

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

After full consideration and review of the report of the financial examination of Traders Insurance Company for the period ended December 31, 2017, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, corporate history, corporate records, management and control, territory and plan of operation, reinsurance, financial statements, financial statement changes resulting from examination, comments on financial statement items, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Traders Insurance Company as of December 31, 2015 be and is hereby ADOPTED as filed and for Traders Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 15th day of June, 2017.

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration



**REPORT OF THE
FINANCIAL EXAMINATION OF
TRADERS INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2015**

FILED
JUN 26 2017
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

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Kansas City, MO
April 14, 2017

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Director Lindley-Myers:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Traders Insurance Company

hereinafter referred to as such, as TIC, or as the Company. Its main administrative office is located at 9300 Troost Avenue, Kansas City, MO 64131. The fieldwork for this examination began on November 14, 2016, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) has completed its multi-state examination of Traders Insurance Company. The last examination covered the period of January 1, 2009 through December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2015, including the material transactions and/or events occurring subsequent to December 31, 2015 as well.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the

course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examination relied heavily upon information provided by the Company and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Company's independent auditor, Johnson Lambert & Co., LLP of Jacksonville, FL for its audits covering the period from January 1, 2014 through December 31, 2014 and January 1, 2015 through December 31, 2015. Information relied upon included fraud risk analysis, attorney letters, narrative descriptions of processes, and control and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

During the latter part of 2016, TIC began writing a new line of business – The Renters Value Plan, which offers renters insurance utilizing its current distribution system. The Renters Value Plan provides coverages for personal property and contents, theft, additional living expenses, and liability.

CORPORATE HISTORY

General

Traders Insurance Company was incorporated on December 12, 1980, as a stock casualty insurance company under the insurance laws of Section 379 RSMo (Insurance other than life), and commenced business effective July 7, 1982. The Company is wholly owned by Traders General Agency, Inc. (TGA), which is exclusively owned by The Concannon Family. Prior to March 5, 2009, The Concannon Family consisted of Mark and Lorie Concannon, Patrick and Tracey Concannon, Timothy Hatfield, Raeann Hatfield, the Trustees of the Barbara Concannon Trust, and the Trustees of the Bernard Concannon Jr. Trust. Effective March 5, 2009, TGA redeemed 250 shares of Timothy and Raeann Hatfield. This resulted in Mark and Lorie Concannon holding a majority of stock at 52.7%; however, the remaining parties are to have equal voting rights per a shareholder voting agreement filed with the DIFP.

Capital Contributions

During 2012, TGA secured a \$2 million loan from Enterprise Bank and used the Stock of Traders Insurance Company to secure the loan. \$1.3 million of the loan proceeds was contributed to TIC to address leverage issues. The remaining proceeds were used to pay off a note to Timothy and Raeann Hatfield tied to the purchase of their TIC stock.

On December 20, 2015, TIC issued a surplus note to TGA in the amount of \$2,000,000. The terms of the note include a fixed interest rate of 3.3% and a term of three years, with annual payments of accrued interest and one-third of the original principal amount payable on the 1st of January of each year, beginning in 2017. The DIFP issued approval of the surplus note on January 8, 2016.

Dividends

The Company paid one dividend to its stockholders during the examination period, an ordinary dividend in the amount of \$750,000, which was paid in 2014. This dividend was approved by the Board of Directors prior to payment. No other dividends were paid during the examination period.

Mergers and Acquisitions

No mergers or acquisitions occurred during the examination period.

CORPORATE RECORDS

A review was made of the Company's Articles of Incorporation and Bylaws for the period under examination. In 2015, an amendment was made to the Articles of Incorporation which changed the address of its registered office in Missouri from 8916 Troost Avenue, Kansas City, Missouri 64131 to 9300 Troost Avenue, Kansas City, Missouri 64131. No amendments to the Bylaws were made during the examination period.

