net deferred tax asset	14,350,702
Guaranty funds receivable or on deposit	18,089,220
Electronic data processing equipment and software	510,312
Aggregate write-ins for other-than-invested assets	3,780,161
Total Admitted Assets	\$ 830,445,066
 <u>Liabilities, Surplus, and Other Funds</u>	
Losses	\$ 272,035,795
Loss adjustment expenses	71,733,098
Commissions payable, contingent commissions	2,775,666
Other expenses	7,805,566
Taxes, licenses and fees	2,257,381
Unearned premiums	88,383,859
Ceded reinsurance premiums payable	8,528,138
Amounts withheld or retained by the company	6,432,958
Provision for reinsurance	51,000
Aggregate write-ins for liabilities	18,228,558
Total Liabilities	478,232,019
 <u>Surplus</u>	
Common capital stock	25,000,000
Gross paid in and contributed surplus	25,000,000
Unassigned funds	302,213,047
Total surplus	352,213,047
Total Liabilities and Surplus	\$ 830,445,066

FINANCIAL STATEMENTS
STATEMENT OF INCOME
As of December 31, 2013

	<u>As Reported</u> <u>12/31/2013</u>
<u>Underwriting Income</u>	
Premiums earned	<u>\$ 177,013,329</u>
<u>Deductions</u>	
Losses incurred	\$ 67,857,234
Loss adjustment expenses	22,982,039
Other underwriting expenses incurred	53,140,121
Loss adjustment fees	(491,846)
Total underwriting deductions	<u>143,487,548</u>
Net underwriting gain or (loss)	<u>\$ 33,525,781</u>
<u>Investment Income</u>	
Net investment income earned	\$ 26,105,038
Net realized capital gains	2,697,358
Net Investment gain or (loss)	<u>\$ 28,802,396</u>
<u>Other Income or (Loss)</u>	
Net loss from agents' balances charged off	<u>\$ (74,973)</u>
Total other income or (loss)	<u>\$ (74,973)</u>
Net income before federal income tax	\$ 62,253,204
Federal income taxes incurred	11,942,430
Net income (loss)	<u><u>\$ 50,310,774</u></u>

FINANCIAL STATEMENTS
RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT
As of December 31, 2013

	Common	Surplus		Total
	Stock	Paid-In	Unassigned	
Balance at December 31, 2010	\$ 25,000,000	\$ 25,000,000	\$ 221,625,874	\$ 271,625,874
Net income - 2011			33,936,951	33,936,951
Change in net unrealized capital gains or losses (net of taxes)			(709,751)	(709,751)
Change in net deferred income tax			20,992	20,992
Change in non-admitted assets			(1,268,373)	(1,268,373)
Balance at December 31, 2011	\$ 25,000,000	\$ 25,000,000	\$ 253,605,693	\$ 303,605,693
Net income - 2012			20,892,389	20,892,389
Change in net unrealized capital gains or losses (net of taxes)			6,722,249	6,722,249
Change in net deferred income tax			441,964	441,964
Change in non-admitted assets			1,947,963	1,947,963
Change in provision for reinsurance			22,000	22,000
Dividends to stockholders			(40,000,000)	(40,000,000)
Balance at December 31, 2012	\$ 25,000,000	\$ 25,000,000	\$ 243,632,258	\$ 293,632,258
Net income - 2013			50,310,774	50,310,774
Change in net unrealized capital gains or losses (net of taxes)			9,155,332	9,155,332
Change in net deferred income tax			(5,262,241)	(5,262,241)
Change in non-admitted assets			4,376,924	4,376,924
Balance at December 31, 2013	\$ 25,000,000	\$ 25,000,000	\$ 302,213,047	\$ 352,213,047

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

No adjustments to the financial statements filed as of December 31, 2013 were made to surplus as a result of the examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no additional comments on the financial statements filed as of December 31, 2013 as a result of the examination.

SUBSEQUENT EVENTS

There were no subsequent events that occurred between the end of the valuation period of this examination and the date of this report to be of significance for comment.

SUMMARY OF RECOMMENDATIONS

There were no recommendations to be made within the scope of this report of examination.


CLOSING

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

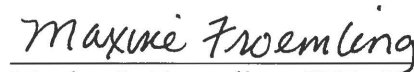
In addition to the undersigned, the following examiners participated in the examination from the Alaska Division of Insurance: Insurance Financial Examiner I Douglas Hartman, AFE, and Actuary Sarah McNair-Grove, FCAS, MCAA. Also participating in the examination were contract examiners from Risk and Regulatory Consulting, LLC, as follows: Cathie A. Stewart, CFE; Alan Gutierrez-Arana, QSA, PCIP, CISA, CRISC; Jaki Gardner, CFE; Darin D. Benck, CFE; Stephan Donk; and Emma Bebee.

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,



Richard B. Foster, CFE
Examiner-in-Charge



Maxine L. Froemling, CFE
Chief Financial Examiner

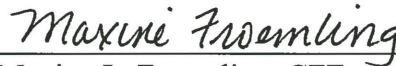
AFFIDAVIT

Anchorage, Alaska)
June 19, 2015)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2013, of Alaska National Insurance Company, an Alaska-domiciled company holding Certificate of Authority #D-1285, is true to the best of my knowledge and belief.



Richard B. Foster, CFE
Examiner-in-Charge



Maxine L. Froemling, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 19th day of June, 2015.



Notary Public for the State of Alaska

My commission expires: with office