

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
American Inter-Fidelity Exchange)
8400 Louisiana Street)
Merrillville, Indiana 46410)

Examination of American Inter-Fidelity Exchange

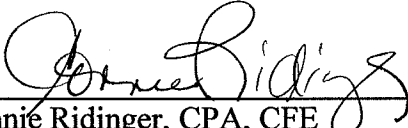
NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Doug Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of American Inter-Fidelity Exchange, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 30, 2010, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of American Inter-Fidelity Exchange shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

May 26, 2010
Date



Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2149

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8400 Louisiana Street)
Merrillville, Indiana 46410)

Examination of American Inter-Fidelity Exchange

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the American Inter-Fidelity Exchange (hereinafter "Company") for the time period January 1, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on April 29, 2010.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on April 30, 2010 and was received by the Company on May 3, 2010.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the American Inter-Fidelity Exchange as of December 31, 2008.
2. That the Examiners' Recommendations are reasonable and necessary in order for the American Inter-Fidelity Exchange to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 26th day of May, 2010.



Douglas Webber
Acting Insurance Commissioner

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

AMERICAN INTER-FIDELITY EXCHANGE

NAIC Co. CODE 40088

As of

December 31, 2008

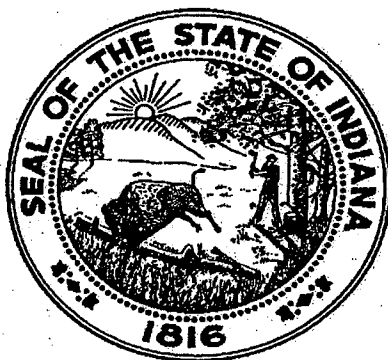


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

CAROL CUTTER, Commissioner

April 30, 2010

Honorable Douglas Webber
Acting Commissioner, Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3574, an examination has been made of the affairs and financial condition of:

**American Inter-Fidelity Exchange
8400 Louisiana Street
Merrillville, Indiana 46410**

hereinafter referred to as the "Company," an Indiana domestic property and casualty reciprocal. The examination was conducted at the offices of the Company's Attorney-In-Fact (AIF) in Merrillville, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of Noble Consulting Services, Inc. (Noble) as of the period ending December 31, 2003. The present examination was conducted by Noble and covered the period from January 1, 2004 through December 31, 2008 and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Merlinos & Associates, Inc. was appointed by the Indiana Department of Insurance (IDOI) and conducted a review of the Company's statutory reserves as of December 31, 2008. There were no actuarial adjustments or recommendations resulting from the review performed by Merlinos & Associates, Inc.

We conducted our examination pursuant to and in accordance with the 2009 NAIC Financial Condition Examiners Handbook (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 working papers prepared by BDO Seidman; the Company's auditors, in their audit of the Company's accounts for the year ended December 31, 2008 were reviewed. A portion of the auditor's working papers have been incorporated into the working papers of the examiners and have been utilized for the purposes of this examination in accordance with the provisions contained in the Handbook.

HISTORY

The Company was incorporated on September 10, 1981 under the laws of the State of Indiana as a reciprocal insurer providing coverage to its founding subscribers, a select group of motor carriers. In 1988, the Company became registered as a risk retention group (RRG) in Indiana pursuant to IC 27-7-10-13 and shortly thereafter began writing liability insurance coverage throughout the country to unaffiliated motor carriers. Upon its conversion to an RRG, the property lines of business were picked up by the Company's wholly-owned subsidiary, Indiana Truckers Exchange.

On March 23, 1994, the Company was placed into rehabilitation by the IDOI. The IDOI issued an order terminating rehabilitation effective March 5, 2002. The Company entered into a Consent Order of Supervision with the IDOI, effective for a period of three (3) years from January 1, 2001 through December 31, 2004. Subsequent to the expiration of the Consent Order on December 31, 2004, the Company entered into a Post-Consent Order Agreement whereby the IDOI agreed to amend the Company's Certificate of Authority changing the Company's status from an RRG to a reciprocal. As of the date of this report, the Company is no longer operating under any regulatory restrictions.

CAPITAL AND SURPLUS

The Exchange is owned by its subscribers and as such has no authorized, issued, or outstanding common stock.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in the State of Indiana and issues four basic types of policies; commercial trucking liability, non-trucking liability, physical damage covering leased tractor/trailer units, and cargo insurance covering the goods hauled by individual trucking companies. The primary source of premium revenue is generated by the commercial trucking liability coverage. There are approximately twelve (12) member trucking companies as of December 31, 2008. Several of the current subscribers are owned by U.S. 1 Industries, Inc., a company whose management is common with the Company's AIF, American Inter-Fidelity Corporation (AIFC).

