

Statutory Financial Examination of
ALASKA NATIONAL INSURANCE COMPANY

FE 17-01

As of
December 31, 2016

Issued by
STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE

NAIC Company Code: 38733
NAIC Group Code: N/A

FINAL REPORT:
December 15, 2017



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

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STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
550 WEST 7TH AVENUE, SUITE 1560
ANCHORAGE, AK 99501-3567

Order FE 17-01)
In the Matter of Examination of)
Alaska National Insurance Company)

FINDINGS OF FACT

1. A report of examination of Alaska National Insurance Company, domiciled in the State of Alaska, has been issued by the State of Alaska, Division of Insurance, to Alaska National Insurance Company.
2. The Report of Examination of Alaska National Insurance Company (FE 17-01) has been transmitted to Craig Nodtvedt, President of Alaska National Insurance Company (Examinee), and Examinee has been accorded at least 30 days opportunity to review and comment in this Report of Examination. A response from the examinee was received on March 9, 2018.
3. The Director of the Division of Insurance has fully considered and reviewed the report, the examinee response and any relevant portions of the examiner's work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written Report of Examination referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b)
2. The action set forth in Finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b)

ORDER FE 17-01
ALASKA NATIONAL INSURANCE COMPANY
AS OF DECEMBER 31, 2016

3. The Director of the Division of Insurance has reviewed the Report of Examination, the examination response, and any other relevant work papers as set forth in Findings of Fact No. 3 to the extent she considered necessary in accordance with AS 21.06.150(b).

ORDER


IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Alaska National Insurance Company (FE 17-01) is approved as filed.

2. Pursuant to AS 21.06.060, the Report of Examination shall be posted on the website of the Division of Insurance at <https://www.commerce.alaska.gov/web/ins/> and be open to public inspection.

This order is effective March 20, 2018.

Dated this 20th day of March, 2018 in Juneau, Alaska.



Lori Wing-Heier, Director
State of Alaska
Division of Insurance

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December 15, 2017

Lori Wing-Heier, Director
Division of Insurance
Department of Commerce, Community
and Economic Development
State of Alaska
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Dear Director Wing-Heier:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, an examination has been made of the financial condition and business affairs of:

Alaska National Insurance Company ("the Company")
7001 Jewel Lake Road
Anchorage, AK 99502

(NAIC CoCode 38733; Group Code 0000)

SCOPE OF EXAMINATION

We have performed our multi-state examination of Alaska National Insurance Company (ANIC or the Company) covering the three-year period of January 1, 2014, through December 31, 2016. Transactions subsequent to the full-scope examination period were reviewed where deemed appropriate. The last examination covered the period of January 1, 2011, through December 31, 2013.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, 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 an insurer'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 may include 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, as required by AS 21.06.150, and general information about the insurer 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.

SUMMARY OF EXAMINATION FINDINGS

Significant Findings

There were no material adverse or significant non-compliance findings noted as a result of the examination of Alaska National Insurance Company as of December 31, 2016.

DESCRIPTION OF COMPANY

Company History

Alaska National Insurance Company is an Alaska-domiciled stock insurance company organized pursuant to Title 21, Chapter 69 of the Alaska Statutes. The Company was incorporated on April 30, 1979, and received a Certificate of Authority (license #D-1285) from the State of Alaska effective September 30, 1980, authorizing them to transact the business of property, casualty, surety, health, marine, wet marine, and transportation policies. The Company currently holds the same authorities. As of December 31, 2016, the Company was licensed in 26 states.

Management and Control

The Company is the single member of a holding company system and is wholly owned by Alaska National Corporation (the Parent). There are no other affiliates or members of the holding company. The Parent is closely owned by its Officers and Directors along with current and past management and current employees of the Company. The shares are privately-held and not actively traded. No significant ownership or management control changes have occurred since the previous examination.

Corporate governance can be defined as the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. The Board of Directors and management are the principal players in an insurer's corporate governance and are tasked with monitoring an organization's risk management activities and with establishing a control environment. The control environment represents an organization's first line of defense to mitigate all risks, including the risks of financial errors.

