

**PROCEEDINGS BEFORE ALLAN L. McVEY
INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA**

IN RE: WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY

Administrative Proceeding No.: 18-AP-FINCON-02007

**AGREED ORDER ADOPTING REPORT OF FINANCIAL
EXAMINATION AND DIRECTING ACTION**

COMES NOW Allan L. McVey, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Financial Examination as of December 31, 2017, of WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY (hereinafter referred to as “Company”) based upon the following findings, to wit:

JURISDICTION

1. Allan L. McVey 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.

2. The Company was incorporated on April 29, 1998 by a group of investors who formed WVA National Company, LLC (WVALLC), the parent company, in 1997 with the sole purpose of forming a wholly-owned licensed insurance stock company subsidiary. The Company commenced business on June 1, 1998 and wrote non-standard auto exclusively.

Milan Puskar, former majority shareholder, transferred his ownership interest in WVALLC and its subsidiaries to James Buchanan, Jr., through the execution of a Sales Agreement between James Buchanan, Jr., and the Milan Puskar Revocable Trust. The sales agreement was executed on April 29, 2011 with a Promissory Note between Mr. Buchanan and the Milan Puskar Revocable Trust. The execution of the Sales Agreement and Promissory Note resulted in James Buchanan, Jr., becoming majority shareholder of WVALLC holding a 75.2% voting interest. The remaining voting interest are held by various other investors

The Company was approved to write Fire policies in 2004 in West Virginia ("WV") but did not begin to offer Fire policies until 2007. Due to the unprofitability of this line of business the Company sold the entire block of business to Inland Mutual Insurance Company in 2012.

The Company expanded their operations into the state of Virginia in 2010, writing private passenger auto liability and auto physical damage. The Company exhibited rapid growth soon after the expansion. However, due to inadequate rates and poor agency management, with adverse selection, the expansion into Virginia became unprofitable. The Company was unable to recover through rate increases and fell below the Virginia required surplus amounts, resulting in the Company voluntarily surrendering its license to do business in the state of Virginia in February of 2016.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2014 and ending December 31, 2017, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On November 9, 2018, the examiner filed a Report of Financial Examination with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the Report of Financial Examination is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about November 9, 2018, a true and accurate copy of the Report of Financial Examination was forwarded to the Company via certified mail.

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 of the Report of Financial Examination within which to make a submission, rebuttal, or objection concerning any matter contained in the report.

5. By letter dated November 12, 2018, the Company indicated that it had reviewed the Report of Financial Examination and concurred with the findings set forth therein. A copy of the Company's letter is attached hereto as Exhibit B.

CONCLUSIONS OF LAW

1. W.Va. Code § 33-2-9(j)(2) provides that no later than sixty (60) days following completion of the examination, the examiner in charge shall file with the Insurance Commissioner a verified, written Report of Financial Examination under oath and, upon receipt of the verified report, the Insurance Commissioner shall transmit the Report of Financial Examination to the Company with a notice that shall afford the Company a reasonable opportunity of not more than thirty (30) days to make a written submission or rebuttal.

2. W.Va. Code § 33-2-9(j)(3) provides that within thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals the Insurance Commissioner shall fully consider and review the Report of Financial Examination, together with any written submissions or rebuttals and shall enter an ORDER adopting the Report of Financial Examination as filed or with modifications or corrections, enter an ORDER rejecting the Report of Financial Examination with directions to the examiners to reopen the examination or call for an investigatory hearing.

ORDER

Accordingly, it is therefore AGREED by the Parties and ORDERED as follows:

1. That the Report of Financial Examination of the Company, attached hereto as Exhibit A, is ADOPTED and APPROVED by the Insurance Commissioner.

2. That a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action and the Report of Financial Examination shall be mailed to the Company, via certified mail, return receipt, upon entry 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 Report of Financial Examination and a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action in accordance with

W.Va. Code § 33-2-9(j)(4).

4. That the Company take whatever actions are required to comply with the recommendations set forth in the Report of Financial Examination, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.

5. That the Company waives any right to any notice, administrative hearing or appeal therefrom for the actions taken by the Insurance Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action. 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 this matter be dismissed from the administrative docket of the Insurance Commissioner.

Entered this 20th day of November, 2018.


