REPORT OF

EXAMINATION

OF

ALABAMA MUNICIPAL INSURANCE CORPORATION

MONTGOMERY, ALABAMA

AS OF

DECEMBER 31, 2012

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF MONTGOMERY

Toni L. Bean, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Alabama Municipal Insurance Corporation.

2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination workpapers and examination report, and the examination of Alabama Municipal Insurance Corporation was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Toni Bean
Examiner-in-Charge

Subscribed and sworn before me by Toni Bean on this 8th day of May 2014.

(SEAL)

Caroline C Ethridge
(Signature of Notary Public)

My commission expires 1/4/2017.

ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

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STATE FIRE MARSHAL
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May 8, 2014

Jim L. Ridling, Commissioner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

Alabama Municipal Insurance Corporation
Montgomery, Alabama

at the home office located at 110 North Ripley Street, Montgomery, Alabama 36104, as of December 31, 2012. The report of examination is submitted herewith.

Where the description "Company" or "AMIC" appears herein, without qualification, it will be understood to indicate Alabama Municipal Insurance Corporation.

SCOPE OF EXAMINATION

The Company was last examined for the five-year period ended December 31, 2007. The current examination covers the intervening period from the date of the last examination through December 31, 2012, and was conducted by examiners representing the state of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to 2012 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, which included the Alabama Insurance Code, Alabama Insurance Department regulations, bulletins and directives in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2012 and to identify prospective risks by obtaining information about the Company including corporate governance. In addition, the examination was planned and performed to identify and assess inherent risks within the Company and to evaluate system controls and procedures used to mitigate those risks. The examination also included 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.

The information systems (IS) examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, and network and internet controls.

A market conduct examination was performed concurrently with this financial examination. The market conduct examination included a review of the Company's territory, plan of operation, advertising and marketing, policyholders' complaints, claims payment practices, compliance with agents' licensing requirements, underwriting and ratings, and privacy standards.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances. During the examination period, the Company was audited by TaylorChandler LLC, certified

public accountants (CPAs). The CPAs' workpapers were reviewed for year-ending 2012 and were used in the examination as deemed appropriate.

A signed certificate of representation was obtained during the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2012.

ORGANIZATION AND HISTORY

The Company was incorporated March 29, 1989, in Montgomery County, Alabama, as a mutual insurance company. The Articles of Incorporation permit the Company to provide property and casualty insurance and risk management services to its members. The Company is only authorized to solicit as its members, incorporated cities and towns that are members of the Alabama League of Municipalities (ALM). At December 31, 2012, the Company had 582 members, consisting of the following:

- 393 – Municipalities
- 83 – Utility Boards
- 42 – Associations
- 41 – Solid Waste/Water Authorities
- 23 – Transit Authorities

Since inception, the Company has been exempt from federal income taxes per Section 115(1) of the Internal Revenue Code, Revenue Ruling 90-74. On December 31, 1999, the Company was granted exemption from Alabama premium taxes under the provisions of ALA. CODE § 27-4A-3(e) (1975).

At December 31, 2012, the Company reported $6,053,305 in gross paid-in and contributed surplus and $19,991,681 in unassigned funds.

MANAGEMENT AND CONTROL

Policyholders

The Company is a mutual insurance corporation with ownership vested in its policyholders. All policyholders of the Company are municipal organizations that are members of the ALM. The Company's charter prevents it from soliciting business from entities that are not members of ALM.

Board of Directors

Directors are elected at the annual meeting of the members and serve until their successors are elected and qualified. The following Directors were serving at December 31, 2012.

Name and Address	Principal Occupation
Billy Joe Driver Clanton, Alabama	Mayor of Clanton, Alabama
Melvin Lloyd Duran Jr. Priceville, Alabama	Mayor of Priceville, Alabama
David Hugh Bradford Muscle Shoals, Alabama	Mayor of Muscle Shoals, Alabama
Charles Harold Murphy Robertsdale, Alabama	Mayor of Robertsdale, Alabama
George Richard Long Jackson, Alabama	Mayor of Jackson, Alabama

Committees

At December 31, 2012, the Company had three committees of the Board. Members of the committees were as follows:

Nominating Committee

David Hugh Bradford
Charles Harold Murphy

Claims Committee

Billy Joe Driver
Melvin Lloyd Duran Jr.

Audit Committee

Each member of the Board of Directors served on the Audit Committee for the examination period. This was in accordance with ALA. ADMIN. CODE 482-1-141 (2008) which states:

> (b) Each member of the audit committee shall be a member of the board of directors of the insurer or a member of the board of directors of an entity elected pursuant to paragraphs 5 and rule 482-1-141-.03(3).

Officers

The following officers were elected by the Board of Directors and serving as of December 31, 2012:

Name	Title
Stephen Everett Wells	President
John Kenneth Smith	Secretary and Treasurer

Conflict of Interest

The conflict of interest policy requires that all employees disclose as soon as possible, the existence of any actual or potential conflict of interests. Officers, directors, and key employees filed conflict of interest statements annually. Conflict of interest statements were signed and filed by all officers, directors, and key employees for the examination period. While reviewing the conflict of interest statements for the examination period, the following was noted:

- In 2009, the Secretary/Treasurer signed a conflict of interest statement but did not date or indicate whether a conflict of interest existed or not.
- In 2011, a director signed a conflict of interest statement but did not indicate if a conflict of interest existed or not.

CORPORATE RECORDS

The Articles of Incorporation, By-Laws including the amendments thereto and the minutes of the corporate meetings from January 24, 2008 to January 23, 2014 were reviewed and appeared to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations.

Holding Company

The Company was organized as a mutual insurance company and was classified as a not-for-profit organization by federal and state authorities. Therefore, it was not subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE § 27-29-1(1975).

Dividends to Policyholders

The following table depicts the dividends paid to the Company's policyholders during the examination period:

YEAR	DIVIDEND
2008	$1,008,621
2009	$ 616,871
2010	$ 624,226
2011	$ 605,001
2012	$ 596,828

Management and Service Agreements

Administrative Service Agreement

Effective July 22, 2009, the Company entered into an agreement with the Alabama League of Municipalities (ALM). This agreement superseded and terminated all past agreements. Per the terms of the agreement the Company employed ALM to provide certain administrative and professional services, as well as promotion and sponsorship of the Company's program. For the services rendered, the Company agreed to pay ALM a specified percentage of net earned premiums based on the prior calendar year audit, payable on a monthly basis. All payroll disbursements made by ALM on behalf of the Company would be reimbursed by the Company in a timely manner. The agreement could be terminated by either party provided a sixty day written notice was provided. The agreement did not include the specific due date for the settlement of amounts owed in accordance with SSAP No. 25 – *Accounting for Disclosures about Transactions with Affiliates and Other Related Parties* which states:

> (2) Related parties are defined as entities that have common interest as a result of ownership, control, affiliation, or by contract. Related parties shall include but are not limited to the following:

g. A party which, can directly or indirectly, significantly influence the management or operating policies of the reporting entity, which may include a provider who is contracting with the reporting entity.

