

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

IN THE MATTER OF:)
)
Citizens Insurance Company of the Midwest)
645 West Grand River Avenue)
Howell, Michigan 48843)

Examination of Citizens Insurance Company of the
Midwest

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 Citizens Insurance Company of the Midwest, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 21, 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 Citizens Insurance Company of the Midwest 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.

Date June 10, 2010


Connie Ridinger
Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2217

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 10th day of
June, 2010.



Douglas Webber
Acting Insurance Commissioner

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION

OF

CITIZENS INSURANCE COMPANY OF THE MIDWEST
NAIC Co. CODE 10395

As of

December 31, 2008

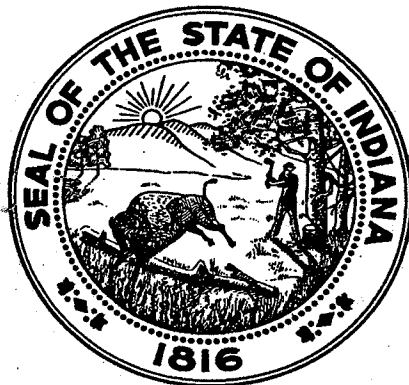


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STATE OF INDIANA

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 12, 2010

Honorable Alfred W. Gross
Chair, NAIC Financial Condition (E) Committee
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable Michael T. McRaith
Chair, Midwestern Zone, NAIC
Director, Illinois Department of Insurance
100 W. Randolph Street, Suite 9-301
Chicago, IL 60601-3395

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

Dear Commissioners and Director:

Pursuant to the authority vested in Appointment Number 3604, an examination has been made of the affairs and financial condition of:

Citizens Insurance Company of the Midwest
3950 Priority Way South Drive, Suite 200
Indianapolis, IN 46240

hereinafter referred to as the "Company," an Indiana domestic stock, property, and casualty insurance company. The examination was conducted at the Hanover corporate offices in Worcester, Massachusetts.

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

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COMPANY COMPLIANCE
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CONSUMER SERVICES
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SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of the period ending December 31, 2004. The present risk-focused examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2005 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.

This examination was coordinated with the concurrent examination of Citizens Insurance Company of America (CICA) performed by representatives of the Michigan Office of Financial and Insurance Regulation (OFIR). The State of Michigan was designated as the lead state. Examiners from the states of Ohio and Indiana participated in the examination.

AMI Risk Consultants, Inc. was appointed by the Michigan OFIR and conducted a review of the lead Company's (CICA) statutory reserves as of December 31, 2008. There were no actuarial adjustments or recommendations resulting from the review performed by AMI Risk Consultants, Inc.

Additionally, Noble Consulting Services, Inc. was appointed by the Michigan OFIR and conducted a review of the lead Company's (CICA) information system controls. Although no material findings were noted, a detailed report of specific recommendations was provided to management.

We conducted our risk-focused 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 PricewaterhouseCoopers, LLP; the Company's independent auditors, in their audit of the Company's accounts for the years 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 under the laws of the State of Indiana on September 1, 1994 and commenced business on March 8, 1996. Until December 31, 2000, the Company was a wholly owned subsidiary of Citizens Corporation, a Delaware Company. On December 31, 2000, Citizens Corporation was dissolved and the ownership of its subsidiaries was transferred to Hanover Insurance Company. The ultimate controlling person was Allmerica Financial Corporation (AFC), a publicly held Company traded on the New York Stock Exchange. The Company is a wholly owned subsidiary of The Hanover Insurance Company (Hanover), which is a wholly owned subsidiary of Opus Investment Management, Inc., which is a wholly owned non-insurance subsidiary of The Hanover Insurance Group, Inc. (THG), a holding Company organized as a Delaware corporation.

CAPITAL AND SURPLUS

As of December 31, 2008, there were 400 shares of \$5,000 par value common stock authorized, issued and outstanding, all of which are owned by Hanover. There is no preferred stock authorized, issued, or outstanding.