Allan L. McVey
Insurance Commissioner

THE PARTIES DO SO AGREE:
State of West Virginia, Offices of the Insurance Commissioner

By: 
Greg Elam,
Deputy General Counsel

Date: 11/15/18

West Virginia National Auto Insurance Company, Inc.

By: James W. Buchanan, Jr.
[Print Name]

Signed: 

Its: President + CEO

Dated: 11/15/2018



STATE OF WEST VIRGINIA

Offices of the Insurance Commissioner

ALLAN L. McVEY
Insurance Commissioner

CERTIFIED MAIL: 7014 2120 0001 3016 6651

November 9, 2018

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

RE: Report of Financial Examination as of December 31, 2017
NAIC: #10911

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, 2017.

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. If no exception is taken, please respond accordingly by the end of the thirty (30) day comment period.

Sincerely,

Allan L. McVey
CPCU, ARM, AAI, AAM, AIS
Insurance Commissioner

ALM/jot

Enclosure: Copy of Report of Financial Examination



REPORT OF EXAMINATION
OF
WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY
MORGANTOWN, WV
NAIC #10911
AS OF DECEMBER 31, 2017



TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION	2
SUMMARY OF SIGNIFICANT FINDINGS	2
HISTORY.....	3
MANAGEMENT AND CONTROL	4
BOARD OF DIRECTORS.....	4
OFFICERS	5
ORGANIZATIONAL CHART.....	5
AGREEMENTS	6
TERRITORY AND PLAN OF OPERATION.....	6
GROWTH OF COMPANY	6
REINSURANCE.....	7
FINANCIAL STATEMENTS	8
ASSETS	9
LIABILITIES, SURPLUS AND OTHER FUNDS	10
STATEMENT OF INCOME	11
SUMMARY OF EXAMINATION CHANGES.....	12
SUMMARY OF EXAMINATION RECOMMENDATIONS	12
ACKNOWLEDGEMENT AND SIGNATURE	13

SALUTATION

November 9, 2018
Charleston, West Virginia

The Honorable Allan L. McVey
West Virginia Insurance Commissioner
900 Pennsylvania Ave.
Charleston, West Virginia 25302

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner ("WVOIC"), as well as rules, regulations and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), an examination has been made of the administrative affairs, books, records, and financial condition of:

West Virginia National Auto Insurance Company
330 Scott Avenue, Suite 2
Morgantown, WV 26508

hereinafter referred to as the "Company" or "WVNAIC". The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined, as of December 31, 2013. This examination commenced on May 15, 2018 and is a full scope, four (4) year examination pursuant to W.Va. Code §33-2-9(a), as amended, covering the period from January 1, 2014 through December 31, 2017, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Company and set forth findings of fact (together with citations of pertinent laws, regulations and rules) with regard to any material adverse findings disclosed by the examination.

The general procedures of the examination followed rules and standards as set forth in the NAIC Financial Condition Examiners Handbook ("Handbook") and West Virginia Laws, Regulations, and Directives of the WVOIC. The examination was conducted to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company and evaluating system controls and procedures used to mitigate those risks. In addition, the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statements of Statutory Accounting Principles ("SSAP") and annual statement instructions were assessed.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Accordingly, planning materiality and tolerable error thresholds were based on professional judgment after considering the nature of the business written by the Company, operating results, and the Company's financial position as of December 31, 2017.

The report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were discussed with responsible Company officials during the course of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

As a result of the current examination period and review of the subsequent events, the following findings were noted:

The Company is not in compliance with SSAP No. 53 Property and Casualty – Premiums. The Company reported as current earned premium, premium payments received for policies that were cancelled for non-payment in prior years.

HISTORY

WVNAIC was incorporated on April 29, 1998 by a group of investors who formed WVA National Company, LLC (WVALLC), the parent company, in 1997 with the sole purpose of forming a wholly-owned licensed insurance stock company subsidiary. The Company commenced business on June 1, 1998 and wrote non-standard auto exclusively.

Milan Puskar, former majority shareholder, transferred his ownership interest in WVALLC and its subsidiaries to James Buchanan, Jr. through the execution of a Sales Agreement between James Buchanan, Jr. and the Milan Puskar Revocable Trust. The sales agreement was executed on April 29, 2011 with a Promissory Note between Mr. Buchanan and the Milan Puskar Revocable Trust. The execution of the Sales Agreement and Promissory Note resulted in James Buchanan, Jr. becoming majority shareholder of WVALLC holding a 75.2% voting interest. The remaining voting interests are held by various other investors.