(6) Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date. Amounts owed to the reporting entity over ninety days from the written agreement due date shall be nonadmitted, except to the extent this is specifically addressed by other statements of statutory accounting principles (SSAPs). If the due date is not addressed by the written agreement, any uncollected receivable is nonadmitted.

On March 20, 2014, a revised agreement containing specific due dates for amounts owed was executed.

Loss Control Agreement – Municipal Workers Compensation Fund and Terry Sanders

Effective December 1, 2012, this agreement was between the Company; Municipal Workers Compensation Fund, Inc. (MWCF); and Terry Sanders (Sanders). Per the agreement, Sanders was responsible for providing police loss control services training for members, prospective members and other related entities of MWCF. All loss control services provided by Sanders were coordinated with the knowledge and consent of the Company's President and MWCF's Operations Manager. MWCF reimbursed Sanders for transportation and other expenses necessary to perform the duties and responsibilities of this agreement. MWCF was also responsible for the payment of Sanders annual salary; providing an office and other clerical services; general liability and workers compensation coverage; and certain employee benefits. The agreement automatically terminated two years after the effective date, unless thirty day written notice was provided by either party.

Loss Control – Municipal Worker's Compensation Fund and George Owens

Effective July 19, 1993, this agreement was between the Company; Municipal Worker's Compensation Fund (MWCF); and George Roger Owens (Owens). Per the agreement, Owens was responsible for the following:

- Providing on-site consultation to representatives of the Company and MWCF for the control of employee injuries, liability claims and property losses arising out of actions taken by law enforcement officers employed by members.

- Meeting with and making presentations to representatives of municipal entities and other appropriate parties to assist with developing a plan of action to control losses incurred as a result of actions taken by law enforcement officers employed by members.
- Monitoring loss control programs and maintaining written reports on the progress of each member.
- Maintaining records to verify services rendered; types of cooperation received, plans made and results.
- Visiting with members as necessary to accomplish a generally accepted loss control objective.
- Assisting in all areas of loss prevention and control as required for particular member accounts upon request of MWCF.
- Providing copies of all reports to the Company's President and MWCF's General Manager on a monthly basis.

All of the aforementioned services were coordinated with the knowledge and consent of the Company's President and MWCF's General Manager. Owens was responsible for all transportation, travel and salaries for other employees hired to assist in the performance of the work contracted and other expenses necessary to perform the duties and responsibilities set out in this agreement.

MWCF was responsible for:

- Payment of one-half of Owens annual salary. The other one-half was payable by the Company.
- Providing an office and other clerical services as necessary to provide the required reports.
- Providing general liability coverage.

The agreement contained termination and governing authority provisions.

SkidCar Loss Control Contract – J. Stanley Fant

Effective December 15, 2000, this agreement was between the Company and J. Stanley Fant (Fant). Per the terms of the agreement, Fant was responsible for:

- On-site SkidCar training for members, prospective members and other related entities of the Company.

- Monitoring and maintaining written reports on the progress of the SkidCar program and each training session.
- Promoting SkidCar training programs by attending appropriate seminars/conferences and marketing meetings as directed by the Company's President.
- Providing copies of all reports to the Company's President on a monthly basis.

All of the aforementioned activities were coordinated with the knowledge and consent of the Company's President. Fant was responsible for all transportation, travel and other expenses necessary to perform the duties and responsibilities set out in this agreement. The Company was responsible for providing:

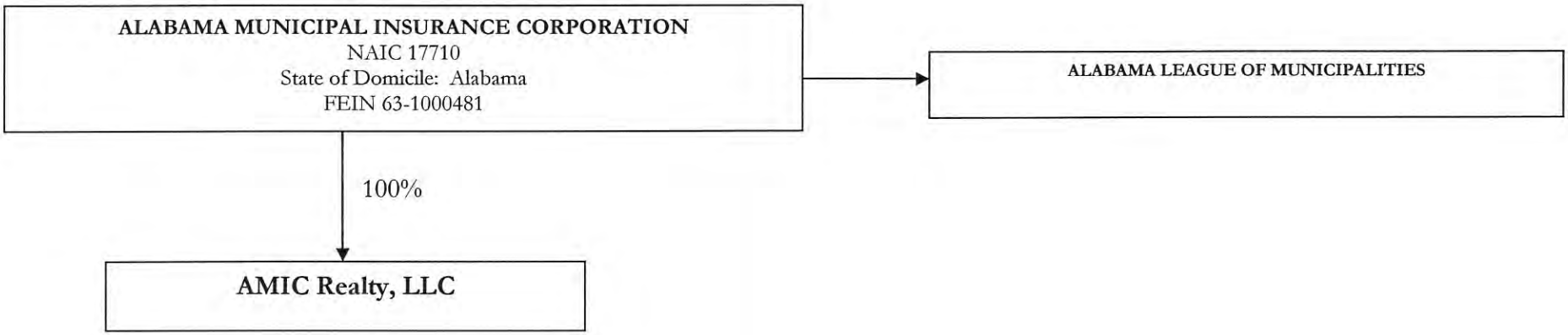
- Payment of annual salary and bonuses.
- Office and such clerical services as necessary to provide required reports.
- SkidCar, trailer and all fuel, maintenance, repairs and licenses associates with the SkidCar and trailer.
- General liability coverage.

The agreement contained termination and governing authority provisions.

ORGANIZATIONAL CHART

The following chart presents the corporate affiliations of the Company as of December 31, 2012. See page 11 for organizational chart.

ORGANIZATIONAL CHART



FIDELITY BOND AND OTHER INSURANCE

The Company was insured by a financial institution bond underwritten by St. Paul Fire & Marine Insurance Company, which met the minimum suggested requirements of the NAIC *Financial Condition Examiners Handbook*. The Company had the following policies with Catlin Specialty Insurance Company:

- Directors and Officers and Corporate Securities Liability Insurance
- Professional Insurance Policy

The policies above were claims made policies providing coverage against claims for wrongful acts including securities claims. Coverage was also provided for losses arising from claims made by policyholders and third party clients. Both agreements were effective as of December 6, 2011 and expired June 6, 2013.

The Company was a named insured on a commercial lines policy. Effective and amended on August 17, 2012, this policy was underwritten by the Company itself, Alabama Municipal Insurance Corporation. A portion of the coverage was ceded to the Company's reinsurers in accordance with the terms of the Company's reinsurance program. Other named insureds on the policy were as follows:

- Alabama League of Municipalities
- Municipal Workers Compensation Fund
- Alabama Municipal Funding Authority
- AMIC Realty, LLC.

Coverages provided under the commercial lines policy were as follows:

- Commercial Property
- Equipment Breakdown
- Commercial Inland Marine
- Commercial Crime
- Commercial General Liability
- Public Official Liability
- Commercial Auto
- Employee Benefits Liability

The coverages and limits carried by the Company during the course of the examination appeared to adequately protect the Company's interests at the examination date.

EMPLOYEE AND AGENT WELFARE

The Company had no employees, provided no direct benefits, and had no employee benefit plans in effect during the examination period. All administrative and employee services were provided by Alabama League of Municipalities (ALM) via the administrative services agreement discussed on page 6 under the heading "**Management and Service Agreements**."