Significant adjustments to surplus for the year ended December 31, 2008 included an increase to surplus of \$4,500,000 and \$5,000,000 in the form of capital contributions from the parent Company in 2008 and 2007, respectively. The risk-based capital ratio continues to be well above the Company action level.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in the states of Indiana and Michigan. The Company's principal line of direct business is private passenger auto. The Company also writes modest amounts of homeowners business and workers' compensation. All business is 100% ceded to Citizens Insurance Company of America (CICA). The Company has access to the Citizens and Hanover Insurance companies' independent agent network in Indiana and Michigan. There are 4,378 appointed agents as of December 31, 2008. Agents have been added in 2009. The Company remains committed to its long-term goal of maximizing after-tax investment income while preserving asset quality. The Company cedes 100% of its business and as a result its risk based capital percentage was 17,077% at 12/31/08.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period below shown in thousands:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as regards</u> <u>Policyholders</u>	<u>Gross Premiums</u> <u>Written</u>	<u>Net Income</u> <u>(Loss)</u>
2008	\$22,993,376	\$157,289	\$22,836,087	\$203,824,687	\$1,019,665
2007	17,349,619	26,706	17,322,913	153,074,123	395,047
2006	11,943,637	15,771	11,927,866	90,022,914	373,568
2005	11,570,173	15,875	11,554,298	23,125,591	317,129
2004	11,250,509	13,340	11,237,169	12,825,613	395,485

The Company has grown significantly during the exam period. Investment income was \$874,629 in 2008; this is the Company's only source of revenue due to the 100% quota-share reinsurance agreement with its affiliate, CICA. Investment income earnings increased 50% primarily due to an increase in the asset base that was the result of the \$4,500,000 and \$5,000,000 capital contributions in 2008 and 2007, respectively.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors consisting of no less than seven (7) and no more than twenty (20) persons. Directors need not be shareholders. The stockholder elects the Board of Directors at each annual meeting. The following is a

listing of persons serving as Directors at December 31, 2008:

<u>Name & Address</u>	<u>Principal Occupation</u>
Bryan Allen Wellesley, MA	VP and Chief Human Resources Officer The Hanover Insurance Group, Inc.
Fred Eppinger Grafton, MA	President and Chief Executive Officer The Hanover Insurance Group, Inc.
Eugene Bullis Amesbury, MA	Executive Vice President and CFO The Hanover Insurance Group, Inc.
Edward Clark Carmel, IN	Chief Underwriting Officer The Hanover Insurance Group, Inc.
David Firstenberg Berlin, MA	President – Commercial Lines The Hanover Insurance Group, Inc.
Jay Huber Sudbury, MA	Senior Vice President and General Counsel The Hanover Insurance Group, Inc.
Gary Kusumi Oro Valley, AZ	President, Personal Lines The Hanover Insurance Group, Inc.
Marita Zuraitis Sutton, MA	President, P&C Companies The Hanover Insurance Group, Inc.
Gregory Tranter Shrewsbury, MA	SVP and Chief Information Officer The Hanover Insurance Group, Inc.

Officers

The Company's Bylaws state the officers of the Company, who shall be chosen by the Board of Directors, shall consist of a President and one or more Vice Presidents, a Secretary and other Secretaries, a Treasurer and Assistant Treasurer, and a Chairman of the Board. The same person may hold any two or more offices, with the exception of President and Secretary. The following is a list of key officers and their respective titles as of December 31, 2008:

<u>Name</u>	<u>Title</u>
Marita Zuraitis	President
Charles Cronin	Secretary
Robert Myron	Vice President & Treasurer
Bryan Allen	Vice President
Andrew Robinson	Senior Vice President

David Firstenberg	Vice President
Jay Huber	Senior Vice President & General Counsel
Eugene Bullis	Executive Vice President & CFO
Gregory Tranter	Senior Vice President
Gary Kusumi	Vice President
John Roche	Vice President

CONFLICT OF INTEREST

Both officers and Directors are required to review and sign Conflict of Interest statements annually. It was determined that officers and Directors listed in the management and control section of this report have reviewed and signed their statements as of year-end 2008.

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" statement in 2008.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

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

Minutes

The Board of Directors 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

The following organization chart shows the related insurance companies and direct upstream affiliates of the holding Company:

	<u>NAIC Code</u>	<u>Domiciliary State</u>
The Hanover Insurance Group, Inc.		DE
- Opus Investment Management, Inc		MA
- - The Hanover Insurance Company		NH
- - - Citizens Insurance Company of the Midwest	10395	IN
- - - Citizens Insurance Company of America	31534	MI
- - - Allmerica Financial Benefit Insurance Company	41840	MI
- - - Citizens Insurance Company of Ohio	10176	OH

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed as required with the IDOI in accordance with IC 27-1-23-4.

Consolidated Service Agreement

Companies affiliated with Hanover have entered into an Inter-company Consolidated Service Agreement as amended on January 1, 2008. Under the agreement, legal entities will be charged the cost of the service provided or expenses paid by the entity providing the service or paying the expense. These entities will be charged a portion of costs associated with activities that are performed for the good of THG legal entities.

Consolidated Tax Agreement

A Consolidated Tax Agreement exists as of December 31, 2001 between parent and subsidiaries. The Board of Directors has delegated the development and maintenance of appropriate federal income tax allocation policies and procedures to THG Management. The federal income tax for all subsidiaries in the consolidated return of THG is calculated on a separate return basis. Any current tax liability is paid to THG. Tax benefits resulting from taxable operating losses or credits of THG's subsidiaries are reimbursed to the subsidiary when such losses or credits can be utilized on a consolidated return basis.

Investment Advisory Agreement

Opus Investment Management Inc. (Opus) and the Company have an Investment Advisory Agreement in place as of January 1, 2006, and amended as of October 1, 2007, whereas Opus will act as attorney-in-fact with full power and authority on behalf of each client and each investment account to buy, sell, exchange, convert, lend, extend, renew, modify, and otherwise trade in any and all stocks, bonds, options, and other investments or securities, or to hold assets of the Accounts uninvested as cash, as Opus may select; and (b) to establish and deal through accounts with one or more securities brokerage firms, dealers, or banks as Opus may select.

Reinsurance Agreement

The Company entered into a 100% quota share reinsurance agreement as of December 30, 2007 with CICA, whereby CICA is entitled to collect all gross premiums, less cancellations and return premiums received with respect to reinsured contracts, and the reinsurer shall pay 100% of losses, loss adjustment

expenses, commissions, premium taxes and board assessments with respect to reinsured contracts. CICA is not obligated to indemnify the Company for guaranty fund assessments or other residual market or similar assessments or undertake the obligations of the cedant under catastrophe or fair plans or other market access plans/mechanisms. The Company disbursed \$23,590,230 related to this reinsurance agreement.

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 Federal Insurance Company. The bond has a single loss limit liability of \$10,000,000. The Company has an excess bond in the amount of \$10,000,000 issued by Federal Insurance Company. Both bonds have a deductible of \$500,000. The coverage is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company has additional types of coverage in-force including, but not limited to, commercial auto, property, general liability, and international commercial insurance. The international commercial insurance includes auto, general, property, and workers' compensation liability.

STATUTORY AND SPECIAL DEPOSITS

The Company reported statutory deposits for Indiana as of December 31, 2008 that consisted of U.S. Treasury Notes with a book value of \$302,444 and fair value of \$310,448.

REINSURANCE

The Company cedes 100% of its direct premiums and losses to an affiliate, CICA (the reinsurer), as part of a quota share agreement. The Company reports zero net premium and net losses.

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, 2008 and 2007 were materially agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2005 through December 31, 2008 were agreed to each year's independent audit report with no exceptions noted. The Examiner determined the Company's accounting procedures, practices, and account records were satisfactory.

CITIZENS INSURANCE COMPANY OF THE MIDWEST

FINANCIAL STATEMENTS

Assets

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
Assets:				
Bonds	\$ 20,358,337	\$ -	\$ 20,358,337	\$ 16,935,543
Stocks:				
Preferred stocks	-	-	-	-
Common stocks	-	-	-	-
Cash, cash equivalents, and short-term investments	2,069,836	-	2,069,836	269,601
Subtotals, cash and invested assets	\$ 22,428,173	\$ -	\$ 22,428,173	\$ 17,205,144
Investment income due and accrued	241,565	-	241,565	144,475
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	-	-	-	-
Deferred premiums, agents' balances and installments booked but deferred and not yet due	-	-	-	-
Reinsurance:				
Amounts recoverable from reinsurers	-	-	-	-
Current federal and foreign income tax recoverable	323,638	-	323,638	-
Electronic data processing equipment and software	-	-	-	-
Receivables from parent, subsidiaries, and affiliates	-	-	-	-
Total Assets	\$ 22,993,376	\$ -	\$ 22,993,376	\$ 17,349,619

CITIZENS INSURANCE COMPANY OF THE MIDWEST

FINANCIAL STATEMENTS

Liabilities, Capital, and Surplus

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
Liabilities:				
Losses	\$ -	\$ -	\$ -	\$ -
Reinsurance payable on paid losses and loss adjustment expenses	-	-	-	-
Loss adjustment expenses	-	-	-	-
Commissions payable, contingent commissions and other similar charges	-	-	-	-
Taxes, licenses and fees	-	-	-	-
Current federal and foreign income taxes	-	-	-	25,579
Net deferred tax liability	6,491	-	6,491	-
Ceded reinsurance premiums payable	-	-	-	-
Amount withheld or retained by company for account of others	-	-	-	-
Provision for reinsurance	-	-	-	-
Payable to parent, subsidiaries and affiliates	1,585	-	1,585	1,127
Payable for securities	149,213	-	149,213	-
Total Liabilities	\$ 157,289	\$ -	\$ 157,289	\$ 26,706
Common capital stock	\$ 2,000,000	\$ -	\$ 2,000,000	\$ 2,000,000
Gross paid in & contributed surplus	15,552,858	-	15,552,858	11,052,858
Unassigned funds (surplus)	5,283,229	-	5,283,229	4,270,055
Surplus as regards policyholders	\$ 22,836,087	\$ -	\$ 22,836,087	\$ 17,322,913
Total liabilities, surplus and other funds	\$ 22,993,376	\$ -	\$ 22,993,376	\$ 17,349,619

CITIZENS INSURANCE COMPANY OF THE MIDWEST

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>
Premiums earned	\$ -	\$ -	\$ -	\$ -
DEDUCTIONS				
Losses incurred	\$ -	\$ -	\$ -	\$ -
Loss expenses incurred	-	-	-	-
Other underwriting expenses incurred	-	-	-	-
Total underwriting deductions	\$ -	\$ -	\$ -	\$ -
Net underwriting gain (loss)	\$ -	\$ -	\$ -	\$ -
Net investment income earned	\$ 874,629	\$ -	\$ 874,629	\$ 584,591
Net realized capital gains (losses)	69,617	-	69,617	(11,076)
Net investment gain (loss)	\$ 944,246	\$ -	\$ 944,246	\$ 573,515
Net gain (loss) from agents' or premium balances charged off	\$ -	\$ -	\$ -	\$ -
Finance and service charges not included in premiums	-	-	-	-
Aggregate write-ins for miscellaneous income	-	-	-	-
Total other income	\$ -	\$ -	\$ -	\$ -
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 944,246	\$ -	\$ 944,246	\$ 573,515
Federal and foreign income taxes incurred	(75,419)	-	(75,419)	178,468
Net Income	\$ 1,019,665	\$ -	\$ 1,019,665	\$ 395,047
Capital & Surplus Account:				
Surplus as regards policyholders, December 31 prior year	\$ 17,322,913	\$ -	\$ 17,322,913	\$ 11,927,866
Net income	\$ 1,019,665	\$ -	\$ 1,019,665	\$ 395,047
Change in net unrealized capital gains (losses)	-	-	-	-
Change in net deferred income tax	(362,195)	-	(362,195)	1,577
Change in nonadmitted assets	355,704	-	355,704	(1,577)
Change in provision for reinsurance	-	-	-	-
Surplus adjustments:				
Paid in	4,500,000	-	4,500,000	5,000,000
Dividends to stockholders	-	-	-	-
Change in surplus as regards policyholders for the year	\$ 5,513,174	\$ -	\$ 5,513,174	\$ 5,395,047
Surplus as regards policyholders, December 31 current year	\$ 22,836,087	\$ -	\$ 22,836,087	\$ 17,322,913

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

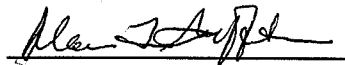
The Company announced that Gene Bullis will no longer preside as the Chief Financial Officer. The position will be taken over by Steven Bensinger on May 10, 2010.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a 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 **Citizens Insurance Company of the Midwest** 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, Paul E. Ellis, 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 **Citizens Insurance Company of the Midwest**.



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