Non-trucking liability and physical damage coverages are offered to approximately 250 to 300 independent owner-operators who lease their tractor-trailer units to the member trucking companies. Non-trucking liability is priced at a flat amount per month and physical damage is priced based on a rate times the stated value of the tractor trailer. Additionally, several member trucking companies purchase cargo insurance, which protects the value of goods in transit; however, this type of coverage has generally declined over the examination period.

GROWTH OF THE COMPANY

The following exhibit depicts the growth of the Company throughout the examination period.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as regards</u> <u>Policyholders</u>	<u>Premium Earned</u>	<u>Net Income</u>
2008	\$ 22,020,213	\$10,921,983	\$ 11,098,231	\$ 5,833,940	\$ 752,249
2007	21,075,715	9,822,946	11,252,769	6,500,910	1,824,827
2006	17,618,813	9,007,702	8,611,111	6,972,401	1,079,590
2005	14,655,799	7,140,581	7,515,218	7,347,401	999,241
2004	13,662,254	6,685,701	6,976,553	5,018,002	1,501,990

In 2008, the Company's Board of Directors voted to transfer the day-to-day investment functions to US Bank. While maintaining a generally conservative philosophy, the investment decisions also included much more diversification, including investing significantly more of the Company's assets in more risk sensitive instruments, including common stocks. With market conditions in 2008, this more aggressive philosophy produced disappointing results for the Company. Decreases in premiums earned and net income in 2008 were primarily as a result of the soft market conditions experienced within the Company's lines of business and the disappointing investment returns noted above.

MANAGEMENT AND CONTROL

Directors

The Company is governed by a Board of Directors who are elected at the shareholder's annual meeting. The Company's Bylaws state that the Board of Directors shall consist of at least three (3) Directors. The following is a listing of persons serving as Directors at December 31, 2008:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Lex Venditti Crown Point, Indiana	Attorney American Inter-Fidelity Corporation
Michael Kibler Valparaiso, Indiana	President US 1 Industries, Inc.
Harold Antonson Valparaiso, Indiana	Chief Financial Officer US 1 Industries, Inc.
Richard Penney Sarasota, Florida	Independent Insurance Agent
Robert Scissors Valparaiso, Indiana	Director US 1 Industries, Inc.
Gage Blue Mount Pleasant, South Carolina	General Manager Carolina National Transportation, Inc.

Officers

The Company's Bylaws state that the officers of the Company shall be a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as may be appointed in accordance with the provisions of Article 3.1. The position of Vice President was not filled at December 31, 2008. The following is a list of officers and their respective titles, as of December 31, 2008:

<u>Name</u>	<u>Office</u>
Lex Venditti	President and Treasurer
Harold Antonson	Secretary

CONFLICT OF INTEREST

The Company requires employees, officers and Directors to review and sign Conflict of Interest statements on an annual basis. Based on a review of the signed statements for each year of the examination period, officers and Directors listed in the management and control section of this report have reviewed and signed their statements annually.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each Director signed an Oath of Office when elected.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no amendments made to the Company's Articles of Incorporation or Bylaws during the examination period.

Minutes

The Board of Directors, Executive Committee, and Shareholder meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