18 U.S.C § 1033 Compliance

ALA. ADMIN. CODE 482-1-146-.11 (2009) states:

> (1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
>
> > (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.
> >
> > (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.
> >
> > (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

There were internal procedures in place to determine whether applicants or potential contractors had a felony conviction for a Section 1033 offense. There were also procedures in place to periodically ascertain whether licensed employees or agents had been convicted of a Section 1033 offense since the initial hire date. However, there were no internal procedures in place to periodically ascertain if non-licensed employees or contractors had been convicted of a Section 1033 felony offense since the initial hire date. Further, there were no internal procedures in place assuring that

employees or contractors having a felony conviction for a Section 1033 offense; obtained and held the required Section 1033 consent during the employment or contracting period.

On February 13, 2014, the Company implemented procedures to comply with ALA. ADMIN. CODE 482-1-146-.11 (2009) items (b) and (c) for all employees, licensed and non-licensed.

MARKET CONDUCT ACTIVITIES

Territory

During the examination period the Company was licensed to provide automobile, commercial general liability, police professional liability, public officials' errors and omissions, property and surety bond coverage in the state of Alabama only.

Effective, June 1, 1991, a perpetual Certificate of Authority was issued to the Company. The Certificate of Authority was effective until suspended, cancelled or revoked, as long as fees and taxes were paid current.

Plan of Operation

The Company is a mutual insurance company whose members are also members of the Alabama League of Municipalities (ALM). The Company's insureds must be members in good standing of ALM to be eligible to participate in the Company's insurance and risk management programs. The Company writes a variety of commercial multiple peril coverages to municipal organizations in the state of Alabama.

Advertising and Marketing

The Company did not have a formal marketing program. Additionally, producers were not allowed to use their own marketing materials. The Company's advertisements consisted of a limited number of brochures, handouts and journals describing the services provided by the Company and ALM.

Policyholders' Complaints

The Company received five complaints during the examination period. The Company's responses fully addressed the issues raised and the complaints were appropriately resolved within the required timeframe. The Company recorded all complaints (both consumer direct and from the Department of Insurance), in its complaint register, including information required by statutes and regulations. The Company had a sufficient method for the distribution of, obtaining, and recording responses to complaints. The Company's telephone number and address was provided to the policyholders for consumer inquiries and/or complaints.

Claims Payment Practices

Paid Claims

A sample of 107 paid claims was taken from a total population of 1,998 paid claims for year-ending 2012. The sample selection was reviewed with regards to compliance with policy provisions, timeliness of payments, and adequacy of documentation. No significant discrepancies were found. Based on the review performed, the Company complied with ALA. ADMIN. CODE 482-1-125-.07 (2002) which states:

> (6) The insurer shall tender payment within thirty (30) days or the time specified in the policy, after accepting liability, reaching an agreement on the amount of the claim and receipt of any documents necessary to consummate the settlement.

Denied Claims

Samples of 107 denied and 83 closed without payment claims was selected from a total population of 1,722 denied and 454 closed without payment claims for the examination period. The sample selections were reviewed to determine if the claims were settled in accordance with policy provisions and applicable statutes and regulations. There were no discrepancies found. The documentation maintained in the claims files supported or justified the ultimate claim determination. Based on the review performed, the Company complied with ALA. ADMIN. CODE 482-1-125-.07 (2002), which states:

> (1) Within thirty (30) days, or the number of days specified in the policy, after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the status of acceptance or denial of the claim by the insurer. No insurer shall deny a first party claim on the grounds of a

specific policy provision, condition or exclusion unless reference to such provision, condition, or exclusion is included in the denial.

Compliance with Producer Licensing Requirements

A sample of 116 policies was selected from a population of 8,940 written policies for year-ending 2012. The sample was reviewed to determine if the agencies and producers were properly licensed and appointed prior to writing business. The following was noted during the review:

- 61 policies were written by in-house producers who were properly licensed and appointed.
- 55 policies were written by independent agencies that were not appointed:
    - 49 policies were written by agencies that were licensed but not appointed. Premiums written by and commissions paid to these agencies for the examination period were $42,376,348 and $4,663,635, respectively (2008-2012).
    - 6 policies were written by agencies that were not properly licensed or appointed. Premiums written and commissions paid to these agencies for the examination period were $13,840,242 and $1,708,452, respectively (2008 – 2012).

ALA. CODE § 27-7-5 (2006) states:

> (b) A business entity acting as an insurance producer is required to obtain an insurance producer license.

ALA. CODE § 27-7-4 (2001) states:

> (a) No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person.
>
> (b) No producer shall act on behalf of any insurer for which an appointment is not held under this chapter.

Chapter 7, Sub-section 4.1 states:

Chapter 7, Sub-section 4.1 states:

> (a) No insurer or producer shall pay, directly or indirectly, any commission or other valuable consideration to any person for services as a producer or service representative within this state unless the person holds a currently valid license as a producer or service representative as to the kind or class of business involved as required by this chapter.
>
> (b) Any insurer or producer violating this section shall be liable for a fine in an amount of up to three times the amount of the commission paid.

Chapter 7, Sub-section 30 states:

a. Each insurer appointing a producer in this state shall file with the commissioner, in a format approved by the commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted, whichever occurs first.

Terminated Producers

There were six producers terminated during the examination period. The Company did not send termination notices to three of the six producers. ALA. CODE § 27-7-30.1 (a) (2002) states:

> Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

Underwriting and Ratings

Underwriting Practices

A sample of 116 written policies out of a population of 8,940 for year-ending 2012 was selected for review. The sample selection was reviewed with regards to compliance with underwriting guidelines and unfair discriminatory practices. The premiums were calculated in accordance with the Company's guidelines and the rates

used were filed with Alabama Department of Insurance (ALDOI). The information reviewed indicated the Company did not use unfair or discriminatory practices.

There were 21 terminated and/or non-renewed policies for the examination period. All of the policies were reviewed with regards to: (1) compliance with cancellation policies and procedures; and (2) proper documentation. The Company maintained proper documentation for Company initiated and insured initiated cancellations. The cancellations and/or non-renewals were handled in accordance with the Company's policies and procedures.

Policy Forms

The Company did not have any rate filings for the examination period.

Privacy Standards

The Company only wrote commercial multi-peril insurance during the examination period. ALA. ADMIN. CODE 482-1-122-.02 (B) (2001) states:

> This regulation applies to nonpublic personal financial information about individuals who obtain or seek to obtain products or services primarily for personal, family or household purposes from licensees. This regulation does not apply to information about companies or about individuals who obtain or seek to obtain products or services for business, commercial or agricultural purposes, nor does it apply to workers compensation claims, workers compensation insurance, workers compensation programs, or employee welfare benefits plans as defined in 29 U.S.C. § 1002(1) or any third party administrator to the extent it provides services to a workers compensation program or employee welfare benefit plan.

The provisions of the privacy law were not applicable to the Company.

SPECIAL DEPOSITS

The Company maintained the following deposit with the respective statutory authority at December 31, 2012, as required or permitted by law.

