**PROCEEDINGS BEFORE MICHAEL D. RILEY**
**INSURANCE COMMISSIONER**
**OF THE STATE OF WEST VIRGINIA**

**IN RE: WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY**

**Administrative Proceeding No.: 14-AP-FINCON-02015**

# AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION

COMES NOW Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Financial Examination as of December 31, 2013, of WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY (hereinafter referred to as "Company") based upon the following findings, to wit:

## JURISDICTION

1. Michael D. Riley is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. The Company was incorporated on April 29, 1988, and commenced business on June 1, 1988. It is a wholly-owned subsidiary of WVA National Company, LLC ("WVANC"). The Company has been authorized by the Insurance Commissioner to transact the business of insurance in the State of West Virginia as permitted and authorized by the West Virginia Code.

## FINDINGS OF FACT

1. The Insurance Commissioner has undertaken an examination of the financial condition and operational affairs of the Company, for the period beginning January 1, 2011 and ending December 31, 2013, in accordance with West Virginia Code §33-2-9(c).

2. On November 24, 2014, the Insurance Commissioner's examiner filed the Report of Financial Examination of West Virginia National Auto Insurance Company pursuant to W.Va.

Code § 33-2-9(j)(2). A copy of the Report of Financial Examination of West Virginia National Auto Insurance Company is attached hereto as Exhibit A and said report is incorporated herein as if set forth in full.

3. On or about November 24, 2014, a true and accurate copy of the Report of Financial Examination of West Virginia National Auto Insurance Company was mailed by certified mail to the Company.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt to make a submission, rebuttal, or objection concerning any matter contained in the Report of Financial Examination of West Virginia National Auto Insurance Company.

5. By letter dated December 19, 2014, management of the Company indicated that it had reviewed the Report of Financial Examination of West Virginia National Auto Insurance Company and concurred with the findings of the examination. A copy of the Company's letter of December 19, 2014, is attached hereto as Exhibit B.

## CONCLUSIONS OF LAW

W.Va. Code § 33-2-9(j)(3) states that within thirty (30) days of the end of the period allow for the receipt of written submissions or rebuttals the Insurance Commissioner shall fully consider and review the report, together with any written submissions or rebuttals and any relevant portions of the examiner's work papers, and enter an Order adopting the examination report as filed or with modifications or corrections, rejecting the examination report with directions to the examiners to reopen the examination or calling for an investigatory hearing.

## ORDER

WHEREFORE, after full consideration and review as contemplated by W.Va. Code § 33-2-9(j)(3), the Parties do hereby AGREE and the Insurance Commissioner accordingly ORDERS as follows:

1. That the Report of Financial Examination of West Virginia National Auto Insurance Company, attached hereto as Exhibit A, is ADOPTED and APPROVED.

2. That a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action, including the exhibits thereto, shall be mailed to the Company by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. That the Company shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this AGREED ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report of Financial Examination of West Virginia National Auto Insurance Company and a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action, including the exhibits thereto, in accordance with W.Va. Code § 33-2-9(j)(4).

4. That the Company take whatever actions are required to comply with all of the recommendations set forth in the Report of Examination including, but not limited to, the requirement that WVANC reimburse the Company for its fair share of the insurance premiums for the period under examination. Moving forward, it is agreed that the Company shall enter into a cost sharing agreement with WVANC that provides fair and reasonable terms in the settlement of its shared insurance policy in accordance with W.Va. Code §33-27-5 or operate under the terms of the previously approved cost sharing agreement dated September 11, 1998. Furthermore, the Company shall comply with W.Va. Code § 33-8A-6(b) by having its Board of Directors authorize approval by resolution of its Custodian Agreement with Branch Banking and Trust Company, adopt a written investment policy in accordance with W.Va. Code §§ 33-8-23 to 33-8-30 and ensure that said investment policy is reviewed and updated annually by its Board of Directors in accordance with W.Va. Code § 33-8-4(b). The Company shall demonstrate compliance with this Agreed Order to the satisfaction of the Insurance Commissioner, if necessary.

5. That the Company waives its right to any notice, administrative hearing or appeal

therefrom for the actions taken by the Insurance Commissioner as stated herein. The Company reserves its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

6. That upon execution of this Agreed Order by all parties, this administrative matter be hereby DISMISSED from the administrative docket of the Insurance Commissioner.

Entered this 9th day of January, 2015.