The Company was approved to write Fire policies in 2004 in West Virginia ("WV") but did not begin to offer Fire policies until 2007. Due to the unprofitability of this line of business the Company sold the entire block of business to Inland Mutual Insurance Company in 2012.

The Company expanded their operations into the state of Virginia in 2010, writing private passenger auto liability and auto physical damage. The Company exhibited rapid growth soon after the expansion. However, due to inadequate rates and poor agency management, with adverse selection, the expansion into Virginia became unprofitable. The Company was unable to recover through rate increases and fell below the Virginia required surplus amounts, resulting in the Company voluntarily surrendering its license to do business in the state of Virginia in February of 2016.

Capitalization

As of the examination date, December 31, 2017, WVNAIC's total capital and surplus was reported at \$2,299,391. It consisted 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 and outstanding, amounting to \$1,000; \$1,999,000 gross paid in and contributed surplus, and (\$700,609) in unassigned funds.

Dividends to Stockholder

There were no dividends paid to stockholders during the period under examination.

Significant changes in key trends

The underwriting ratios summarized below are on an earned/incurred basis for the four-year period covered by this examination (000 omitted).

	2017		2016		2015		2014	
Premiums earned	\$5,523	100%	\$4,131	100%	\$5,087	100%	\$6,206	100%
Losses incurred	3,606	65%	2,934	71%	4,264	84%	4,184	67%
LAE incurred	734	13%	929	22%	997	20%	825	13%
Other UW expenses incurred	1,827	33%	1,409	34%	1,624	32%	1,997	32%
Net UW gain/(Loss)	(645)	(12)%	(1,142)	(28)%	(1,798)	(35)%	(800)	(13)%

The Company reported the following net underwriting, investment, other income and net income/(loss) during the period under examination:

	2017	2016	2015	2014
Admitted Assets	\$5,999,579	\$6,391,755	\$8,400,624	\$10,237,534
Liabilities	\$3,700,188	\$3,705,496	\$4,874,779	\$5,704,739
Capital and Surplus Funds	\$2,299,391	\$2,686,259	\$3,525,845	\$4,532,795
Net Premium Earned	\$5,522,750	\$4,130,528	\$5,087,038	\$6,206,018
Total UW Deductions	\$6,167,745	\$5,272,028	\$6,884,905	\$7,006,169
Net Investment Gain	\$109,878	\$106,266	\$139,591	\$158,881
Other Income	\$222,909	\$298,025	\$505,224	\$654,738
Net Income/(Loss)	(\$312,208)	(\$737,209)	(\$1,153,052)	\$13,468

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The corporate powers of the Company are vested in the Board of Directors consisting of not less than five (5) nor more than nine (9) members in compliance with Article III, Section 1(c)(ii) of the Company's Bylaws and in compliance with W. Va. Code §33-5-3. The individuals serving as members of the Board of Directors on December 31, 2017 were as follows:

Name and Address	Business Affiliation	Board Member Since
James Buchanan, Morgantown, WV	President/CEO, WV National Auto Insurance Company	1998
George W. Marshall Morgantown, WV	President, Petitto Mine Equipment	2014
William B. Kania Uniontown, WV	Sr. Partner, W.B. Kania & Associates	2005
David Maynard Key West, FL	Retired	1998
Parry Petroplus Morgantown, WV	President, Petroplus & Associates	2010

OFFICERS

The Board of Directors shall elect the officers of the corporation annually at the third meeting of the Board of Directors that is held after each annual meeting of the shareholders. At this meeting, the Board is required to elect a President, Secretary and Treasurer. Elected officers may hold more than one office, provided the President and Secretary cannot be the same person. Officers elected at the December 14, 2017 Board of Directors Meeting and serving as of December 31, 2017, were as follows:

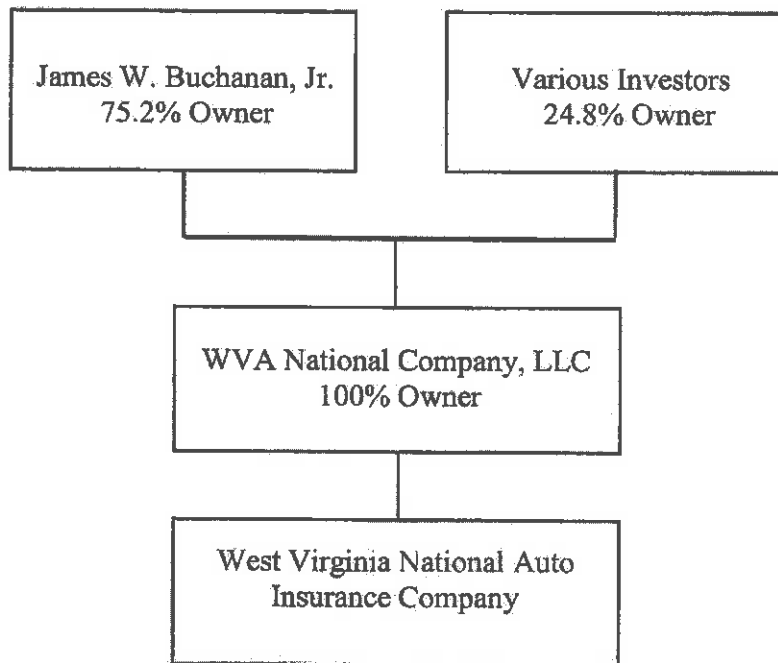
Name	Title
James Buchanan	President/CEO
David Rimmells	CFO, Treasurer and Secretary

COMMITTEES

The Bylaws require no formal committees. However, the Company does informally operate utilizing an Audit Committee, Executive Committee and Compensation Committee.

ORGANIZATIONAL CHART

At December 31, 2017, the following entities were the members of the holding company group.



AGREEMENTS

Computer Processing Services Agreement – On January 15, 1999 WVNAIC entered into a service agreement with WVALLC. WVALLC provides computer software, processing, maintenance and future upgrades necessary to process information for insurance underwriting, claims, accounting and statutory reporting requirements. Services are provided at the rate of 2% of direct written premiums each month. This agreement was approved by the WVOIC in accordance with West Virginia Insurance Holding Company Systems Act, W. Va. Code §33-27-1, et seq.

Expense Sharing Agreement - On December 1, 2014 WVNAIC entered into a cost sharing agreement with WVALLC which allocates costs between the affiliates in accordance with SSAP No. 70. Direct costs incurred are billed to the specific company, indirect costs are allocated according to the benefit the company receives as determined by management.

TERRITORY AND PLAN OF OPERATION

The Company writes non-standard auto coverage in West Virginia. The Company is also licensed in Virginia; however, its license was voluntarily suspended in February of 2016, as the Company fell below Virginia's capital requirement of \$4 million.

The Company markets its products through independent agents located throughout West Virginia. The Company has no branch offices. All underwriting, claims handling and administrative functions are handled at the home office. The Company contracts with approximately 209 independent agencies.

GROWTH OF COMPANY

The following amounts represent growth of the Company and other financial comparisons for the years under examination.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Direct Premiums Written	\$6,969,160	\$6,227,254	\$9,040,248	\$12,680,900
Ceded Premiums Written	\$1,395,888	\$2,479,655	\$2,519,324	\$6,344,548
Net Premiums Written	\$5,573,272	\$3,747,599	\$4,520,924	\$6,336,352
Net Income	(\$312,208)	(\$737,209)	(\$1,153,052)	\$13,468
Total Net Assets	\$5,999,579	\$6,391,755	\$8,400,624	\$10,237,534
Total Liabilities	\$3,700,188	\$3,705,496	\$4,874,779	\$5,704,739
Policyholders Surplus	\$2,299,391	\$2,686,259	\$3,525,845	\$4,532,795

REINSURANCE

The Company currently cedes 20% of its business under a quota share agreement with Maiden Reinsurance North America, Inc. and receives a 30% provisional ceding commission. Prior to August 31, 2016 the Company had a quota share agreement with Swiss Reinsurance America Corporation, wherein it ceded 50% of its business and received a 30% provisional ceding commission. Both reinsurers are licensed and authorized in the state of West Virginia.

The Company does not assume any reinsurance.

FINANCIAL STATEMENTS

The statements on the following pages present the financial condition and operations of the Company for the period under examination. The amounts shown on the balance sheet are those determined by this examination.