The meeting minutes of the Company's Shareholders, Board of Directors, and Audit Committee were reviewed, and, in general, appear to properly reflect and approve the corporate transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

TIC's Bylaws state that the number of directors shall not be less than nine or more than fifteen. The Directors elected and serving as of December 31, 2015, were as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation and Business Affiliation</u>
Mark C. Concannon	Kansas City, MO	President and CEO Traders Insurance Company
Patrick J. Concannon	Kansas City, MO	Executive Vice President, COO and, Secretary Traders Insurance Company
Barbara J. Concannon	Kansas City, MO	Vice President/Treasurer Traders Insurance Company
Michael F. Concannon	Louisiana, MO	Retired Michael F. Concannon, Inc.
Jeremiah H. Concannon	St. Louis, MO	Retired Health Benefits Services of St. Louis, Inc.
Donald C. Daniels	Kansas City, MO	Retired Davidson-Babcock, Brokerage/Agency
Mary M. McCalla	Kansas City, MO	Field Accountant USDA
James A. Hezel	New Braunfels, TX	President Hezel Search Consultants
Andrew D. Jamieson	Kansas City, MO	Retired Vice President of Claims Traders Insurance Company

Committees

The Company's Bylaws allow the Board to establish an executive committee and other committees passed by the majority Board resolution. As of December 31, 2015, the Company has an Audit Committee consisting of all the above Board members with the exception of the President, Mark Concannon.

Senior Officers

The Company's Bylaws state that officers of the Company shall consist of a president, one or more vice presidents, a secretary, and a treasurer who are elected annually by the Board of Directors. Any two or more offices may be held by the same individual except the offices of President and Secretary. The officers elected and serving as of December 31, 2015, were as follows:

<u>Name</u>	<u>Title</u>
Mark C. Concannon	President & Chief Executive Officer
Patrick J. Concannon	Executive Vice President, Chief Operating Officer, & Secretary
Barbara J. Concannon	Vice President/Treasurer

Holding Company, Subsidiaries and Affiliates

Traders Insurance Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). Insurance Company Registration Statements were filed by the Company during each of the years under examination.

TIC is wholly owned by Traders General Agency, Inc., a Missouri corporation. As of December 31, 2015, TGA was owned by the following individuals and entities: Mark and Lorie Concannon, 395 shares or 52.7%; Patrick and Tracey Concannon, 200 shares or 26.7%; Barbara Concannon Revocable Trust, 128 shares or 17%; and Bernard Concannon Jr. Trust, 27 shares or 3.6%.

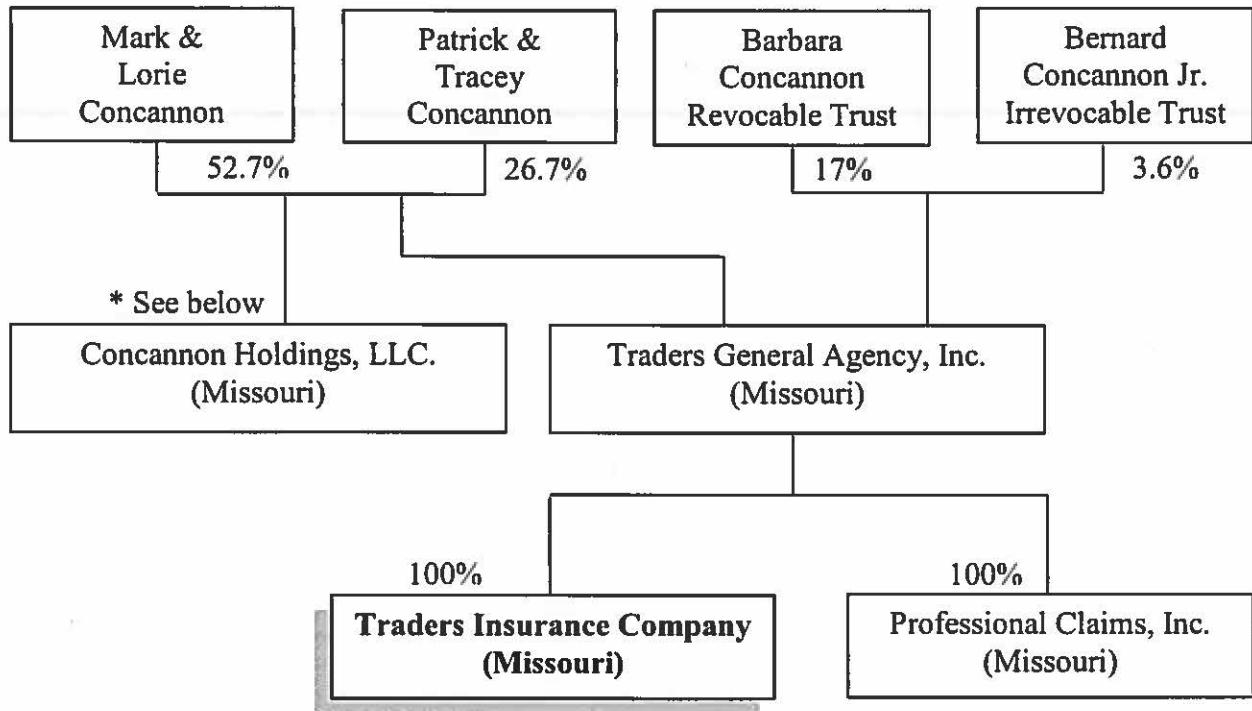
By virtue of the percentage ownership interest in TGA, Mark and Lorie Concannon are effectively the ultimate controlling persons of both TGA and TIC; however, the shareholders entered into a Shareholder Voting Agreement creating an equal one-third controlling interest to prevent a greater voting interest for any shareholder regardless of the amount of shares owned. Subsequently, no one shareholder, person, or entity is deemed the ultimate controlling person of TGA or TIC.