Michael D Riley, Insurance Commissioner,
State of West Virginia

THE PARTIES DO SO AGREE:

OFFICES OF THE INSURANCE COMMISSIONER,
STATE OF WEST VIRGINIA

By: Erin K. Hunter
Erin K. Hunter, Associate Counsel

1/9/15
Date

WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY

BY: JAMES W. BUCHANAN JR.
[Print Name]

Signed: James W Buchanan Jr

Its: President / CEO

Dated: 1/5/15

REPORT OF EXAMINATION

OF

# WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY

CHARLESTON, WV

NAIC #10911

AS OF DECEMBER 31, 2013

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Charleston, West Virginia
November 24, 2014

Honorable Michael Riley
West Virginia Insurance Commissioner
1124 Smith Street
Charleston, West Virginia 25301

Dear Sir:

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner, an examination has been made of the affairs and financial condition of:

**West Virginia National Auto Insurance Company**

a West Virginia domiciled property and casualty insurance company, hereinafter referred to as "Company." The examination was conducted at the Company's home office, located at 330 Scott Avenue Suite 2, Morgantown, West Virginia 26508.

A report of this examination is hereby respectfully submitted.

## SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2010.

This examination covered the three-year period from January 1, 2011 through December 31, 2013, and consisted of a general survey of the Company's business practices and management, and an evaluation of the Company's financial condition as of the latter date. Material subsequent events were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the West Virginia Office of the Insurance Commissioner ("WV OIC") and the National Association of Insurance Commissioners ("NAIC").

The format of this report is consistent with the current practices of the WV OIC and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern, and a factual disclosure of other significant regulatory information. The examination was conducted using the risk focused approach.

For the first year under examination, 2011, the Certified Public Accounting ("CPA") firm of Parks, Foster & Morris, PLLC, Fairmont, West Virginia, provided an unqualified opinion

based on statutory accounting principles. For the next year of the period under examination, 2012, the CPA firm of Tetrick & Bartlett PLLC, Clarksburg, West Virginia gave a similar unqualified opinion based on statutory accounting principles. Finally for the last year under examination, 2013, the CPA firm of William Earp Public Accounting, PLLC, Worthington, West Virginia again gave a similar unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its 2013 annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

## HISTORY

The Company was incorporated in West Virginia on April 29, 1998 and commenced business on June 1, 1998. The Company is a wholly-owned subsidiary of WVA National Company, LLC ("WVANC") or ("parent"), a West Virginia limited liability company.

The Company was formed to engage in the business of writing casualty insurance and such other lines or types of insurance (including, without limitation, accident and sickness insurance, fire insurance, surety insurance, and marine insurance) as the Corporation may from time to time be legally authorized to write, including ceding or assuming reinsurance of any type or line of insurance which the Corporation may be legally authorized to write, as set forth in and authorized by the Code of West Virginia of 1931, Chapter 33, Article 1, Section 10, as it now or hereinafter exists. The duration of the Corporation shall be perpetual.

The Company commenced business writing two lines of business, private passenger auto liability and auto physical damage. On September 3, 2004, the WV OIC authorized the Company to write fire insurance. The first property insurance policy was written on June 8, 2007. The Company wrote its first fire insurance policy on June 8, 2007. In December 2011, the Company stopped writing new property business, but continued to renew its in-force policies until March 31, 2012. Effective February 1, 2012, the Company sold its property book of business to Inland Mutual Insurance Company. The Company was authorized to write private passenger auto liability and auto physical damage by the State of Virginia on March 30, 2010 and wrote its first Virginia auto policy on April 27, 2010.

## MANAGEMENT AND CONTROL

### CAPITALIZATION

As of the examination date, December 31, 2013, the Company's total capital and surplus was $4,514,984; consisting of 40 Class A common capital stock shares authorized, of which 20 shares of $50,000 par were issued and outstanding, amounting to $1,000,000; 10 shares of $100 par value Class B common capital stock authorized, issued and outstanding, amounting to $1,000; $1,999,000 gross paid in and contributed surplus; and $1,514,984 in unassigned funds (surplus).

W.Va. Code § 33-3-5b provides no insurer shall hereafter be licensed to transact the business of insurance in the state of West Virginia unless it has fully paid in capital stock of at least one million dollars ($1,000,000). In addition, each such insurer shall have and maintain additional surplus funds of at least one million dollars ($1,000,000). The Company has met all governing requirements throughout the examination period.

## STOCKHOLDERS

At December 31, 2013, all of the twenty (20) shares of Class A Common Stock and all of the Ten (10) shares of Class B Common Stock were issued to WV National Company, LLC giving WVANC 100% ownership of the Company.

On February 10, 2012, the Company declared and paid an ordinary dividend of $117,750 to its sole shareholder WVA National Company, LLC. However, contrary to §33-27-4(e) the Company failed to disclose this in its registration statement within fifteen days which it learns of each change or addition.