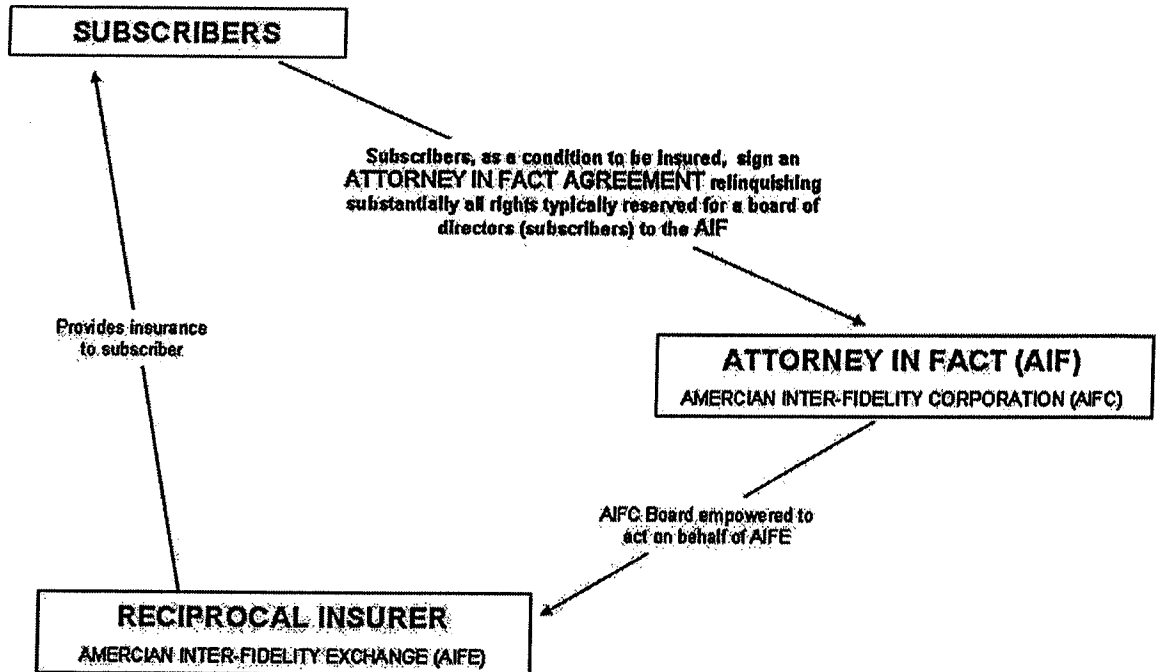
AFFILIATED COMPANIES

Organizational Structure

AIFC acts as the AIF for the Company. AIFC was organized to provide services to the Company. AIFC is owned by three individuals who serve as board members of the Company and two as officers. Management fees are paid to AIFC for operating expenses as outlined in the Subscriber Agreement. These fees are 10% of gross premium and 25% of net profit. The management fee for 2008 was \$898,901.

The Federal Risk Retention Act requires an AIF and a Subscriber Agreement and it is not considered unusual for Directors and ownership to have common ties between the Company and the AIF. While the Company does not currently operate as an RRG, as it reverted to a reciprocal when placed into rehabilitation, it still operates under the terms of the Subscriber Agreement.

Indiana Truckers Exchange is an insurance company whose surplus has been pledged to the Company by its common members. The Company's interest in Indiana Truckers Exchange is reported on an equity basis as an other invested asset. US 1 Industries, Inc. is a publicly traded company controlled by the same management team as the Company.



Since 100% of subscribers are required to sign the AIF Subscriber Agreement and relinquish their management rights, there is no need for the Company to have a "Board of Subscribers" and the AIF Board of Directors effectively becomes the acting Board of Subscribers of the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by the Fidelity and Deposit Company of Maryland. The bond has blanket coverage of \$150,000 with a \$5,000 deductible. The fidelity bond was not adequate to meet the prescribed minimum coverage specified by NAIC; however, this issue was resolved in 2009 as further explained in the Subsequent Events section of this Report of Examination.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposits comprised of United States Treasury Notes and Issuer Obligations at December 31, 2008:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$ 100,000	\$ 103,594
Total Deposits	\$ 100,000	\$ 103,594

REINSURANCE

The Company assumes no reinsurance.

The Company's primary business consists of commercial automobile liability insurance for a small number of interstate trucking companies. In addition, physical damage coverage is offered as a convenience for various owner-operators who contract with these trucking companies.

The Company offers a maximum policy limit of \$1 million per occurrence. The Company retains the first \$250,000 per loss and reinsures the excess limits on a facultative basis with GMAC Re, rated B++ by A.M. Best. During 2008, the Company ceded \$648,283 in reinsurance premiums to GMAC Re. The Company ceded \$2,020,000 in open claim reserves in 2008.

RESERVES

John Pierce, FCAS, MAAA, was appointed by the Board of Directors to render an opinion on the statutory-basis loss and loss adjustment expense reserves of the Company for all years throughout the examination period.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2008 opinion stated that the balances of loss and loss adjustment expense reserves 1) meet the requirements of the insurance laws of Indiana; 2) are computed in accordance with accepted actuarial standards and principles; and 3) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

During the examination, it was determined that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2007 and December 31, 2008 were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2004 through December 31, 2008 were agreed to each year's independent audit report with no exceptions noted. The Company's accounting procedures, practices, and account records were satisfactory.

AMERICAN INTER-FIDELITY EXCHANGE

FINANCIAL STATEMENTS

Assets

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Assets:				
Bonds	\$ 12,541,913	\$ -	\$ 12,541,913	\$ 2,854,306
Stocks:				
Common stocks	3,163,270	-	3,163,270	5,585,134
Mortgage loans on real estate:				
First liens:	306,384	-	306,384	313,000
Cash, cash equivalents and short-term investments	3,322,295		3,322,295	9,157,206
Other invested assets	965,306	-	965,306	959,226
Subtotals, cash and invested assets	\$ 20,299,168	\$ -	\$ 20,299,168	\$ 18,868,872
Investment income due and accrued	182,528	-	182,528	88,988
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	1,192,406	-	1,192,406	1,560,063
Net deferred tax asset	274,000	-	274,000	439,000
Aggregate write-ins for other than invested assets	72,111	-	72,111	118,791
Total Assets	\$ 22,020,213	\$ -	\$ 22,020,213	\$ 21,075,714