TGA is also the sole owner of Professional Claims, Inc. (PCI), a property and casualty claims adjustment company. TIC has a claims management agreement with PCI which delegates the authority to manage claims made under policies issued by TIC. There were no fees paid to PCI during the examination period.

Mark and Lorie Concannon and Patrick and Tracey Concannon also equally share ownership of Concannon Holdings (CHLCC), a Missouri limited liability company formed in February of 2015. CHLCC owns the office building utilized by TIC and TGA for operations, and both TIC and TGA have a lease agreement with CHLCC. As CHLCC shares common ownership with TIC's parent, TGA, CHLCC is considered a related party of TIC.

Organizational Chart

The following organizational chart depicts the ownership and holding company structure of Traders Insurance Company, as of December 31, 2015.



* Note = Concannon Holdings, LLC is equally owned by Mark and Lorie Concannon and Patrick and Tracey Concannon. Neither of the Concannon Trusts (Barbara nor Bernard) have any ownership interest in CHLLC.

Intercompany Transactions

TIC has the following agreements with its affiliated companies:

1. Type: Management Agreement

Parties: TIC and TGA

Effective: September 1, 1990, amended August 1, 2013

Terms: TIC appointed TGA to supervise and conduct the writing of private-passenger automobile insurance within specified underwriting guidelines. TGA has authority to appoint or remove local agents and solicit applications. TIC maintains the right to cancel or refuse to renew any policy produced or underwritten by TGA. TIC is to pay TGA compensation for the cost of commissions paid to

independent agents and 100% of premium billing fees up to an amount equal to the direct costs of providing services to TIC.

2. Type: Expense Sharing Agreement

Parties: TIC, TGA, and PCI

Effective: April 1, 2001, amended January 1, 2010

Terms: Expenses that benefit TIC and its affiliates are allocated equally, such as salaries for senior management and accounting and information systems expenses. Pricing/statistical services, marketing services, underwriting reports, and software related to product management are 100% allocated to TGA. Claims services, licensing, premium taxes, other insurance department taxes and fees, actuarial expenses, DIFP audit expenses, and the eFreedom Annual Statement software are 100% allocated to TIC. There is to be an accounting of the transactions covered by the agreement not less than quarterly. Any party owing money as of the accounting date shall pay a balance due from that party to any other party with a credit balance.

3. Type: Lease (Sub-Lease) Agreement

Parties: TIC and TGA

Effective: January 1, 2003, amended October 16, 2008; Replaced by the 2016 Lease Agreement below

Terms: TIC agrees to sub-lease office space for its home office from TGA. Rent is based on the lease costs to TGA and the amount of space utilized by TIC. The rent due to TGA is \$9.45 per square foot on an annual basis for 6,191 square feet, for an annual rent of \$58,500 for TIC.

4. Type: Lease Agreement

Parties: TIC and CHLCC

Effective: January 1, 2016

Terms: TIC agrees to lease office space for its home office from Concannon Holdings, LLC. Mark Concannon and Patrick Concannon are the sole owners of Concannon Holdings, LLC. The terms include an annual base lease amount of \$279,186 plus an additional rent for TIC's percentage of operating and maintenance expenses that are in excess of \$8.00 per square foot with certain limitations. The base lease amount is calculated based on TIC having 100% direct utilization of 7,567 square feet plus an additional 7,943 square feet of shared and common space with the

parent company and a non-affiliated entity for total TIC square footage of 15,510. The lease agreement is for a five-year term.