ASSETS
DECEMBER 31, 2017

Bonds	\$4,733,366
Cash and Cash Equivalents	269,572
Investment Income Due and accrued	42,897
Uncollected premiums and agents balances in course of collection	472,336
Amounts recoverable from reinsurers	139,797
Net deferred tax asset	<u>341,611</u>
Total Admitted Assets	<u>\$5,999,579</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2017**

Losses	\$2,086,086
Loss adjustment expenses	410,376
Commissions payable, contingent commissions and other similar charges	161,078
Other expenses	35,672
Taxes, licenses and fees	16,749
Unearned premium	672,746
Advance premium	67,212
Ceded reinsurance premiums payable (net of ceding commission)	70,905
Amounts withheld or retained by company for account of others	7,091
Payable to parent, subsidiaries and affiliates	10,109
Aggregate write-ins for liabilities	<u>162,164</u>
Total Liabilities	\$3,700,188
Common capital stock	\$1,001,000
Gross paid in and contributed surplus	1,999,000
Unassigned funds (surplus)	<u>(700,609)</u>
Surplus as regards policyholders	\$2,299,391
Total Liabilities, Surplus and Other Funds	<u>\$5,999,579</u>

**STATEMENT OF INCOME
DECEMBER 31, 2017**

Premiums earned	\$ 5,522,750
Losses incurred	\$ 3,606,403
Loss adjustment expenses incurred	734,226
Other underwriting expenses incurred	<u>1,827,116</u>
Total underwriting deductions	\$ 6,167,745
Net underwriting gain (loss)	(\$ 644,995)
Net investment income earned	\$ 88,293
Net realized capital gains (losses)	<u>21,585</u>
Net investment gain (loss)	\$ 109,878
Net gain (loss) from agent's or premium balances charged off	\$ 14,736
Finance and service charges not included in premiums	206,048
Aggregate write-ins for miscellaneous income	<u>2,125</u>
Total other income	\$ 222,909
Net income before taxes	(\$ 312,208)
Federal and foreign income taxes incurred	-0-
Net Income	<u>(\$ 312,208)</u>

SUMMARY OF EXAMINATION CHANGES

No adjustments were made to the Company's financial statements as a result of this examination:

SUBSEQUENT EVENTS

There were no findings noted during the completion of the standard subsequent events procedures as part of the financial examination. The WVA National Company, LLC, immediate parent, formed a new subsidiary named WV National Insurance Agency, LLC in January of 2018.

SUMMARY OF EXAMINATION RECOMMENDATIONS

As a result of the traditional scope financial examination, the following recommendations are made:

The Company should ensure it is in compliance with SSAP No. 53, Property and Casualty Premiums, regarding the recognition of premiums in the proper period.

ACKNOWLEDGEMENT AND SIGNATURE

This is to certify that the undersigned is a duly qualified Examiner appointed by the West Virginia Offices of the Insurance Commissioner. The undersigned, assisted Barbara A. Bartlett, CPA, MBA, CFE, Andrew Chandler, ACAS, MAAA, Actuary, Jan Moenck, Partner of Risk & Regulatory Consulting, LLC, William O'Connell, CPA, CFE, CFE(fraud), CIA of Noble Consulting Services, Inc. and by Jamie Taylor, CFE, of the West Virginia Offices of the Insurance Commissioner, performed an examination of West Virginia National Auto Insurance Company as of December 31, 2017.

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, 2017 as determined by this examination

Respectfully Submitted,



Barbara A. Bartlett, CPA, CFE

Manager

Risk & Regulatory Consulting, LLC

Representing the WV Offices of the Insurance Commissioner



Jamie Taylor, CFE

Director / Chief Financial Examiner

Financial Conditions Division

WV Offices of the Insurance Commissioner



West Virginia National Auto Insurance Company, Inc.

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

November 12, 2018

Allan McVey, 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, 2017
NAIC #10911

Dear Commissioner McVey:

In response to your letter, dated November 9, 2018, we offer the following corrective action related to the finding in the above referenced report:

Finding # 1 – Premium Recognition

We agree with this finding. Effective January 1, 2019, we will implement new procedures related to the write off and collection of uncollected earned premiums to ensure that we are in compliance with SSAP No. 53, Property and Casualty Premiums, regarding recognition of premiums in the proper period.

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

Sincerely,

A handwritten signature in black ink that reads "James W. Buchanan, Jr." with a stylized flourish at the end.

James W. Buchanan, Jr.
President/CEO