AMERICAN INTER-FIDELITY EXCHANGE

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2008			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Losses	\$ 8,868,584	\$ -	\$ 8,868,584	\$ 7,648,199
Loss adjustment expenses	434,946	-	434,946	638,771
Other expenses	678,164	-	678,164	232,054
Current federal and foreign income taxes	64,748	-	64,748	-
Unearned premiums	409,706	-	409,706	499,614
Amounts withheld or retained by company for account of others	186,792	-	186,792	225,287
Payable to parent, subsidiaries and affiliates	279,043	-	279,043	579,020
Total liabilities	\$ 10,921,983	\$ -	\$ 10,921,983	\$ 9,822,945
Gross paid in and contributed surplus	\$ 9,481,391	\$ -	\$ 9,481,391	\$ 9,771,391
Unassigned funds (surplus)	1,616,840	-	1,616,840	1,481,378
Surplus as regards policyholders	\$ 11,098,231	\$ -	\$ 11,098,231	\$ 11,252,769
Total liabilities, capital and surplus	\$ 22,020,214	\$ -	\$ 22,020,214	\$ 21,075,714

AMERICAN INTER-FIDELITY EXCHANGE

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2008

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
UNDERWRITING INCOME				
Premiums earned	\$ 5,833,940	\$ -	\$ 5,833,940	\$ 6,500,910
DEDUCTIONS				
Losses incurred	\$ 3,405,585	\$ -	\$ 3,405,585	\$ 3,593,068
Loss adjustment expenses incurred	463,067	-	463,067	222,969
Other underwriting expenses incurred	1,849,401	-	1,849,401	1,655,297
Total underwriting deductions	\$ 5,718,053	\$ -	\$ 5,718,053	\$ 5,471,334
Net underwriting gain (loss)	\$ 115,887	\$ -	\$ 115,887	\$ 1,029,576
INVESTMENT INCOME				
Net investment income earned	\$ 608,293	\$ -	\$ 608,293	\$ 767,619
Net realized capital gains (losses)	(62,184)	-	(62,184)	-
Net investment gain (loss)	\$ 546,109	\$ -	\$ 546,109	\$ 767,619
OTHER INCOME				
Aggregate write-ins for miscellaneous income	145,001	-	145,001	27,631
Total other income	\$ 145,001	\$ -	\$ 145,001	\$ 27,631
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 806,997	\$ -	\$ 806,997	\$ 1,824,827
Dividends to policyholders	-	-	-	-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 806,997	\$ -	\$ 806,997	\$ 1,824,827
Federal and foreign income taxes incurred	54,748	-	54,748	-
Net Income	\$ 752,249	\$ -	\$ 752,249	\$ 1,824,827
CAPITAL AND SURPLUS ACCOUNT				
Surplus as regards policyholders, December 31 prior year	\$ 11,252,769	\$ -	\$ 11,252,769	\$ 8,611,110
Net income	\$ 752,249	\$ -	\$ 752,249	\$ 1,824,827
Change in net unrealized capital gains or (losses)	(253,504)	-	(253,504)	130,047
Change in net deferred income tax	(330,227)	-	(330,227)	395,391
Change in nonadmitted assets	176,944	-	176,944	265,611
Surplus Adjustments, Paid in:	(290,000)	-	(290,000)	-
Dividends to stockholders	(210,000)	-	(210,000)	-
Aggregate write-ins for gains and losses in surplus	-	-	-	25,782
Change in surplus as regards policyholders for the year	\$ (154,538)	\$ -	\$ (154,538)	\$ 2,641,658
Surplus as regards policyholders, December 31 current year	\$ 11,098,231	\$ -	\$ 11,098,231	\$ 11,252,768

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008 based on the results of this examination.

SUBSEQUENT EVENTS

There were two events occurring subsequent to the completion of fieldwork and prior to the issuance of this report that were deemed in need of disclosure as follows:

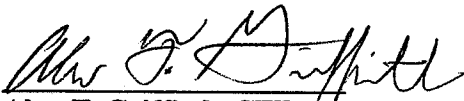
- 1) The Company purchased additional fidelity bond coverage through Chartis, a division of AIG, in the amount of \$1,000,000 effective November 19, 2009 through November 19, 2010. This bond is adequate to meet the prescribed minimum coverage specified by the NAIC.
- 2) The Company has discussed the idea of reverting to RRG status. There have been many discussions regarding this change from the reciprocal status to a RRG; however, no decision has been made as of the examination date.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

CONCLUSION

The preceding Report of Examination of the American Inter-Fidelity Exchange as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, Daniel P. McBay, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of the American Inter-Fidelity Exchange.



Alan T. Griffith, CFE
Examinations Manager
Indiana Department of Insurance