5. Type: Claims Management Agreement

Parties: TIC and PCI

Effective: September 1, 1990, amended effective January 1, 1995

Terms: PCI provides claims management and adjusting services to TIC. Fees for loss adjusting expenses are to be determined based on the time and expenses allocated to each claim file for adjustment services per a fee schedule contained in the agreement. *It should be noted that the fees section of this agreement is currently inactive as the fees associated with the agreement are determined under the provisions of the Expense Sharing Agreement described in Item #2 above.*

6. Type: Tax Sharing Agreement

Parties: TIC, TGA, PCI

Effective: October 16, 2008 to December 31, 2015
(Terminated September 2015 due to TGA change in tax status)

Terms: The agreement requires all member companies to file a consolidated tax return. Tax liabilities of the group are allocated on a proportional percentage of the total tax had the returns been completed separately. The tax liability for any member shall not exceed that member's tax liability if such member were filing a separate standalone return. If any member must pay an excess amount, it will be allocated back to those members to whom it is attributable.

TERRITORY AND PLAN OF OPERATIONS

Traders Insurance Company is licensed in Missouri under Section 379 RSMo (Insurance other than life), to write the business of property and casualty insurance. As of December 31, 2015, the Company was also licensed in the states of Arizona, Arkansas, Florida, Indiana, Iowa, Kansas, Kentucky, Nebraska, New Mexico, Oklahoma, and Wisconsin.

The Company writes non-standard private passenger automobile liability and property damage coverage in Arkansas, Missouri, Kansas, and Oklahoma. Oklahoma, Missouri, and Kansas comprise the majority of the Company's direct written premiums with 44%, 27%, and 18% respectively. Private-passenger automobile liability coverage represented 81% of direct written premiums in 2015. In 2016, Company began writing a renters insurance program which is reported under the Fire line of business on the Annual Statement. Written premiums related to this program were approximately \$19,000 in 2016, which represented less than one-half of a percent of total written premium in 2016. See the Subsequent Event section of this report for more details.

TIC markets its business through independent agencies. The Company's parent, TGA, contracts with and supervises third-party independent agents on behalf of the Company, in addition to marketing and premium processing services for the Company. The renters program will be administered by Hanover Services Company, the management affiliate of Hanover Fire and Casualty Insurance Company, with which TIC partnered to develop the new renters product.

REINSURANCE

General

The Company's reinsurance and premium activity during the period under examination is as follows:

	2012	2013	2014	2015
Direct Premium	\$ 26,121,701	\$ 35,461,570	\$ 48,143,366	\$ 61,063,056
Assumed Premium	-	-	-	-
Ceded Premium	(166,505)	(2,670,863)	(7,334,032)	(9,312,959)
Net Written Premium	\$ 25,955,196	\$ 32,790,707	\$ 40,809,334	\$ 51,750,097

Assumed

The Company did not assume any premiums during the period under examination.

Ceded

Effective July 1, 2010, the Company terminated a private passenger automobile quota share reinsurance contract in place with Dorinco Reinsurance Company (Dorinco) since June 1, 2004. The Company continued to retain all business until August 1, 2013, at which point it entered into a new quota share agreement with Dorinco whereby it ceded 15% of all net liability, subject to maximum underlying policy limits. The agreement provided for the Company to receive a provisional ceding commission equal to 25% of net written premium, subject to adjustment depending on the actual loss ratio of the business ceded for each underwriting year. The agreement also contained an indefinite termination clause; however, either party had the right to terminate at December 31, 2015 or any December 31 thereafter by giving prior written notice. Effective December 31, 2015, the Company elected to terminate the agreement on a run-off basis.

Subsequent to the examination date, the Company obtained similar quota share reinsurance coverage through Greenlight Reinsurance, Ltd (Greenlight Re), a reinsurer based in the Cayman Islands. Under this agreement, effective August 1, 2016 through July 31, 2017, TIC cedes 15% of interests and liabilities (subject to maximum underlying policy limits), with a ceding commission allowance of 22% of ceded premiums. As Greenlight Re is an alien reinsurer and is therefore considered an unauthorized reinsurer, the Company obtained a letter of credit to satisfy collateral requirements in order to take credit for ceded reinsurance.

Effective March 11, 2010, the Company entered into an Auto Physical Damage Catastrophe Excess of Loss agreement with various Underwriting Members of Lloyd's. The Company has maintained the underlying coverage for all years under examination. Coverages varied by year as follows: For the year ended December 31, 2015, the agreement included total coverage of \$2 million in excess of \$250,000, which consisted of three layers. Layer 1 was \$250,000 in excess of \$250,000; Layer 2 was \$500,000 in excess of \$500,000; Layer 3 was \$1,250,000 in excess of \$1,000,000. Layer 1 included two automatic reinstatement provisions, Layer 2 and 3 included one automatic reinstatement.