The Company's Board of Directors is responsible for the control and management of the affairs, property and interests of the Company. The Board appoints executive officers to conduct the day-to-day operations of the Company. The composition of the Company's Board of Directors and executive management consisted of the following individuals at December 31, 2016:

<u>Board of Directors</u>	<u>Executive Officers</u>	<u>Position</u>
George S. Suddock, Chairman	Craig L. Nodtvedt	President
David P. Jones, Vice Chairman	Virginia A. Stewart	Vice President and Secretary
Jonathan L. Block	Takashi Azegami	Vice President and Treasurer
Richard L. Block	June V. Hill	Executive Vice President
June V. Hill	Bernie D. Raven	Executive Vice President
Norman F. Kaelber	Richard B. Suddock	Executive Vice President
Terrence E. Kordewick	Kristine S. Bottomley	Senior Vice President
Roger L. Moseley	Wayne W. Bryan	Senior Vice President
Craig L. Nodtvedt	Elizabeth A. Humphries	Senior Vice President
Gary B. Oehler	T. Hale Johnston	Senior Vice President
James E. Pfeifer	Terrence E. Kordewick	Senior Vice President
John L. Ramey	Scott C. Lincoln	Senior Vice President
Bernie D. Raven	Roger L. Moseley	Senior Vice President
Richard B. Suddock	Jeffrey T. Mouck	Senior Vice President
	Dana A. Ferestien	Senior Vice President
	John L. Ramey	Senior Vice President

Related Party Activity

Conflict of Interest

The Company has established a formal code of conduct outlining procedures for disclosure of potential conflicts of interest. Annual conflict of interest disclosure questionnaires are to be completed by all officers and directors. They are submitted to the Company's Secretary and reviewed by the Board of Directors for resolution of any potential conflict. These statements identify any material interest or affiliation which may conflict with the duties of such person on behalf of the Company or the Parent.

Affiliated Tax Agreement

The Company is party to an inter-company tax allocation agreement with the Parent whereby the federal income tax return is filed on a consolidated basis.

Dividends

During the period under examination, shareholder cash dividends were declared by the Company and paid as follows:

<u>Payment Date</u>	<u>Amount</u>	<u>Type</u>
January 15, 2014	\$4,000,000	Ordinary
April 15, 2014	\$4,000,000	Ordinary
July 15, 2014	\$4,000,000	Ordinary
October 15, 2014	\$4,000,000	Ordinary
January 15, 2015	\$4,000,000	Ordinary
April 15, 2015	\$4,000,000	Ordinary
July 15, 2015	\$4,000,000	Ordinary
October 15, 2015	\$4,000,000	Ordinary
January 15, 2016	\$4,000,000	Ordinary
April 15, 2016	\$4,000,000	Ordinary
July 15, 2016	\$4,000,000	Ordinary
October 15, 2016	\$4,000,000	Ordinary
December 15, 2016	\$2,000,000	Ordinary

Territory and Plan of Operation

Alaska National Insurance Company is authorized to transact the following kinds of business: property, casualty, surety, disability, marine, wet marine, and transportation policies. As of December 31, 2016, ANIC was licensed in 26 states. Per inquiry of management, the Company does not maintain a written plan for the acquisition of business and does not employ an agency system.

Growth of the Company

The following schedule summarizes year-end balance sheet numbers for the beginning of this examination period and for the years ending December 31, 2014 through December 31, 2016. The figures are reported in the annual statements of the Company for the years 2013 through 2016:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2013	\$830,445,066	\$478,232,019	\$352,213,047
2014	\$879,775,080	\$499,257,673	\$380,517,407
2015	\$889,028,002	\$501,203,858	\$387,824,144
2016	\$951,411,306	\$513,407,916	\$438,003,390

Reinsurance

As of December 31, 2016, the Company has maximum retention of \$1 million on property, \$2 million on liability, and \$5 million on workers compensation policies. The Company has maximum excess of loss reinsurance above retention limits of \$14 million on property, \$8 million on liability, and \$170 million on workers' compensation policies. Additionally, the Company maintains catastrophic property coverage of \$74 million in excess of \$1 million.

The Company's reinsurance program has not changed significantly in the three years since the prior examination. A review of the contracts indicated that proper transfer of risk exists in accordance with criteria specified by SSAP No. 62R.

At December 31, 2016, substantially all reinsurance receivables and prepaid reinsurance premiums, net of ceded premiums payable, were due from two reinsurers, General Reinsurance and Munich American Reinsurance, rated A++ and A+ by A.M. Best Company, respectively.

All reinsurance contracts provided by the Company contained all provisions required by Alaska regulations, including appropriate arbitration and insolvency clauses. The Company assumes the majority of its reinsurance from mandatory participation in the Alaska workers' compensation pool under agreement with NCCI, as well as from the Alaska Automobile Insurance Plan administered by the Auto Insurance Provider Service Organization (AIPSO). Small amounts are assumed under fronting arrangements with Old Republic Insurance Company for states in which the Company is not currently licensed to write.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Alaska Division of Insurance and present the financial condition of the company for the period ending December 31, 2016. The accompanying comments on financial statements should be considered an integral part of the financial statements.

FINANCIAL STATEMENTS
STATEMENT OF ASSETS, LIABILITIES and SURPLUS
As of December 31, 2016

<u>Assets</u>	<u>As Reported</u> <u>12/31/2016</u>
Bonds	\$ 596,830,229
Common stocks	163,352,761
Properties occupied by the company	1,625,034
Properties held for the production of income	297,133
Cash and short-term investments	42,888,313
Other invested assets	<u>30,826,193</u>
Total cash and invested assets	<u>835,819,663</u>
Investment income due and accrued	5,356,123
Uncollected premiums and agents' balances in the course of collection	21,697,693
Deferred premiums, agents' balances and installments booked but deferred	58,583,949
Accrued retrospective premiums	2,916,679
Amounts recoverable from reinsurers	1,148,115
Current federal income tax recoverable	4,018,629
Net deferred tax asset	12,251,285
Guaranty funds receivable or on deposit	5,115,579
Electronic data processing equipment and software	760,684
Aggregate write-ins for other-than-invested assets	<u>3,742,907</u>
Total Admitted Assets	<u><u>\$ 951,411,306</u></u>
 <u>Liabilities, Surplus, and Other Funds</u>	
Losses	\$ 305,129,765
Loss adjustment expenses	75,998,807
Commissions payable, contingent commissions	2,916,350
Other expenses	7,419,161
Taxes, licenses and fees	1,493,289
Unearned premiums	104,408,473
Ceded reinsurance premiums payable	5,921,475
Amounts withheld or retained by the company	7,559,331
Provision for reinsurance	53,000
Aggregate write-ins for liabilities	<u>2,508,265</u>
Total Liabilities	<u>513,407,916</u>
 <u>Surplus</u>	
Common capital stock	25,000,000
Gross paid in and contributed surplus	25,000,000
Unassigned funds	<u>388,003,390</u>
Total surplus	<u>438,003,390</u>
Total Liabilities and Surplus	<u><u>\$ 951,411,306</u></u>

FINANCIAL STATEMENTS
STATEMENT OF OPERATIONS
As of December 31, 2016

	As Reported
<u>Underwriting Income</u>	12/31/2016
Premiums earned	<u>\$ 218,455,962</u>
<u>Deductions</u>	
Losses incurred	\$ 95,342,404
Loss adjustment expenses	28,572,836
Other underwriting expenses incurred	60,524,193
Loss adjustment fees	<u>(564,101)</u>
Total underwriting deductions	<u>\$ 183,875,332</u>
Net underwriting gain or (loss)	<u>\$ 34,580,630</u>
<u>Investment Income</u>	
Net investment income earned	\$ 25,007,274
Net realized capital gains	<u>3,547,186</u>
Net Investment gain or (loss)	<u>\$ 28,554,460</u>
<u>Other Income or (Loss)</u>	
Net loss from agents' balances charged off	\$ (422,808)
Aggregate write-ins for miscellaneous income	<u>7,500</u>
Net other loss	<u>\$ (415,308)</u>
Net income before federal income tax	\$ 62,719,782
Federal income taxes incurred	<u>9,364,049</u>
Net income (loss)	<u><u>\$ 53,355,733</u></u>

FINANCIAL STATEMENTS
RECONCILIATION OF CAPITAL AND SURPLUS
As of December 31, 2016

	Common	Surplus		Total
	Stock	Paid-In	Unassigned	
Balance at December 31, 2013	\$ 25,000,000	\$ 25,000,000	\$ 352,213,047	\$ 402,213,047
Net income - 2014			50,511,708	50,511,708
Change in net unrealized capital gains or losses (net of taxes)			(6,893,006)	(6,893,006)
Change in net deferred income tax			1,774,117	1,774,117
Change in non-admitted assets			(1,086,459)	(1,086,459)
Change in provision for reinsurance			(2,000)	(2,000)
Dividends to stockholders			(16,000,000)	(16,000,000)
Balance at December 31, 2014	\$ 25,000,000	\$ 25,000,000	\$ 380,517,407	\$ 430,517,407
Net income - 2015			36,444,502	36,444,502
Change in net unrealized capital gains or losses (net of taxes)			(15,731,572)	(15,731,572)
Change in net deferred income tax			5,247,413	5,247,413
Change in non-admitted assets			(2,625,606)	(2,625,606)
Change in provision for reinsurance			(28,000)	(28,000)
Dividends to stockholders			(16,000,000)	(16,000,000)
Balance at December 31, 2015	\$ 25,000,000	\$ 25,000,000	\$ 387,824,144	\$ 437,824,144
Net income - 2016			53,355,733	53,355,733
Change in net unrealized capital gains or losses (net of taxes)			21,510,846	21,510,846
Change in net deferred income tax			(9,120,947)	(9,120,947)
Change in non-admitted assets			2,405,614	2,405,614
Change in provision for reinsurance			28,000	28,000
Dividends to stockholders			(18,000,000)	(18,000,000)
Balance at December 31, 2016	\$ 25,000,000	\$ 25,000,000	\$ 438,003,390	\$ 488,003,390

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS
RESULTING FROM THE EXAMINATION**

No adjustments to the financial statements filed as of December 31, 2016 were made to surplus as a result of the examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no additional comments on the financial statements filed as of December 31, 2016, as a result of the examination.

SUBSEQUENT EVENTS

There were no subsequent events that occurred between the end of the valuation period of this examination and the date of this report to be of significance for comment.

SUMMARY OF RECOMMENDATIONS

There were no recommendations to be made within the scope of this report of examination.

CLOSING

This examination was conducted in accordance with practices and procedures promulgated by the NAIC. This examination also includes a compliance review of applicable Alaska Statutes and Regulations.

In addition to the undersigned, the following examiners participated in the examination from the Alaska Division of Insurance: Insurance Financial Examiner I Wallace R. Thomas, and Actuary Michael D. Ricker, ACAS, MAAA. Also participating in the examination were contract examiners from Risk and Regulatory Consulting, LLC, as follows: John Humphries, CFE, ASA, MAAA, CISA, AES; Margaret C. Spencer, CPA, CIA, CFE, CIE, CPCU, CLU, RHU, MCM, CRMA; Philip E. McMurray, CISSP, CISA, AES; Joshua Johnson, CFE; and Wyatt Sample, CPA, CFE.

We wish to express our appreciation for the courteous cooperation and assistance extended to us by the management and staff of Alaska National Insurance Company during the course of this examination.

This report is respectfully submitted,

Cathie A. Stewart

Cathie A. Stewart, CPA, CFE
Examiner-in Charge
Risk and Regulatory Consulting, LLC

Maxine L. Froemling

Maxine L. Froemling, CPA, CFE
Chief Financial Examiner
State of Alaska

AFFIDAVIT

Anchorage, Alaska)
February 27, 2018)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2016, of Alaska National Insurance Company, an Alaska-domiciled company holding Certificate of Authority #D-1285, is true to the best of my knowledge and belief.

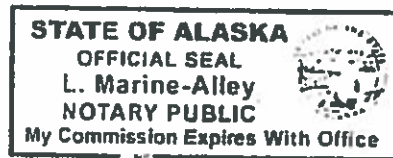
Maxine Froemling

Maxine L. Froemling, CPA, CFE
Chief Financial Examiner
State of Alaska

Subscribed and sworn to before me this 27 day of February, 2018.

L. Marine-Alley
Notary Public for the State of Alaska

My commission expires: With office



AFFIDAVIT

Tucson, Arizona)
February 26, 2018)
STATE OF ARIZONA)
PIMA COUNTY)

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2016, of Alaska National Insurance Company, an Alaska-domiciled company holding Certificate of Authority #D-1285, is true to the best of my knowledge and belief.

Cathie A. Stewart

Cathie A. Stewart, CPA, CFE
Examiner-in-Charge
Risk and Regulatory Consulting, LLC

Subscribed and sworn to before me this 26 day of Feb., 2018.

[Signature]
Notary Public for the State of Arizona

My commission expires: 01/16/2022