## INSURANCE HOLDING COMPANY SYSTEM

The Company is part of an insurance holding company system and is required by W. Va. Code §33-27-4 (a) (2), to register with the WV OIC by June 1, of each year. The Insurance Holding Company Registration Statement dated May 29, 2014, indicates that the Company's immediate parent, WVANC owns 100% of the outstanding stock of the Company. The ultimate controlling person of the Holding Company is James W. Buchanan, Jr. by virtue of his 75.16% ownership of Class A Preferred Voting Units and his 76.34% ownership of Class B Voting Units in WVANC. The remaining shares of stock are owned by 29 investors with none owning more than a 5% interest in WVANC.

## BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2013:

| **Name and Address** | **Principal Occupation** |
|---|---|
| James W. Buchanan, Jr.<br>Morgantown, West Virginia | President and Chief Executive Officer<br>Company |
| William B. Kania<br>Uniontown, Pennsylvania | Senior Partner<br>W.B. Kania & Associates, LLC |
| David G. Maynard<br>Morgantown, West Virginia | President<br>Ten-Mile Coal Company, Inc. |

| | |
|---|---|
| Parry G. Petroplus | President |
| Morgantown, West Virginia | Petroplus & Associates, Inc. |

The Company's Articles of Incorporation and Bylaws both state that the number of directors shall be no less than five (5) nor more than nine (9). At December 31, 2013, the Company only had four individuals serving on the Board of Directors due to the December 30, 2013 resignation of Vince Nowell. This position remained vacant until April 22, 2014 when George Marshall was elected at a Special Meeting of the Shareholders.

All Directors are elected at the Annual Shareholders Meeting and serve for a one year term or until their successors are elected and qualified. All Directors and Officers are required to sign a Conflict of Interest Statement and a Code of Business Conduct and Ethics Statement annually.

Article III, Section 13, Paragraph C of the Bylaws provides that the Board of Directors may designate an Executive Committee and one or more other committees. A review of the minutes reveals that Company has an Executive Committee, an Audit Committee and a Compensation Committee. All five members of the Board of Directors also serve on each of the three committees.

## OFFICERS

As of the examination date, December 31, 2013, the following officers were appointed and serving in accordance with the Company's By-Laws:

| Name | Title |
|---|---|
| James W. Buchanan, Jr. | President |
| David C. Remmells | Secretary and Treasurer |

# CORPORATE RECORDS

## MINUTES

All of the annual meetings of the Company's shareholders were held in compliance with its Bylaws during the period under examination. In accordance with the Bylaws, the Board of Directors were elected at each annual meeting of the shareholders. The only business discussed at the annual meetings of the shareholders was the election of officers.

A review of the minutes of the thirteen (13) Board meetings held during the period under examination indicates that quorums were established at all meetings. Investments are reviewed by the Board on a regular basis. Also, the Board reviewed and approved all reinsurance contracts.

## ARTICLES OF INCORPORATION

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

## BYLAWS

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

## SERVICE AND OPERATING AGREEMENTS

On January 15, 1999, the Company entered into a service agreement with WVANC, its parent holding company, under which the parent provides computer equipment, appliances, software and hardware to maintain, operate and account for non-standard automobile insurance transactions. Services were provided at the rate of 1% of direct written premiums each month. Effective June 1, 2004, the fee related to the intercompany service agreement increased to 2% of direct written premiums per month. This agreement has been approved by the WV OIC in accordance with West Virginia Insurance Holding Company Systems Act, W. Va. Code §33-27-1, et seq.

The Company also has an insurance policy protecting both the Parent and the Company against damages from professional liability and directors and officer's liability. The policy which was written by NAMIC listed the Parent, WVA National Company, LLC as the named insured and lists the Company, West Virginia National Auto Insurance Company as an additional insured entity. A review of this transaction reveals that the Company paid NAMIC for the policy premium but they could not provide evidence that WVANC reimbursed it for their portion of the premium. In the latest Form B filing with WV OIC, there is no mention of a cost sharing agreement between the Company and WVANC. However, the Commissioner previously approved a cost sharing agreement dated September 11, 1998 between the Company and the Parent. The Company is in violation of the Holding Company Act by not operating under an approved Cost Sharing Agreement. According to W. Va. Code §33-27, all cost sharing arrangements must be fair and reasonable and may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction at least thirty days prior thereto.

It is recommended that the Company enter into a cost sharing agreement with WVANC that provides fair and reasonable terms in the settlement of its shared insurance policy for professional liability and directors and officer's liability in accordance with W. Va. Code §33-27-5 or operate under terms of the Commissioner approved cost sharing agreement dated September 11, 1998. It is further recommended that WVANC reimburse the Company for their fair share of the insurance premiums for the period under examination.

## REINSURANCE

### CEDED

The following summarizes all reinsurance contracts in effect during the period under examination, through which the Company ceded a significant block of its business to another insurer:

| | |
|---|---|
| Reinsurer: | Scor Reinsurance Co. 50%<br>Platinum Underwriters Reinsurance Co. 50% |
| Type of contract: | Quota share |
| Intermediary: | Willis Re, Inc. |
| Effective date: | April 23, 2010 |
| Termination date: | May 1, 2011 |
| Territory | Virginia |
| Business covered: | Private Passenger Automobile Physical Damage and Liability |
| Company's retention: | 70% |
| Reinsurance limits: | 30% |

| | |
|---|---|
| Reinsurer: | Scor Reinsurance Co. 50%<br>Platinum Underwriters Reinsurance Co. 50% |
| Type of contract: | Quota share |
| Intermediary: | Willis Re, Inc. |
| Effective date: | May 1, 2011 |
| Termination date: | April 1, 2012 |
| Territory | Virginia |
| Business covered: | Private Passenger Automobile Physical Damage and Liability |
| Company's retention: | 70% |
| Reinsurance limits: | 30% |

| | |
|---|---|
| Reinsurer: | Swiss Reinsurance American Corporation |
| Type of contract: | Quota share |
| Intermediary: | None |
| Effective date: | September 1, 2012 |
| Termination date: | September 30, 2013 |
| Territory | Virginia and West Virginia |
| Business covered: | Private Passenger Automobile Physical Damage and Liability |
| Company's retention: | 70% |
| Reinsurance limits: | 30% |

| | |
|---|---|
| Reinsurer: | Swiss Reinsurance American Corporation |
| Type of contract: | Quota share |
| Intermediary: | None |
| Effective date: | October 1, 2013 |
| Termination date: | August 31, 2014 |

| | |
|---|---|
| Territory | Virginia and West Virginia |
| Business covered: | Private Passenger Automobile Physical Damage and Liability |
| Company's retention: | 50% |
| Reinsurance limits: | 50% |

All of the above contracts contain appropriate arbitration and insolvency clauses. Also, the Reinsurance Intermediary, Willis Re, Inc.is licensed in compliance with the W. Va. Code §33-38-3.

## ASSUMED

The Company did not assume any business from another insurer.

## TERRITORY AND PLAN OF OPERATIONS

The Company is licensed to write business in West Virginia and Virginia. The Company originally wrote two lines of business, private passenger auto liability and auto physical damage. In 2004, the WV OIC authorized the Company to write fire insurance. The dwelling fire product includes the lines of fire, allied lines, other liability, and mine subsistence.

The Company markets its products through independent agents located throughout both West Virginia and Virginia. The Company has no branch offices; all claims handling and administrative functions are handled at the home office. Underwriting functions are handled at the home office in West Virginia. The Company contracts with approximately 150 independent agencies.

The following chart displays the distribution of the Company's lines of business by percentage of total net written premium for the last year under examination.

| Line of Business | Direct and Assumed Premium | Ceded Premium | Net Premium | Percentage of Total |
|---|---|---|---|---|
| **December 31, 2013** | | | | |
| Private passanger auto liability | $ 8,178,613 | $ 2,994,538 | $ 5,184,075 | 80.8 % |
| Auto physical damage | 2,026,968 | 797,001 | 1,229,967 | 19.2 % |
| Totals | $ 10,205,581 | $ 3,791,539 | $ 6,414,042 | 100.0 % |

The average loss ratio over the last three years under examination has been 54.7% in West Virginia and 82.4% in Virginia.

## SIGNIFICANT OPERATING TRENDS

The underwriting ratios summarized below are on an earned/incurred basis, and encompass the three-year period covered by this examination.

| | Amount | Percentage |
|---|---|---|
| Premiums earned | $ 6,167,432 | 100.0 % |
| Losses incurred | $ 3,565,259 | 57.8 % |
| Loss expenses incurred | 779,961 | 12.6 % |
| Other underwriting expenses incurred | 2,424,325 | 39.3 % |
| Net underwriting gain (loss) | (602,113) | (9.7)% |
| Totals | $ 6,167,432 | 100.0 % |

The Company reported the following net underwriting, investment and other gains or losses during the period under examination:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Admitted Assets | $ 10,211,766 | $ 10,155,979 | $ 10,872,073 |
| Liabilities | $ 5,696,782 | $ 5,675,258 | $ 5,800,591 |
| Capital and Surplus Funds | $ 4,514,984 | $ 4,480,721 | $ 5,071,482 |
| Net Premium Income | $ 6,167,432 | $ 8,433,132 | $ 8,480,334 |
| Benefits to Members | $ 6,769,545 | $ 9,226,324 | $ 8,460,911 |
| Net Investment Income | $ 154,279 | $ 150,358 | $ 202,567 |
| Net Income | $ 12,462 | $ (655,702) | $ 352,318 |

## ACCOUNTS AND RECORDS

All of the Company's accounting, investment and policy records are maintained at the Company's home office. The Company's recordkeeping is fully automated and consists of LAN, internet services, servers, desktop computing, and applications/software products.

## PENDING LITIGATION

Legal representation letters from the Company's outside counselors indicate that the Company is not involved in any material litigation whose outcome could have a material effect on its financial condition.

## FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2013, and the results of its operations for the three-year period under examination, are reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus; and
Comparative Statement of Cash Flow.

# Comparative Statement of Assets, Liabilities, Surplus and Other Funds
# As of December 31,

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Bonds | $ 6,004,351 | $ 6,953,966 | $ 5,975,197 |
| Common stocks | 700,277 | 361,968 | 123,901 |
| Cash, cash equivalents and short-term investments | 878,685 | 886,133 | 1,690,949 |
| Receivables for securities | 51,399 | 0 | 0 |
| Subtotal, cash and invested assets | 7,634,712 | 8,202,067 | 7,790,047 |
| Investment income due and accrued | 57,801 | 54,071 | 52,861 |
| Premiums and considerations | 1,971,755 | 969,907 | 2,327,957 |
| Amounts recoverable from reinsurers | 195,130 | 377,873 | 564,082 |
| Current federal and foreign income tax recoverable and interest thereon | 0 | 90,037 | 0 |
| Net deferred tax asset | 352,368 | 316,081 | 137,126 |
| Aggregate write-ins for other than invested assets | 0 | 145,943 | 0 |
| Total | $ 10,211,766 | $ 10,155,979 | $ 10,872,073 |
| | | | |
| Claims unpaid | $ 2,187,739 | $ 2,827,508 | $ 2,574,872 |
| Unpaid claims adjustment expenses | 667,267 | 845,581 | 719,395 |
| Commissions payable; contingent commissions and other similar charges | 374,237 | 342,372 | 280,083 |
| Other expenses (excluding taxes; licenses and fees) | 40,716 | 33,869 | 28,673 |
| Taxes; licenses and fees (excluding federal and foreign income taxes) | 2,098 | 49,580 | 125,324 |
| Current federal and foreign income taxes | 0 | 0 | 6,950 |
| Unearned premiums | 1,440,933 | 1,194,323 | 1,485,372 |
| Advance premium | 140,713 | 124,641 | 126,473 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 696,297 | 122,225 | 350,630 |
| Amounts withheld or retained by company for account of others | 18,687 | 8,202 | 9,108 |
| Payable to parent; subsidiaries and affiliates | 19,408 | 10,367 | 11,176 |
| Aggregate write-ins for other liabilities | 108,687 | 116,590 | 82,535 |
| Total liabilities | 5,696,782 | 5,675,258 | 5,800,591 |
| Common capital stock | 1,001,000 | 1,001,000 | 1,001,000 |
| Gross paid in and contributed surplus | 1,999,000 | 1,999,000 | 1,999,000 |
| Unassigned funds (surplus) | 1,514,984 | 1,480,721 | 2,071,482 |
| Total capital and surplus | 4,514,984 | 4,480,721 | 5,071,482 |
| Totals | $ 10,211,766 | $ 10,155,979 | $ 10,872,073 |

# Comparative Statement of Income
# For the Year Ended December 31,

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Premiums earned | $ 6,167,432 | $ 8,433,132 | $ 8,480,334 |
| Deductions: | | | |
| Losses incurred | 3,565,259 | 5,288,344 | 4,440,535 |
| Loss adjustment expenses incurred | 779,961 | 1,009,437 | 965,560 |
| Other underwriting expenses incurred | 2,424,325 | 2,928,543 | 3,054,816 |
| Total underwriting deductions | 6,769,545 | 9,226,324 | 8,460,911 |
| Net underwriting gain or (loss) | (602,113) | (793,192) | 19,423 |
| Net investment income earned | 154,279 | 150,358 | 202,567 |
| Net realized capital gains or (losses) | 131,130 | 884 | 48,939 |
| Net investment gains or (losses) | 285,409 | 151,242 | 251,506 |
| Net gain (loss) from agents' or premium balances charged off (amount recovered $2670 amount charged off $79110) | (76,440) | (432,054) | (55,008) |
| Finance and service charges not included in premiums | 396,887 | 292,584 | 194,560 |
| Aggregate write-ins for miscellaneous income | 8,950 | 35,450 | 1,650 |
| Total other income | 329,397 | (104,020) | 141,202 |
| Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes | 12,693 | (745,970) | 412,131 |
| Federal income taxes incurred | 231 | (90,268) | 59,813 |
| Net income | $ 12,462 | $ (655,702) | $ 352,318 |

## Comparative Statement of Capital and Surplus
## For the Year Ended December 31,

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Capital and surplus, December 31, previous year | $ 4,480,721 | $ 5,071,482 | $ 4,772,018 |
| Net income or (loss) | 12,462 | (655,702) | 352,318 |
| Change in net unrealized capital gains and (losses) | 752 | 21,881 | (45,211) |
| Change in net deferred income tax | 40,010 | 142,298 | (16,993) |
| Change in nonadmitted assets | (18,961) | 18,512 | 9,350 |
| Dividends to stockholders | 0 | (117,750) | 0 |
| Net change in capital and surplus | 34,263 | (590,761) | 299,464 |
| Capital and surplus, December 31, current year | $ 4,514,984 | $ 4,480,721 | $ 5,071,482 |

# Comparative Statement of Cash Flow
# For the Year Ended December 31,

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Cash from Operations** | | | |
| Premiums collected net of reinsurance | $ 6,003,794 | $ 8,809,112 | $ 8,399,002 |
| Net investment income | 223,356 | 177,869 | 264,992 |
| Miscellaneous income | 329,397 | 310,183 | 141,202 |
| Total | 6,556,547 | 9,297,164 | 8,805,196 |
| Benefit and loss related payments | 4,022,285 | 4,849,499 | 4,935,054 |
| Commissions, expenses paid and aggregate write-ins for deductions | 3,391,433 | 3,920,886 | 3,817,359 |
| Federal and foreign income taxes paid (recovered) | (89,806) | 6,719 | 82,000 |
| Total deductions | 7,323,912 | 8,777,104 | 8,834,413 |
| Net cash from operations | (767,365) | 520,060 | (29,217) |
| **Cash from Investments** | | | |
| Proceeds from investments sold, matured or repaid: | | | |
| Bonds | 4,420,612 | 2,768,749 | 2,661,998 |
| Stocks | 1,052,335 | 0 | 143,794 |
| Total investment proceeds | 5,472,947 | 2,768,749 | 2,805,792 |
| Cost of investments acquired (long-term only): | | | |
| Bonds | 3,531,932 | 3,775,342 | 1,125,224 |
| Stocks | 1,270,571 | 216,186 | 127,696 |
| Miscellaneous applications | 51,399 | 0 | 0 |
| Total investments acquired | 4,853,902 | 3,991,528 | 1,252,920 |
| Net cash from investments | 619,045 | (1,222,779) | 1,552,872 |
| **Cash from Financing and Miscellaneous Sources** | | | |
| Cash provided (applied): | | | |
| Dividends to stockholders (cash provided/applied) | 0 | 117,750 | 0 |
| Other cash provided (applied) | 140,872 | 15,653 | 31,601 |
| Net cash from financing and miscellaneous sources | 140,872 | (102,097) | 31,601 |
| **Reconciliation of cash and short-term investments:** | | | |
| Net change in cash and short-term investments | (7,448) | (804,816) | 1,555,256 |
| Cash and short-term investments: | | | |
| Beginning of the year | 886,133 | 1,690,949 | 135,693 |
| End of the year | $ 878,685 | $ 886,133 | $ 1,690,949 |

## SUMMARY OF EXAMINATION CHANGES

There have been no changes made to the Company's financial statements as a result of this examination.

## NOTES TO FINANCIAL ITEMS

### INVESTMENTS

As of December 31, 2013, the Company's invested assets were distributed as follows:

| | Amount | Percentage |
|---|---|---|
| Bonds | $ 6,004,351 | 78.6 % |
| Common stocks | 700,277 | 9.2 % |
| Cash, cash equivalents and short-term investments | 878,685 | 11.5 % |
| Receivables for securities | 51,399 | 0.7 % |
| Totals | $ 7,634,712 | 100.0 % |

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

| NAIC Designation | Amount | Percentage |
|---|---|---|
| 1 - highest quality | $ 5,651,687 | 89.2 % |
| 2 - high quality | 686,274 | 10.8 % |
| Totals | $ 6,337,961 | 100.0 % |

| Years to Maturity | Amount | Percentage |
|---|---|---|
| 1 year or less | $ 825,568 | 13.0 % |
| 2 to 5 years | 3,235,885 | 51.1 % |
| 6 to 10 years | 1,700,682 | 26.8 % |
| 11 to 20 years | 349,567 | 5.5 % |
| over 20 years | 226,259 | 3.6 % |
| Totals | $ 6,337,961 | 100.0 % |

The Company's bond portfolio is mainly concentrated in the following categories: U.S. special revenue 40.8%, U.S. government 25.3%, industrial and miscellaneous 20.3%, U.S. political subdivisions of states, territories and possessions 11.0% and U.S. states, territories and possessions 2.6%. Common stocks and Short-Term Investments consist entirely of various mutual funds, while cash is in various checking accounts.