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of Traders Insurance Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

	<u>Assets</u>		
	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$ 23,789,749	\$ -	\$ 23,789,749
Cash, Cash Equivalents and Short-term Investments	24,017,632	-	24,017,632
Investment Income Due and Accrued	133,975	-	133,975
Deferred Premiums, Agent Balances, and Installments Booked and Not Yet Due	11,248,182	-	11,248,182
Amounts Recoverable from Reinsurers	522,497	-	522,497
Other Amounts Receivable Under Reinsurance Contracts	1,795	-	1,795
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	78,680	-	78,680
Net Deferred Tax Asset	1,172,085	6,092	1,165,993
Guaranty Funds Receivable or on Deposit	55,337	-	55,337
Aggr. Write-Ins for Other than Invested Assets:			
Miscellaneous Prepays	28,475	28,475	-
TOTAL ASSETS	\$ 61,048,408	\$ 34,567	\$ 61,013,841

Liabilities, Surplus and Other Funds

Losses	\$ 20,728,701
Loss Adjustment Expenses	3,446,537
Other Expenses (Excluding Taxes, Licenses and Fees)	48,906
Taxes, Licenses and Fees (Excluding Federal and Foreign Income Taxes)	353,225
Unearned Premiums	12,981,934
Advance Premium	17,251
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	555,734
Funds Held by Company Under Reinsurance Treaties	2,102,391
Payable to Parent, Subsidiaries and Affiliates	1,205,649
Aggregate Write-Ins for Liabilities:	
Escheat Property Payable	263,228
Guarantee Fund Payable	4,639
TOTAL LIABILITIES	\$ 41,708,197
Common Capital Stock	805,000
Preferred Capital Stock	400,000
Surplus Notes	2,000,000
Gross Paid In and Contributed Surplus	5,706,011
Unassigned Funds (Surplus)	10,394,633
Surplus as Regards Policyholders	\$ 19,305,644
TOTAL LIABILITIES AND SURPLUS	\$ 61,013,840

Statement of Income

Underwriting Income:	
Premiums Earned	\$ 49,705,167
Deductions:	
Losses Incurred	34,102,344
Loss Adjustment Expenses Incurred	5,043,107
Other Underwriting Expenses Incurred	8,311,996
Net Underwriting Gain or (Loss)	\$ 2,247,720
Investment Income:	
Net Investment Income Earned	\$ 224,809
Net Realized Capital Gains or (Losses)	1,150
Net Investment Gain or (Loss)	\$ 225,960
Other Income:	
Finance and Service Charges Not Included in Premiums	\$ 1,414,519
Aggregate Write-ins for Miscellaneous Income:	
Miscellaneous Income	10,566
Total Other Income	\$ 1,425,085
Net Income Before Federal and Foreign Income Taxes	\$ 3,898,765
Federal Income Taxes Incurred	1,519,230
NET INCOME	\$ 2,379,534

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2014	\$ 14,748,495
Net Income	2,379,534
Change in Net Deferred Income Tax	182,930
Change in Non-Admitted Assets	(5,316)
Change in Surplus Notes	2,000,000
Change in Surplus as Regards Policyholders for the year	\$ 4,577,148
Surplus as Regards Policyholders, December 31, 2015	\$ 19,305,643

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

None

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Traders Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Emily Pennington, AFE; and Ronald Musopole examiners for the Missouri Department Insurance, Financial Institutions and Professional Registration, participated in this examination. Kimberly Dobbs, CFE, AES, Information System Examiner for the DIFP performed a review of the information system environment. Kristine Fitzgerald, ACAS, MAAA, FCA, of Actuarial & Technical Solutions Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
County of Jackson)

I, Sara B. McNeely, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Traders Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Sara B. McNeely, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 26th day of April, 2017.

My commission expires: 04/14/2020

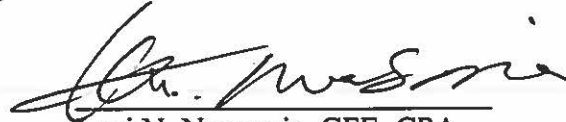

Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed, except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.



Levi N. Nwasoria, CFE, CPA

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration