

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

IN THE MATTER OF:)
)
National Building Material Assurance Company)
1111 East 54th Street, Suite 129)
Indianapolis, IN 46220)

Examination of: **National Building Material Assurance Company**


NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of National Building Material Assurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 13, 2017, 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 National Building Material Assurance Company 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.

June 1, 2017
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7016 2070 0001 1479 8643

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

IN THE MATTER OF:)
)
National Building Material Assurance Company)
1111 East 54th Street, Suite 129)
Indianapolis, IN 46220)

Examination of: **National Building Material Assurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the National Building Material Assurance Company (hereinafter “Company”) for the time period January 1, 2012 through December 31, 2015.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on December 17, 2016.

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 13, 2017 and was received by the Company on April 20, 2017.

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 National Building Material Assurance Company as of December 31, 2015.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the National Building Material Assurance Company 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 this 1 day of
June, 2017.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A large, stylized handwritten signature in black ink, appearing to read "Robert L. ...".A smaller, less legible handwritten signature in black ink, possibly reading "John ...".

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
NATIONAL BUILDING MATERIAL
ASSURANCE COMPANY
NAIC Co. CODE 11089
NAIC GROUP CODE 0246

As of

December 31, 2015

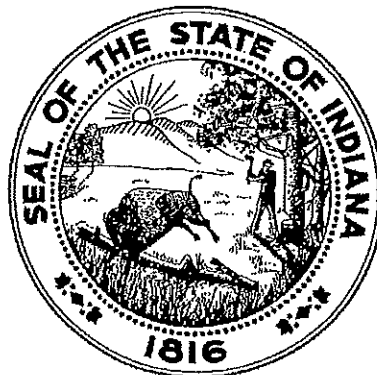


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STATE OF INDIANA

IDOI

ERIC HOLCOMB, Governor

Indiana Department of Insurance

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

December 17, 2016

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3888, an examination has been made of the affairs and financial condition of:

National Building Material Assurance Company
1111 East 54th Street, Suite 129
Indianapolis, Indiana 46220

hereinafter referred to as the "Company", or "NBM", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Pennsylvania Lumbermens Mutual Insurance Company in Philadelphia, Pennsylvania.

The Report of Examination, reflecting the status of the Company as of December 31, 2015, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 253-0697

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

EXAMINATIONS/FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

COMPANY RECORDS
(317) 232-5692

STATE HEALTH INSURANCE PROGRAM
1-800-332-4674

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2011. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2012 through December 31, 2015, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted 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 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.

The examination of the affiliated Pennsylvania domestic insurance company Pennsylvania Lumbermens Mutual Insurance Company (PLM) was called by the Pennsylvania Department of Insurance (PDOI) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The PDOI served as the lead state on the examination, and the INDOI served as a participant.

The PDOI staff provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2015.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

NBM was incorporated in the state of Illinois in March, 2001. The Company was organized and funded by its parent, Indiana Lumbermens Mutual Insurance Company (ILM), a mutual property and casualty insurance company domiciled in the state of Indiana. On June 9, 2006, the Company transferred its state of domicile from Illinois to Indiana. NBM operates in conjunction with ILM, another wholly-owned insurer, Lone Star National Insurance Company, and the Allied Building Material Agency to form the Indiana Lumbermens Mutual Insurance Group (ILM Group). ILM formed this subsidiary to enable the ILM Group to expand its existing product offerings by allowing multi-tiered rating programs and expanding its geographical territory to transact business.

On November 1, 2013, the ILM Group entered into an affiliation arrangement with PLM.