At December 31, 2013, all securities owned by the Company, were held under a Custodian Agreement with Branch Banking and Trust Company ("BB&T"), a corporation established and organized under the laws of the State of North Carolina and dated January 13, 2014. The agreement was reviewed and found to be in compliance with most of the provisions of W. Va. Code §33-8A-6. However, W. Va. Code §33-8A-6 (b) requires that the agreement shall be authorized by a resolution of the board of directors of the insurance company or of an authorized committee of the board. A review of the board minutes did not provide evidence such a resolution.

It is recommended that the Company comply with W. Va. Code §33-8A-6 (b) by having the Board of Directors authorize approval by resolution of its Custodian Agreement with BB&T.

A copy of the Company's investment policy was provided during the course of the examination. According to the investment policy which was written and prepared by BB&T, BB&T shall have full investment authority and discretion to implement the written objectives of the Company. The investment policy is very broad and doesn't seem to contain the restrictions normally found in an investment policy of a property and casualty insurance company. W. Va. Code §33-8-23, 24, 26, 27, 28, 30 stipulate the types and limits of investments and investment practices permissible for a property and casualty insurance company. According to W. Va. Code §33-8-4(b), the board of directors shall adopt a written investment plan annually. A review of the board minutes did not evidence annual adoption of the investment policy.

It is recommended that the Company adopt a written investment policy in accordance with W. Va. Code §33-8-23, 24, 26, 27, 28, 30 that stipulate the types and limits of investments and further that said investment policy is reviewed and updated annually by the Board of Directors in accordance with W. Va. Code §33-8-4(b).

## LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves for unpaid losses and unpaid loss adjustment expenses of $2,187,739 and $667,267, respectively, on the December 31, 2013 annual statement.

John P. Booher, an Associate of the Casualty Actuarial Society, a Member of the American Academy of Actuaries and an associate with Actuarial/Insurance Consultants, Ltd. was the Company's appointed actuary. Mr. Booher concluded that the amounts carried in the balance sheet on account of the items identified above:

A. Meet the requirements of the insurance laws of the state of West Virginia.
B. Are computed in accordance with accepted actuarial standards and principles,
C. Make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

Lewis & Ellis, Inc. ("L&E") was retained by Cerebres, LLC to assist in the risk-focused financial examination of the Company as of December 31, 2013. Specifically, L&E was asked

to work on the Reserves portion of this examination. They worked with Cerebres to develop the Reserving Risk Assessment Matrix for the Company and then to perform Phase 5 work for the six (6) risks that had an Overall Inherent Risk Assessment of moderate or higher.

For these risks, L&E focused their review on the Actuarial Report supporting the 2013 Statement of Actuarial Opinion prepared by Mr. John P. Booher, ACAS, MAAA of Actuarial/Insurance Consultants, Ltd. ("AIC"), an actuarial consultant to the Company. In the report, Mr. Booher discusses the methodologies used to calculate the unpaid loss and loss adjustment expense liabilities for the Company.

L&E did not perform an independent estimate of the liabilities for the Company. Their work consisted of a review of Mr. Booher's report, including an assessment of the reasonableness of the methodologies and results. Based on the work performed by L&E, the reported amounts for unpaid losses and unpaid loss adjustment expenses are accepted for purposes of this examination report.

## SUBSEQUENT EVENTS

Subsequent to the period under examination, the Company filed for a 19% overall increase in private passenger auto coverage with an effective date of September 1, 2014 for new business and October 1, 2014 for renewal business in the state of Virginia. The Company also filed for a 4.7% overall increase in private passenger auto coverage with an effective date of December 1, 2014 in the state of West Virginia.

## RECOMMENDATIONS

### PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It was recommended that the Board of Directors officially approve and record in the meeting minutes any material items impacting the Company.
   The Company has complied with this recommendation.

2. It was recommended that the Company place the server in a location which is protected from environmental hazards and prohibits unauthorized access.
   The Company has complied with this recommendation.

3. It was recommended that the Company comply with the provisions of W.Va. Code §33-8-22(c) and submit the reconciliation and summary supplements.
   The Company has complied with this recommendation.

4. It was recommended that the Company develop parameters to be used in the development of passwords as well as ensure that all computer users have their own unique log in and password.
   The Company has complied with this recommendation.

## CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. It is recommended that the Company enter into a cost sharing agreement with WVANC that provides fair and reasonable terms in the settlement of its shared insurance policy for professional liability and directors and officer's liability in accordance with W. Va. Code §33-27-5 or operate under terms of the Commissioner approved cost sharing agreement dated September 11, 1998. It is further recommended that WVANC reimburse the Company for their fair share of the insurance premiums for the period under examination. (See "Service and Operating Agreements," page 5).

2. It is recommended that the Company comply with W. Va. Code §33-8A-6 (b) by having the Board of Directors authorize approval by resolution of its Custodian Agreement with Branch Banking and Trust Company. (See "Investments," page 15).

3. It is recommended that the Company adopt a written investment policy in accordance with W. Va. Code §33-8-23, 24, 26, 27, 28, 30 that stipulate the types and limits of investments and further that said investment policy is reviewed and updated annually by the Board of Directors in accordance with W. Va. Code §33-8-4(b). (See Investments," page 15).

## CONCLUSION

As a result of this examination, the financial condition of West Virginia National Auto Insurance Company, as of December 31, 2013, was determined to be as follows:

| | Amount | Percentage |
|---|---|---|
| Admitted assets | $ 10,211,766 | 100.0 % |
| Liabilities | $ 5,696,782 | 55.8 % |
| Capital and Surplus | 4,514,984 | 44.2 % |
| Total liabilities, capital and surplus | $ 10,211,766 | 100.0 % |

Since the previous examination, made as of December 31, 2010, the Company's assets decreased by $490,208, its liabilities decreased by $233,174, and its surplus decreased by $257,034.

## ACKNOWLEDGEMENT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the West Virginia Offices of the Insurance Commissioner. The undersigned, assisted by John Ware, CISA and Scott Langstein, CISA and Justin Parr, APIR of the West Virginia Offices of the Insurance Commissioner, performed an examination of West Virginia National Auto Insurance Company as of December 31, 2013.

The examination was performed in accordance with those procedures authorized by the NAIC Financial Condition Examiner's Handbook and other procedures appropriate for this examination. The attached report of examination is a true and complete report of financial condition of West Virginia National Auto Insurance Company as of December 31, 2013 as determined by this examination.

Dennis A Mavrich

Dennis A. Mavrich CFF, Cerebres, LLC
Examiner-in-Charge
On behalf of the West Virginia Offices of the Insurance Commissioner

Under the Supervision of,

J Leah Cooper, CPA, CFE

Leah Cooper, CPA, CFE
Director/Chief Examiner
West Virginia Insurance Commission

STATE OF WEST VIRGINIA
Offices of the Insurance Commissioner
EARL RAY TOMBLIN
Governor

MICHAEL D. RILEY
Insurance Commissioner

**CERTIFIED MAIL: 7012 2920 0001 7714 1257**

November 24, 2014

Mr. James W. Buchanan, Jr., President
West Virginia National Auto Insurance Company
330 Scott Avenue, Suite 2
Morgantown, West Virginia 26508

RE: Report of Financial Examination, as of December 31, 2013
NAIC #: 10911 WV File #: D036

Dear Mr. Buchanan:

Please find enclosed a copy of the Report of Examination of West Virginia National Auto Insurance Company. This examination was performed in accordance with the provisions of Chapter 33, Article 2, Section 9 of the West Virginia Code of 1931, as amended. The Report reflects the financial affairs and condition of West Virginia National Auto Insurance Company, as of December 31, 2013.

You are hereby notified that you have thirty (30) days from receipt of this letter to make written submission or rebuttals with respect to any matter contained in the Report of Examination. If an exception is taken, it must be filed with this Department during the statutory time period.

Sincerely,

Michael D. Riley
Insurance Commissioner

MDR/bg

Enclosure: Copy of Report of Financial Examination

# West Virginia National Auto Insurance Company, Inc.

330 Scott Avenue • Suite 2
Morgantown, WV 26508-8804
Phone 304/296-0507 • Fax 304/296-3425


December 19, 2014

Michael D. Riley, Insurance Commissioner
Offices of the Insurance Commissioner
Financial Conditions
P.O. Box 50540
Charleston, WV 25305-0540

Re: Report of Examination as of December 31, 2013
NAIC #10911 WV File # D036

Dear Commissioner Riley:

In response to your letter, dated November 24, 2014, we offer the following corrective actions related to the findings in the above referenced report:

Finding # 1 – Cost Sharing Agreement

We agree with this finding. Effective December 1, 2014, we entered into a Cost Sharing Agreement with WVA National Company, LLC (WVANC). This agreement provides fair and reasonable terms in the settlement of all shared expenses, including insurance premiums. We will also ensure that WVNAC reimburses the Company for their fair share of the insurance premiums for the period under examination.

Finding # 2 – Board Approval of our Custodian Agreement

We agree with this finding. At our December 18, 2014 Board meeting, our Board of Directors reviewed and authorized approval of our Custodian Agreement with Branch Bank and Trust Company.

Finding # 3 – Board Review, Update and Approval of our Investment Policy

We agree with this finding. At our December 18, 2014 Board meeting, our Board of Directors reviewed and approved our Investment Policy. We have added this procedure to our Board meeting checklist to ensure that our Investment Policy is reviewed, updated and approved every year.

If you have any questions or need any additional information, please do not hesitate in contacting me immediately.

Sincerely,

James W. Buchanan, Jr.
President/CEO

EXHIBIT
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