States and Territories	Book Value	Fair Value
Alabama	$125,000	$125,000
TOTAL	**$125,000**	**$125,000**

The Company did not report the statutory deposit on Schedule E – Part 3 – Special Deposits in the 2012 Annual Statement. The NAIC Annual Statement Instructions states, in part, to report statutory deposits held for the benefit of all policyholders in columns 3 and 4 of Schedule E – Part 3 – Special Deposits.

FINANCIAL CONDITION AND GROWTH OF THE COMPANY

	Admitted Assets	Liabilities	Capital & Surplus	Premiums Earned
2012*	$ 89,624,297	$ 64,431,121	$ 25,192,876	$ 31,013,074
2011	87,659,065	64,845,926	22,813,139	31,239,545
2010	81,704,632	63,498,320	18,206,312	32,047,718
2009	82,181,982	60,607,672	21,574,310	32,206,946
2008	81,429,393	56,276,967	25,152,426	30,911,914
2007*	78,255,704	51,612,864	26,642,840	29,123,897

***Per Examination**

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

States	Direct Premiums Written
Alabama	$38,291,641
Total Premium Written	**$38,291,641**

LOSS EXPERIENCE

The following were the net underwriting gains/ (losses) for the years under examination stated as a percentage of premiums earned for the respective year.

2008	2009	2010	2011	2012
10.0%	1.7%	(14.0%)	9.0%	8.8%

In addition, the following were the One Year Loss Development and Two Year Loss Development for each year under examination.

(000 omitted)	2008	2009	2010	2011	2012
One Year Loss	($3,153)	$840	$1,843	($1,018)	($1,824)
Two Year Loss	($2,208)	($3,668)	$1,715	$579	($1,620)

REINSURANCE

Assumed Reinsurance

The Company did not assume any reinsurance during the examination period.

Ceded Reinsurance

At December 31, 2012, the Company's ceded reinsurance program was comprised of three components: property, casualty, and boiler and machinery reinsurance.

Property Program:

- *Endurance Reinsurance Corporation of America* – Effective May 1, 2012, the Company retained $150,000 per risk, per occurrence with a maximum retention of $450,000 all occurrences with a $3.0 million annual aggregate (i.e. loss corridor) for any one annual period. Endurance covered all losses in excess of the Company's retention not to exceed $5.0 million.
- *Munich Reinsurance America, Inc.* – Effective May 1, 2012, the Company retained $5,150,000 per risk, per occurrence with a maximum retention of $5,450,000 all occurrences. Munich covered all losses in excess of the Company's retention not to exceed $20 million.
- *Munich Reinsurance America, Inc.* – Effective May 1, 2012, the Company retained $25,150,000 per risk, per occurrence with a maximum retention of $25,450,000. Munich covered ultimate net losses in excess of the Company's retention not to exceed $12.5 million or 50% of $25 million.
- *Lexington Insurance Company and BroadVision Re (Lloyds of London Company)* – Effective May 1, 2012, the Company retained $150,000 per risk, per occurrence with a maximum retention of $450,000 with a $1.5 million loss corridor. Lexington and BroadVision both covered losses in excess of the Company's retention not to exceed $5.0 million and $7.5 million, respectively, or 20% and 30%, respectively, of $25 million.

- *Ironshore Indemnity, Inc.* – Effective May 1, 2012, the Company retained $150,000 per risk, per occurrence with a maximum retention of $450,000 with a $1.5 million annual loss corridor. Ironshore covered losses in excess of the Company's retention not to exceed $10 million or 50% of $20 million.
- *Westchester Fire Insurance Company* – Effective May 1, 2012, the Company retained $150,000 per risk, per occurrence with a maximum retention of $450,000 with a $1.5 million annual loss corridor. Westchester covered losses in excess of the Company's retention not to exceed $10 million or 50% of $20 million.

The agreement with Westchester Fire Insurance Company listed Westchester as the reinsurer on the declaration page. However, ACE American Insurance Company was listed as the reinsurer in the general terms and conditions section of the agreement. The agreement also contained two, separate cancellation clauses, both containing different cancellation provisions. The first cancellation clause was found on the declaration page and the other under general terms and conditions. The President indicated Westchester and ACE American were sister companies and one in the same. Additionally, the cancellation provisions contained in the general terms and conditions superseded the cancellation provision clause found on the declaration page. Although, Westchester and ACE American were sister companies it appears the incorrect company was listed as reinsurer in the general terms and condition section of the agreement.

Casualty Program:

- *Munich Reinsurance America, Inc.* – Effective November 1, 2011, the Company retained $350,000 of the ultimate net losses per occurrence, per line of business, per insured. There was a $200,000 annual aggregate (i.e. loss corridor) applicable for the term of the agreement. Munich was responsible for all net losses in excess of the Company's retention not to exceed $9,650,000 per occurrence, per line of business, per insured with a maximum liability of $40.0 million for any one occurrence period.

Boiler and Machinery Program:

- *Travelers Indemnity Company* – Effective May 15, 2008, the Company ceded 100% of its liability to Travelers. The exposures ceded could not exceed $50.0 million for any one breakdown. Exposures in excess of $50.0 million could be accepted via writing for special acceptance, on a facultative basis only.

All of the aforementioned agreements contained termination and insolvency provisions.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums, and losses data electronically. The Company prepared additional electronic workpapers and hard copy reconciliations and workpapers when deemed appropriate.

The Company's independent audit was performed by TaylorChandler, LLC, a certified public accounting firm in Montgomery, Alabama for each year under examination. In addition to performing the annual audits, TaylorChandler prepared the Company's financial statements, trial balances; and assisted with A.M. Best filings. Due to TaylorChandler involvement in the preparation of the Company's financial statements, the examiners determined it was not appropriate to rely on any of the CPA work for this examination, with the exception of utilizing information obtained by the CPAs from third parties.

The Company's opining actuary for the examination period was Anthony "Tony" Alfieri, ACAS, MAAA, with the consulting actuarial firm of Merlinos & Associates, Inc. in Norcross, Georgia.

FINANCIAL STATEMENTS

The financial statements included in this report were prepared on the basis of the Company's records and the valuations and determinations made during the course of the examination for the year 2012. Amounts shown in the comparative statements for the years 2008, 2009, 2010 and 2011 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds 24

Statement of Summary of Operations 25

Statement of Reconciliation of Capital and Surplus 26

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF

ALABAMA MUNICIPAL INSURANCE CORPORATION
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2012

ASSETS	Assets	Non Admitted Assets	Net Admitted Assets
Bonds (**Note 1**) (**Note 3**)	$ 52,943,101	$ 244,110	$ 52,698,991
Preferred stocks (**Note 2**)	854,656	$ 608,000	$ 246,656
Common stocks	8,005,729	-	8,005,729
Properties occupied by the Company (less $....0 encumbrances)	900,712	-	900,712
Cash ($17,234,212), Schedule E -Part 1), cash equivalents ($0 , Schedule E-Part 2) and short-term investments ($0, Schedule DA) (**Note 3**)	16,984,212	-	16,984,212
Other invested assets (Schedule BA)	1,125,895	-	1,125,895
Receivables for securities	39,476	-	39,476
Subtotals, cash and invested assets	$ 80,853,781	$ -	$ 80,001,671
Investment income due and accrued (**Note 4**)	360,019	-	360,019
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	5,737,811	1,604,905	4,132,906
Reinsurance: Amounts recoverable from reinsurers	3,925,689	-	3,925,689
Electronic data processing equipment and software	5,469	-	5,469
Furniture and equipment, including health care delivery assets ($....0)	10,993	10,993	-
Aggregate write-ins for other than invested assets	3,122,800	1,924,257	1,198,543
TOTAL ASSETS	$ 94,016,562	$ 3,540,155	$ 89,624,297
LIABILITIES, SURPLUS AND OTHER FUNDS			
Liabilities:			
Losses	$ 21,054,502		
Loss adjustment expenses	24,808,555		
Other expenses (excluding taxes, licenses and fees)	63,750		
Unearned premiums	14,949,603		
Ceded reinsurance premiums payable	1,909,011		
Provision for reinsurance	1,646,000		
Total liabilities	$ 64,431,421		
SURPLUS			
Gross paid in and contributed surplus	$ 6,053,305		
Unassigned funds (surplus) (**Note 5**)	19,139,571		
Surplus	$ 25,192,876		
TOTAL LIABILITIES, CAPITAL AND OTHER FUNDS	$ 89,624,297		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

ALABAMA MUNICIPAL INSURANCE CORPORATION
Statement of Income
For the Year Ended December 31, 2012, 2011, 2010, 2009 and 2008

	2012	2011	2010	2009	2008
UNDERWRITING INCOME					
Premiums earned	$31,013,074	$31,239,545	$ 32,047,718	$ 32,206,946	$ 30,911,914
DEDUCTIONS					
Losses incurred	12,926,271	11,503,543	18,742,848	13,681,753	13,808,768
Loss adjustment expenses incurred	8,398,518	9,786,911	11,001,613	10,887,734	7,325,782
Other underwriting expenses incurred	6,966,001	7,151,151	6,789,099	7,094,663	6,682,767
Total underwriting deductions	$28,290,790	$28,441,605	$ 36,533,560	$ 31,664,150	$ 27,817,317
Net underwriting gain (loss)	**$ 2,722,284**	**$ 2,797,940**	**$ (4,485,842)**	**$ 542,796**	**$ 3,094,597**
INVESTMENT INCOME					
Net investment income earned	$ 1,681,604	$ 1,989,885	$ 2,263,468	$ 2,936,712	$ 4,020,472
Net realized capital gains (losses)	(1,121,428)	83,258	$ (1,366,338)	$ (8,105,450)	$ (5,331,889)
Net investment gain (loss)	**$ 560,176**	**$ 2,073,143**	**$ 897,130**	**$ (5,168,738)**	**$ (1,311,417)**
OTHER INCOME					
Finance and service charges not included in premiums	$ 44,785	$ 43,804	$ 36,645	$ 49,893	$ 76,091
Aggregate write-ins for miscellaneous income	45,683	21,462	36,773	24,240	24,206
Total other income	**$ 90,468**	**$ 65,266**	**$ 73,418**	**$ 74,133**	**$ 100,297**
Net income before dividends to policyholders, after capital gain tax and before all other federal and foreign income taxes	$ 3,372,928	$ 4,936,349	$ (3,515,294)	$ (4,551,809)	$ 1,883,477
Dividends to policyholders	596,828	605,001	624,226	616,871	1,008,621
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 2,776,100	$ 4,331,348	$ (4,139,520)	$ (5,168,680)	$ 874,856
	-	-	-	-	-
Net income	**$ 2,776,100**	**$ 4,331,348**	**$ (4,139,520)**	**$ (5,168,680)**	**$ 874,856**

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

ALABAMA MUNICIPAL INSURANCE CORPORATION
Capital and Surplus
For the Year Ended December 31, 2012, 2011, 2010, 2009 and 2008

	2012	2011	2010	2009	2008
Surplus as regards policyholders, December 31, prior year	$ 22,813,139	$ 18,206,312	$ 21,574,310	$ 25,152,426	$ 29,153,320
Net income	$ 2,776,100	$ 4,331,348	$ (4,139,520)	$ (5,168,680)	$ 874,856
Change in net unrealized capital gains (losses) less capital gain tax	2,157,011	92,442	1,086,142	1,687,863	(4,595,382)
Change in nonadmitted assets	(988,827)	92,302	(232,107)	(178,091)	(314,074)
Change in provision for reinsurance	(1,564,547)	90,735	(82,513)	80,792	33,706
Net change in capital and surplus for the year	$ 2,379,737	$ 4,606,827	$ (3,367,998)	$ (3,578,116)	$ (4,000,894)
Capital and surplus, December 31, current year	$ 25,192,876	$ 22,813,139	$ 18,206,312	$ 21,574,310	$ 25,152,426

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds **$52,699,091**

The captioned amount is $5,990 more than the $52,693,101 reported by the Company in its 2012 Annual Statement. The change in amount consisted of the following:

	Amount
Re-Class of CD to Bonds	$ 250,000
Bonds – non-admitted	($244,010)
Total	**$ 5,990**

The reclassification of the certificate of deposit (CD) was discussed in **Note 3 – Cash** on page 32 and the non-admitted bonds were discussed below in Issue 1.

There were five issues related to bonds.

Issue 1

There were three bonds, with an aggregate book adjusted carrying value of $244,110, that were not filed with the Securities Valuation Office (SVO). Per Management, the NAIC designations assigned to the bonds were determined based on the credit rating provider (CRP) ratings. The NAIC designation listed in the Annual Statement for all three bonds was 1. The designations listed in the Annual Statement were not the equivalent of the CRP ratings for two of the three bonds. One bond should have had a designation of 2Z and the other NR or not rated. As a result, the bonds were non-admitted.

The NAIC Purposes and Procedures Manual of the Securities Valuation Office, Part Two - *Filing With the SVO* states:

> Insurance companies domiciled in any state of the United States, or any of its territories or possessions, and required by the law of their domiciliary state or territory to report NAIC Association Values for their investments in the NAIC Financial Statement Blank, shall report purchases of securities or any other relevant transaction to the SVO as required by this Manual.
>
> A security issued by an entity unaffiliated with the reporting company is reported by creating, completing and submitting the SAR form. The reporting insurance company must submit the SAR to the SVO not later than 120 days after the purchase of the security.

The NAIC Annual Statement Instructions states:

> Any NAIC Designation that is not obtained from the current edition of the Valuation of Securities or its Supplement and that is entered by the reporting entity under its own judgment shall have the letter "Z" appended to the designation.

Issue 2

The Company did not report the correct NAIC designation for five residential mortgage backed securities (RMBS). The table below depicts the NAIC designation assigned by the Company and Securities Valuation Office (SVO):

CUSIP	COMPANY DESIGNATION	SVO DESIGNATION
05948X6X4	1	3FM
172973RR2	1	3FM
803827AS3	5	6FM
939336P80	1	4FM
94981AAA1	1	3FM

SSAP No. 43R - *Loan-backed and Structured Securities,* paragraph 26 states:

> Financial Modeling: The NAIC identifies securities where financial modeling must be used to determine the NAIC designation. NAIC designation based on financial modeling incorporates the insurers' carrying value for the security. For those securities that are financially modeled, the insurer must use NAIC CUSIP specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. Securities where modeling results in zero expected loss in all scenarios are automatically considered to have a final NAIC designation of NAIC 1, regardless of the carrying value. The three-step process for modeled securities is as follows:
>
> > Step 3: Determine Final Designation - The final NAIC designation that shall be used for investment schedule reporting is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 26 a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the six (6) NAIC designations for each CUSIP. This final NAIC designation shall be applicable for all statutory accounting and reporting purposes (including establishing the

AVR charges). The final designation is not used, for establishing the appropriate carrying value method in Step 12 (paragraph 26 a.ii.).

The NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office, Part Three - *Credit Assessment,* Section 3 - *Structured Securities Transactions* states:

> Beginning with year-end 2009 for RMBS and 2010 for CMBS, probability weighted net present values will be produced under SVO supervision by an NAIC-selected vendor using its financial model with defined analytical inputs selected by the SVO and approved by the VOS/TF. The vendor will provide the SVO with a range of net present values for each RMBS or CMBS corresponding to each NAIC designation category. The NAIC designation for a specific RMBS or CMBS is determined by the insurance company, based on carrying value ranges. *Please refer to SSAP No. 43R for guidance on all accounting and related reporting issues.*

Part One - *Purposes, General Policies and Instructions to the SVO,* Section 3 - *Internal Administration* states:

> The administrative symbols FMR and FMC are related to symbols that insurers are required to use in the financial statement reporting process. Under applicable financial statement reporting rules, an insurer uses the symbol:
>
> FM – as a suffix to identify modeled RMBS and CMBS CUSIPs;
>
> The symbols FM and AM are inserted by the insurer in the financial statement as a suffix in front of the NAIC Designation category - i.e., 2FM.

The incorrect designation did not have a financial impact on the carrying value of the bonds.

Issue 3

The filing exempt, FE symbol, was not used to identify 134 bonds listed in the 2012 Annual Statement. The table below depicts the NAIC designations assigned by the Company and SVO.

Number of Bonds	Company Designation	SVO Designation
123	1	1FE
11	6	6FE

Twenty-two of the bonds were U.S. government obligations that were not required to be filed with the SVO. The NAIC Purposes and Procedures Manual of the NAIC Securities and Valuation Office states, in part,

> **FE** means exempt from filing with the SVO and is used by an insurance company to report an NAIC Designation for an exempt security on the NAIC Financial Statement Blank. When reporting a security on its annual or quarterly financial statements, the administrative symbol **FE** is used with an **NAIC 1** through **6** Designation.... **FE** signifies that the reported security meets the criteria set forth in Part Two, Section 4(d) of this Manual and that the NAIC Designation was arrived at by the insurer by converting the NAIC CRP rating(s) into a corresponding NAIC Designation in accordance with the conversion instructions set forth in Part Two, Section 4 (d) (i)(A) and (B) of this Manual and the rating equivalency identified in Section 7(d) (iii) of this Part or by the NAIC in comparing the security with the NAIC CRP rating feeds...U.S. Government obligations are not required to be filed with the SVO.

The incorrect designation did not have a financial impact on the carrying value of the bonds.

Issue 4

The NAIC designation for 55 bonds was incorrect. The table below depicts the NAIC designations assigned by the Company and SVO.

Number of Bonds	Company Designation	SVO Designation
52	1	2FE
1	4	6FE
1	5	6FE
1	2	1FE

The NAIC Annual Statement Instructions states:

> Insert the NAIC designation for such security printed in the *Valuation of Securities*. Any NAIC Designation that is not obtained from the current edition of the *Valuation of Securities* or its *Supplement* and that is entered by the reporting entity under its own judgment shall have the letter "Z" appended to the designation. For the meaning and applicability of suffixes and designations, please refer to the most recent version of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* Part One, Section 3.

The incorrect designation did not have a financial impact on the carrying value of the bonds.

Issue 5

The NAIC designation for twenty financially modeled bonds was incorrect. The table below depicts the NAIC designations assigned by the Company and Securities Valuation Office (SVO).

Number of Bonds	Company Designation	SVO Designation
4	1	FMC
16	1	FMR

The NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office, Part One – *Purposes, General Policies and Instructions to the SVO,* Section 3 – Internal Administration states:

> *The following administrative symbols are used in the VOS Products to identify RMBS and CMBS that the NAIC vendor has confirmed will be subject to the financial modeling methodology described in Part Three Section 3(c) of this Manual.*
>
> **FMR** indicates that the specific CUSIP identifies an RMBS that is subject to the financial modeling methodology.
>
> **FMC** indicates that the specific CUSIP identifies an CMBS that is subject to the financial modeling methodology.
>
> The use of these administrative symbols in the VOS Product means the insurer should not use the filing exempt process for the security so identified.

The incorrect designation did not have a financial impact on the carrying value of the bonds.

Note 2 – Preferred Stocks **$246,656**

The captioned amount is $608,000 less than the $854,656 reported by the Company in its 2012 Annual Statement.

The American Overseas Group preferred stock had a book adjusted carrying value of $608,000 that was non-admitted. The preferred stock had not been filed with the

SVO. Also, the preferred stock was redeemable not perpetual as reported in the 2012 Annual Statement. Company management indicated the BACV should have been zero at year-ending 2012.

The NAIC designations for all of the preferred stocks were incorrect. The following table depicts the NAIC designations assigned by the Company and SVO.

Preferred Stocks	**Company Designation**	**SVO Designation**
American Overseas Group	P1L	None
Pfd Pass-Thru	P1L	P4FE
PNC Bank Corp	P1L	P2FE

The NAIC Purposes and Procedures Manual of the Securities Valuation Office states, in part:

> Insurance companies domiciled in any state of the United States, or any of its territories or possessions, and required by the law of their domiciliary state or territory to report NAIC Association Values for their investments in the NAIC Financial Statement Blank, shall report purchases of securities or any other relevant transaction to the SVO as required by this Manual.

SSAP No. 32 – *Investment in Preferred Stock* states:

> 15. The NAIC Securities Valuation Office classifies preferred stocks into six redeemable preferred stock quality categories (designations RP1 through RP6) and six perpetual preferred stock quality categories (designation P1 through P6.) Preferred stocks shall be classified in accordance with the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* and the designation assigned in the *Valuations of Securities* product prepared by the NAIC Securities Valuation Office.

Note 3 – Cash	**$16,984,212**
Bonds	**$52,699,091**

The above captioned amounts are $250,000 less than and $5,990 more than the $17,234,212 and $52,593,101, respectively, reported by the Company in its 2012 Annual Statement. The change in the amounts consisted of the following:

	Amount
Re-Class of CD to Bonds	$ 250,000
Bonds – non-admitted	($244,010)
Total	**$ 5,990**

The change to bonds was discussed in **Note 1 – Bonds** on page 27 and the reclassification of the CD was discussed below.

The Company reported a certificate of deposit with a term of eighteen months on Schedule E – Part 1 – Cash. The NAIC Annual Statement Instructions states:

> Certificates of deposit in banks or other similar financial institutions with maturity dates of one year or less from the acquisition date and other instruments defined as cash in accordance with SSAP No. 2, Cash, Drafts, and Short-term Investments, should be reported in this schedule (E)… Long-term certificates of deposit are to be reported in Schedule D.

The reclassification of the certificate of deposit did not have a financial impact on the financial statements.

The Company incorrectly listed a depository on Schedule E - Part 1 - Cash. Funds were reported as being held at Regions Bank but were held at ServisFirst Bank.

Note 4 – Investment Income Due and Accrued **$360,019**

The captioned amount is the same as reported by the Company in its 2012 Annual Statement.

The supporting detail for the investment income due and accrued did not reconcile to the amount reported on line 14, page 2 – *Assets*. The amount reported on the Asset page was $360,019 and the amount per the detail was $388,714; a difference of $28,695, which was deemed immaterial.

The amount of investment income due and accrued reported on line 14, page 2 – *Assets* did not agree with the amount reported on Schedule D – Part 1, column 19. The amount reported on page 2, line 14 was $360,019 and $4,287,565 was reported on Schedule D – Part 1, column 19; a difference of $3,927,546. Also, the Company did not non-admit any investment income due and accrued on the Assets page.

Schedule D – Part 1, column 19 was calculated by the Sungard investment software. The Sungard software did not reflect current market conditions or delays in the income payments on a per security basis. As a result, the Company reported the investment income due and accrued per the custodian's calculation on line 14, page 2 – *Assets,* which was more conservative. The NAIC Annual Statement Instructions states, "Column 19 should equal the admitted amount of due and accrued interest for a specific security." The admitted amount due and accrued reported on Schedule D - Part 1, column 19 should have agreed to the admitted due and accrued interest for bonds utilized in the calculation of the admitted investment income due and accrued reported on the Assets page. With the exception of the exclusion of the $28,695 referenced above, the admitted investment income due and accrued appeared to be accurate. As a result, there were no changes to the financial statements included in this report.

A similar situation was noted in the last report of examination whereby it was recommended the Company: (1) accurately report its admitted and non-admitted investment income due and accrued on the Annual Statement asset page; (2) accurately report its "Admitted amount due and accrued" interest from bonds in Schedule D - Part 1; and (2) utilize the total of the "Admitted amount due and accrued" interest from bonds in Schedule D - Part 1 in its calculation of admitted investment income due and accrued.

Note 5 - Unassigned Funds (Surplus) **$19,139,571**

The above captioned amount is $852,110 less than the $19,991,681 reported by the Company in its 2012 Annual Statement. The following is a reconciliation of unassigned funds per this examination:

Unassigned funds per Company		$19,991,681
Examination increase/ (decrease) to assets:		
Bonds	($244,110)	
Preferred stocks	($608,000)	
Total increase/ (decrease) to assets	($852,110)	
Examination (increase)/decrease to liabilities:	$ 0	
Total decrease in surplus	$852,110	
Unassigned fund balance per examination		$19,139,571

CONTINGENT LIABILITITES AND PENDING LITIGATION

Examination of these items included: reviewing the Company's Annual Statement disclosures, generally reviewing the Company's records and files for unrecorded items, and obtaining letters of representation from management. As of December 31, 2012, there was no pending litigation or material contingent liabilities identified.

SUBSEQUENT EVENTS

The general ledger and cash transactions occurring subsequent to the balance sheet date were reviewed. Additionally, the examiners inquired of management regarding any significant subsequent events. There were no significant subsequent events identified.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The Company satisfactorily complied with the previous examination recommendations except for the following:

Compliance with Producer's Licensing Requirements

In the prior examination report it was recommended the Company properly appoint all producers. The Company did not comply with this recommendation; see **Compliance with Producer Licensing** on page 16.

Bonds, Preferred Stocks, and Common Stocks

In the prior examination report it was recommended the Company accurately report the NAIC designations for each of its bonds. The Company did not comply with this recommendation; see **Note 1 – Bonds** on page 27.

In the prior examination report it was recommended the Company accurately report the NAIC designation for its preferred stocks investments. The Company did not comply with this recommendation; see **Note 2 – Preferred Stocks** on page 31.

Investment income due and accrued

In the prior examination report it was recommended the Company: (1) accurately report its admitted and non-admitted investment income due and accrued on the Annual Statement assets page; (2) accurately report its "Admitted amount due and accrued" interest from bonds on Schedule D – Part 1; and (3) utilize the total

"Admitted amount due and accrued" interest for bonds reported on Schedule D – Part 1 in its calculation of the admitted investment income due and accrued reported on the Assets page of the Annual Statement. The Company did not comply with these recommendations; see **Note 4 – Investment income due and accrued** on page 33.

COMMENTS AND RECOMMENDATIONS

Conflict of Interest – Page 5

It is recommended the Company consider revising its conflict of interest policy to include provisions requiring its directors, officers, and key employees to complete and sign conflict of interest statements annually.

It is recommended the officers, directors, and key employees properly complete the conflict of interest statements. This includes but is not limited to, dating the statements and indicating whether a conflict of interest exists or not.

Management and Service Agreements – Page 6

It is recommended the administrative service agreement be amended to include a settlement due date in accordance with SSAP No. 25 – *Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties*, paragraph six which states:

> Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date.

18 U.S.C § 1033 Compliance – Page 13

It is recommended the Company establish internal procedures to periodically ascertain whether non-licensed employees or individual contractors have been convicted of a felony Section 1033 offense since the initial hire date in accordance with ALA. ADMIN. CODE 482-1-146-.11 (2009) which states:

> A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
>
> > (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

It is recommended the Company establish internal procedures to assure employees or contractors having a felony conviction for a Section 1033 offense obtain and hold the proper 1033 consent during the employment or contract period in accordance with ALA. ADMIN. CODE 482-1-146-.11 (2009) which states:

> A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
>
> > (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

Compliance with Producer's Licensing Requirements – Page 16

It is recommended the Company license and appoints all agencies selling, soliciting or negotiating insurance on its behalf in accordance with ALA. CODE § 27-7-5 (2006) which states:

> (b) A business entity acting as an insurance producer is required to obtain an insurance producer license.

It is again recommended that no producer sell, solicit, or negotiate insurance on behalf of the Company unless licensed and appointed in accordance with ALA. CODE § 27-7-4 (2001) which states:

> (a) No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person.
>
> (b) No producer shall act on behalf of any insurer for which an appointment is not held under this chapter.

It is recommended the Company complies with ALA. CODE § 27-7-4.1 (2001) which states:

> (a) No insurer or producer shall pay, directly or indirectly, any commission or other valuable consideration to any person for services as a producer or service representative within this state unless the person holds a currently valid license

as a producer or service representative as to the kind or class of business involved as required by this chapter.

(b) Any insurer or producer violating this section shall be liable for a fine in an amount of up to three times the amount of the commission paid.

It is recommended the Company properly appoint all producers in accordance with ALA. CODE § 27-7-30 (2001) which states:

(a) Each insurer appointing a producer in this state shall file with the commissioner, in a format approved by the commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted, whichever occurs first.

It is recommended the Company send notifications to terminated producers in accordance with ALA. CODE § 27-7-30.1 (a) (2002) which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

Special Deposits – Page 18

It is recommended the Company report its special deposits on Schedule E – Part 3 – Special Deposits in accordance with the NAIC Annual Statement Instructions which states, in part, to report statutory deposits held for the benefit of all policyholders in columns 3 and 4 of Schedule E – Part 3 – Special Deposits.

Reinsurance – Page 20

It is recommended the Company revised or amend its reinsurance agreement to accurately reflect the reinsurer and appropriate cancellation provisions.

Bonds – Page 27

It is recommended the Company file all applicable bonds with the *Securities Valuation Office* in accordance with the NAIC Purposes and Procedures Manual of the Securities Valuation Office, Part Two - *Filing With the SVO* which states:

Insurance companies domiciled in any state of the United States, or any of its territories or possessions, and required by the law of their domiciliary state or territory to report NAIC Association Values for their investments in the NAIC Financial Statement Blank, shall report purchases of securities or any other relevant transaction to the SVO as required by this Manual.

A security issued by an entity unaffiliated with the reporting company is reported by creating, completing and submitting the SAR form. The reporting insurance company must submit the SAR to the SVO not later than 120 days after the purchase of the security.

It is recommended the letter "Z" is appended to all securities whose designation is determined by the Company's judgment in accordance with the NAIC Annual Statement Instructions which states:

Any NAIC Designation that is not obtained from the current edition of the Valuation of Securities or its Supplement and that is entered by the reporting entity under its own judgment shall have the letter "Z" appended to the designation.

It is recommended the Company use the model breakpoint values to determine the NAIC designation for residential mortgage backed securities (RMBS). This is in accordance with SSAP No. 43R – *Loan-backed and Structured Securities,* paragraph 26 which states:

The final NAIC designation that shall be used for investment schedule reporting is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 26 a.ii.) to the NAIC CUSIP specific modeled breakpoint values assigned to the six (6) NAIC designations for each CUSIP.

It is recommended the Company use the suffix FM to identify all modeled residential mortgage backed securities (RMBS). In accordance with the NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office which states:

Under applicable financial statement reporting rules, an insurer uses the symbol:

FM – as a suffix to identify modeled RMBS and CMBS CUSIPs;

> The symbols FM and AM are inserted by the insurer in the financial statement as a suffix in front of the NAIC Designation category - i.e., 2FM.

It is recommended the Company use the FE symbol to identify all securities that are exempt from the SVO filing requirements, including U.S. Obligations in accordance with the NAIC Purposes and Procedures Manual of the NAIC Securities and Valuation Office which states:

> **FE** means exempt from filing with the SVO and is used by an insurance company to report an NAIC Designation for an exempt security on the NAIC Financial Statement Blank. When reporting a security on its annual or quarterly financial statements, the administrative symbol **FE** is used with an **NAIC 1** through **6** Designation…**FE** signifies that the reported security meets the criteria set forth in Part Two, Section 4(d) of this Manual and that the NAIC Designation was arrived at by the insurer by converting the NAIC CRP rating(s) into a corresponding NAIC Designation in accordance with the conversion instructions set forth in Part Two, Section 4 (d) (i)(A) and (B) of this Manual and the rating equivalency identified in Section 7(d) (iii) of this Part or by the NAIC in comparing the security with the NAIC CRP rating feeds… U.S. Government obligations are not required to be filed with the SVO.

It is again recommended the Company accurately report the NAIC designations of each of its bonds in accordance with the NAIC Annual Statement Instructions which states:

> Insert the NAIC designation for such security printed in the *Valuation of Securities*. Any NAIC Designation that is not obtained from the current edition of the *Valuation of Securities* or its *Supplement* and that is entered by the reporting entity under its own judgment shall have the letter "Z" appended to the designation.

It is recommended the Company use the FMR or FMC symbols to identify residential mortgage backed securities (RMBS) and commercial mortgage backed securities (CMBS) the NAIC vendor confirmed are subject to the financial modeling methodology in accordance with the NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office, Part One – *Purposes, General Policies and Instructions to the SVO,* Section 3 – *Internal Administration* which states:

> *The following administrative symbols are used in the VOS Products to identify*

RMBS and CMBS that the NAIC vendor has confirmed will be subject to the financial modeling methodology described in Part Three Section 3(c) of this Manual.

FMR indicates that the specific CUSIP identifies an RMBS that is subject to the financial modeling methodology.

FMC indicates that the specific CUSIP identifies an CMBS that is subject to the financial modeling methodology.

Stocks – Page 31

It is recommended all preferred stocks be filed with the Securities Valuation Office in accordance with the NAIC Purposes and Procedures Manual of the Securities Valuation Office which states, in part:

> Insurance companies domiciled in any state of the United States, or any of its territories or possessions, and required by the law of their domiciliary state or territory to report NAIC Association Values for their investments in the NAIC Financial Statement Blank, shall report purchases of securities or any other relevant transaction to the SVO as required by this Manual.

It is again recommended the classification and NAIC designations assigned to all preferred stocks are in accordance with SSAP No. 32 – *Investment in Preferred Stock* which states:

> 15. The NAIC Securities Valuation Office classifies preferred stocks into six redeemable preferred stock quality categories (designations RP1 through RP6) and six perpetual preferred stock quality categories (designation P1 through P6.) Preferred stocks shall be classified in accordance with the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* and the designation assigned in the *Valuations of Securities* product prepared by the NAIC Securities Valuation Office.

Cash – Page 32

It is recommended the Company report all long-term certificates of deposit on Schedule D – Part 1 in accordance with the NAIC Annual Statement Instructions, which states:

> Certificates of deposit in banks or other similar financial institutions with maturity dates of one year or less from the acquisition date and other

instruments defined as cash in accordance with SSAP No. 2, Cash, Drafts, and Short-term Investments, should be reported in this schedule (E)… Long-term certificates of deposit are to be reported in Schedule D.

It is recommended the Company include the correct name for each of its depositories listed on Schedule E – Part 1 – Cash.

Investment income due and accrued – Page 33

It is again recommended the Company accurately report its admitted and non-admitted investment income due and accrued on the Annual Statement Assets page.

It is again recommended the Company accurately report its "Admitted amount due and accrued" interest on Schedule D – Part 1.

It is again recommended the Company utilize the total of the "Admitted amount due and accrued" reported on Schedule D – Part 1 in its calculation of the admitted investment income due and accrued.

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers of Alabama Municipal Insurance Corporation during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Mora Perkins-Taylor, MCM and Charles Turner, CISA examiners for the Alabama Department of Insurance; and Glen Taylor, ACAS, MAAA and Brent Sallay, FCAS, MAAA consulting actuaries with Taylor-Walker & Associates, Inc. represented the Alabama Department of Insurance and participated in the examination of Alabama Municipal Insurance Corporation.

Respectfully submitted,

Toni Bean

Toni L. Bean, CFE
Examiner-in-charge
State of Alabama
Department of Insurance