CAPITAL AND SURPLUS

The Company has 1,000,000 shares authorized, with 190,000 of these shares issued and outstanding. All shares are \$10 par value common shares. ILM contributed \$150,000 in paid-in capital and \$78,635 in paid-in surplus to NBM in 2015 in exchange for 15,000 additional shares of common stock. This contribution was made in accordance with Texas House Bill 1476, which increased the minimum capital and surplus requirements for property and casualty companies conducting business in the state of Texas. These contributions will continue annually for ten (10) years, four (4) years remain, ending December 31, 2019. ILM is the Company's sole shareholder. No dividends were paid to the shareholder during the examination period.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Company is licensed in eight (8) states: Illinois, Indiana, Kansas, Nebraska, Oregon, Tennessee, Texas, and Utah. NBM primarily writes commercial automobile liability. The Company also wrote workers' compensation insurance in 2007 and 2008, but ceased writings in 2009, along with the rest of the ILM Group. NBM is used primarily when market competition drives business toward lower rate structures. The Company cedes 99.5% of premium writings to PLM pursuant to the Intercompany Reinsurance Pooling Agreement that began November 1, 2013.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2015	\$ 6,154,911	\$ 2,068,487	\$ 4,086,424	\$ 796,396	\$ 23,850
2014	5,901,409	2,079,514	3,821,895	768,518	(99,901)
2013	5,466,915	1,772,306	3,694,609	150,166	(74,064)
2012	4,207,725	702,586	3,505,139	31,783	24,261

Admitted assets, liabilities, and premiums earned increased during 2013 due to participation in the Intercompany Reinsurance Pooling Agreement. The increase to premiums earned in 2014 and 2015 was attributable to a full year of participation in the Intercompany Reinsurance Pooling Agreement.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the number of directors shall not be not less than five (5) nor more than nine (9). No person under 25 or over 72 years of age shall be nominated or elected. At least one (1) of the directors must be a resident of the state of Indiana. The shareholders, at each annual meeting, elect the members of the Board. The following is a listing of persons serving as directors at December 31, 2015, and their principal occupations as of that date:

Name and Address	Principal Occupation
John K. Smith Philadelphia, Pennsylvania	President and Chief Operating Officer Pennsylvania Lumbermens Mutual Insurance Company
Harold L. Jamison Philadelphia, Pennsylvania	Vice President and Secretary Pennsylvania Lumbermens Mutual Insurance Company
John W. Lee King of Prussia, Pennsylvania	Chairman of the Board Pennsylvania Lumbermens Mutual Insurance Company
John F. Marazzo. Philadelphia, Pennsylvania	Vice President, Treasurer Pennsylvania Lumbermens Mutual Insurance Company
John F. Wolf Noblesville, Indiana	Retired Indiana Lumbermens Mutual Insurance Company

Officers

The Bylaws state that the officers of the Company shall consist of a President, a Chief Executive Officer, Vice President(s), a Secretary, a Treasurer and any such additional officers as may be authorized from time to time by the Board. Any two (2) or more offices can be held by the same person, except the duties of Chief Executive Officer and Secretary, or President and Secretary shall not be performed by the same person.

The following is a list of key officers and their respective titles as of December 31, 2015:

<u>Name</u>	<u>Office</u>
John K. Smith	President and Chief Executive Officer
John F. Marazzo	Vice President and Treasurer
Harold L. Jamison	Vice President and Secretary

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2015.

OATH OF OFFICE

Indiana Code (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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2015.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments made to the Bylaws during the examination period.

Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the Company's parent, subsidiaries and affiliates as of December 31, 2015:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
Indiana Lumbermens Mutual Insurance Company	14265	IN
Allied Building Material Agency, Inc.		IN
National Building Material Assurance Company	11089	IN
Lone Star National Insurance Company	11087	IN
Pennsylvania Lumbermens Mutual Insurance Company	14974	PA
Mutual Insurance Bureau		PA
PLM Agency, Inc.		PA

Affiliated Agreements

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

Affiliation Agreement

As of November 1, 2013, PLM and ILM Group entered into an Affiliation Agreement whereby PLM provides all services as are necessary for the continuing insurance operations of the companies, including without limitation, accounting, management, statistical, and other administrative services, including actuarial and personnel services, auditing, data processing, litigation, and underwriting.

Reinsurance Pool

For details of the Intercompany Reinsurance Pooling Agreement please see the Reinsurance section of this Report of Examination.

Tax Allocation Agreement

Effective January 1, 2001, ILM is authorized by its subsidiaries to pay federal and state income taxes as a consolidated group. Allocation of tax liabilities is made on a separate return basis and the subsidiaries will reimburse ILM for taxes paid on their behalf.

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 Travelers Casualty & Surety Company of America. The bond has a single loss coverage limit of \$1,000,000, with a \$10,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2015, including but not limited to commercial property, employment practices, ERISA liability, management indemnity/directors and officers liability, professional indemnity liability, and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees during the examination period and subsequently there were no employee pension or insurance plans. All employees necessary to conduct the business operations of the Company are provided by PLM pursuant to the aforementioned Affiliation Agreement.

STATUTORY DEPOSITS

The Company reported one (1) statutory deposit at December 31, 2015. This statutory deposit is held by the state of Indiana for the benefit of all policyholders and has a book value of \$3,522,932 and a fair value of \$3,530,733.

REINSURANCE

Reinsurance Pool

PLM and the ILM Group participate in an Intercompany Reinsurance Pooling Agreement which became effective upon their affiliation, November 1, 2013. The Intercompany Reinsurance Pooling Agreement covers all lines of business written by the participating entities and there are no premiums or liabilities excluded from the pooling arrangement after the effective date.

The entities participating in the Intercompany Reinsurance Pooling Agreement and their respective pooling percentages are as follows:

<u>Name of Pool Members</u>	<u>Percentage of Pool</u>	<u>Domiciliary State</u>
Pennsylvania Lumbermens Mutual Ins. Co.	90.0%	PA
Indiana Lumbermens Mutual Ins. Co.	9.0%	IN
Lone Star National Insurance Co.	0.5%	IN
National Building Mutual Assurance Co.	0.5%	IN
Total	<u>100.0%</u>	

External Reinsurance

PLM obtains reinsurance both through direct writers and two (2) intermediaries; Jardine Lloyd Thompson Group (JLT Re) and Zurich American Insurance Company (Zurich). The PLM and ILM Group's reinsurance program, effective January 1, 2015 through December 31, 2015, is summarized below, unless otherwise noted.

The PLM and ILM Group obtained property per risk excess of loss coverage from various reinsurers, through intermediary JLT Re that existed in five (5) treaty layers totaling coverage of up to \$40,000,000, with a \$1,000,000 net retention, with Automatic Facultative and Catastrophic coverage.

Through its Property Catastrophe Agreement obtained through JLT Re and placed with various reinsurers, PLM retains the first \$2,500,000 of losses and then is protected by an additional \$47,500,000 through four (4) layers of excess of loss coverage.

Effective, April 1, 2004, 100% of equipment breakdown risks (boiler and machinery) are ceded to Zurich for up to \$40,000,000 in limits of liability under a Quota Share Agreement.

During 2015, products liability exposure, both bodily injury and property damage, is reinsured through an excess of loss cover with various reinsurers, placed through intermediary JLT Re, up to a limit of \$21,000,000 with a \$1,000,000 net retention per each occurrence.

Assumed Reinsurance

The Companies within the group are not professional reinsurers. On a group basis the assumed business that was reported for the year ending December 31, 2015, consisted of \$670,535 of written premiums and case loss reserves of \$5,509,499. Assumed premium was generated 100% from participation in mandatory pools required by the various states in which the companies are licensed to do business.

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, 2011 and December 31, 2015, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2012 through December 31, 2015, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

NATIONAL BUILDING MATERIAL ASSURANCE COMPANY

Assets

As of December 31, 2015

	<u>Per Examination*</u>
Bonds	\$ 3,486,194
Stocks	
Common stocks	1,262,000
Mortgage loans on real estate:	
First liens	
Cash, cash equivalents and short-term investments	<u>436,352</u>
Subtotals, cash and invested assets	5,184,546
Investment income due and accrued	22,861
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	225,086
Deferred premiums, agents' balances and installments booked but deferred and not yet due	601,645
Reinsurance:	
Amounts recoverable from reinsurers	28,944
Net deferred tax asset	76,932
Receivables from parent, subsidiaries and affiliates	<u>14,897</u>
TOTALS**	<u>\$ 6,154,911</u>

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

** The balance includes immaterial rounding differences.

NATIONAL BUILDING MATERIAL ASSURANCE COMPANY
Liabilities, Surplus and Other Funds
As of December 31, 2015

	<u>Per Examination*</u>
Losses	\$ 681,847
Reinsurance payable on paid losses and loss adjustment expenses	54,081
Loss adjustment expenses	193,605
Commissions payable, contingent commissions and other similar charges	185,481
Other expenses	18,669
Taxes, licenses and fees	8,276
Current federal and foreign income taxes on realized capital gains (losses)	82,006
Unearned premiums	767,661
Dividends declared and unpaid:	
Policyholders	4,185
Ceded reinsurance premiums payable	(315)
Amounts withheld or retained by company for account of others	254
Provision for reinsurance	3,845
Payable to parent, subsidiaries and affiliates	3,484
Aggregate write-ins for liabilities	65,410
TOTAL liabilities	2,068,487
Common capital stock	1,900,000
Gross paid in and contributed surplus	1,721,811
Unassigned funds (surplus)	464,613
Surplus as regards policyholders	4,086,424
TOTALS**	\$ 6,154,911

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

** The balance includes immaterial rounding differences.

NATIONAL BUILDING MATERIAL ASSURANCE COMPANY
Statement of Income
For the Year Ended December 31, 2015

	Per Examination*
UNDERWRITING INCOME	
Premiums earned	\$ 796,396
DEDUCTIONS	
Losses incurred	452,393
Loss adjustment expenses incurred	91,284
Other underwriting expenses incurred	282,891
TOTAL Underwriting Deductions	826,568
Net underwriting gain or (loss)	(30,172)
INVESTMENT INCOME	
Net investment income earned	58,648
Net realized capital gains (losses) less capital gains tax	—
Net investment gain (loss)	58,648
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	5
Aggregate write-ins for miscellaneous income	(1)
TOTAL Other Income	4
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	28,480
Dividends to policyholders	4,630
Net income**	\$ 23,850

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

** The balance includes immaterial rounding differences.

NATIONAL BUILDING MATERIAL ASSURANCE COMPANY
Capital and Surplus Account Reconciliation

	2015	2014	2013	2012
Surplus as regards policyholders, December 31 prior year	\$ 3,821,895	\$ 3,694,610	\$ 3,505,140	\$ 3,252,144
Net income	23,850	(99,901)	(74,064)	24,261
Change in net deferred income tax	(12,961)	21,193	80,837	91
Change in nonadmitted assets	9,766	10,432	(75,959)	8
Change in provision for reinsurance	(2,500)	-	(273)	-
Capital changes:				
Paid in	150,000	150,000	150,000	150,000
Surplus adjustments:				
Paid in	78,635	78,635	78,635	78,635
Aggregate write-ins for gains and losses in surplus	17,738	(33,073)	30,294	-
Change in surplus as regards policyholders for the year	<u>264,528</u>	<u>127,286</u>	<u>189,470</u>	<u>252,996</u>
Surplus as regards policyholders, December 31 current year**	<u>\$ 4,086,424</u>	<u>\$ 3,821,895</u>	<u>\$ 3,694,610</u>	<u>\$ 3,505,140</u>

** The balance includes immaterial rounding differences.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2015, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

There were no other significant issues as of December 31, 2015, based on the results of this examination.

SUBSEQUENT EVENTS

On September 3, 2016, Mr. J. William Lee, Chairman of the Board, passed away. Mr. Lee served as chairperson for the Company since the affiliation between Indiana Lumbermens Mutual Insurance Company and Pennsylvania Lumbermens Mutual Insurance Company in November 2013. Mr. Lee's term would have ended in 2020. On October 25, 2016, C. Richard Peterson was named Chairman of the Board for the Company and will serve in this capacity through the upcoming annual organizational meeting in April 2017, at which time he will be up for re-election.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., performed an examination of National Building Material Assurance Company, as of December 31, 2015.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of National Building Material Assurance Company as of December 31, 2015, as determined by the undersigned.

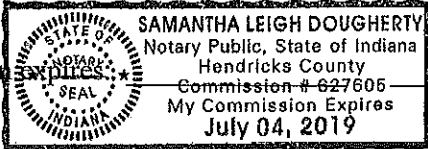


Jim Kattman, CFE
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 14 day of February 2017, before me personally appeared, Jim Kattman, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires _____


Notary Public

BRITISH MUSEUM

1851