`

REPORT OF EXAMINATION
OF THE
FINANCIAL PACIFIC INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Filed May 26, 2015

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San Francisco, California
February 3, 2015

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FINANCIAL PACIFIC INSURANCE COMPANY

(hereinafter also referred to as the Company) at its primary location of its books and records located at 118 Second Ave SE, Cedar Rapids, Iowa 52401. The Company's statutory home office is located at 3880 Atherton Road, Rocklin, California 95765.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2013. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook (Handbook). The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of

the Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination with Iowa as the lead state. The examination was conducted concurrently with other insurance entities in the holding company group, including United Fire & Casualty Company (Iowa), Addison Insurance Company (Iowa), Lafayette Insurance Company (Louisiana), United Fire & Indemnity Company (Texas), United Fire Lloyds (Texas), Mercer Insurance Company (Pennsylvania), Franklin Insurance Company (Pennsylvania), and Mercer Insurance Company of New Jersey, Inc. (New Jersey).

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; and statutory deposits.

COMPANY HISTORY

The Company was incorporated under the laws of California on July 22, 1986 as M. L. Oates Insurance Company, Inc. and commenced business on December 31, 1987. Effective December 30, 1993, the Company changed its name to Financial Pacific Insurance Company. On October 1, 2005, Mercer Insurance Group, Inc. (MIGP) acquired all of the outstanding stock of the Company's parent, Financial Pacific Insurance Group, Inc. (FPIG). The acquisition was approved by the California Department of Insurance (CDI) on September 29, 2005.

On March 28, 2011, United Fire & Casualty Company (UFC), a publicly held corporation and an insurer domiciled in Iowa, acquired MIGP and its subsidiaries including the Company. The acquisition was approved by the CDI on March 7, 2011.

On February 1, 2012, a reorganization of UFC and all the subsidiary/affiliated companies was completed, whereby United Fire Group, Inc., an Iowa corporation, replaced UFC as the publicly held corporation. The shareholders of UFC common stock received the same number of shares and maintain the same ownership percentage of United Fire Group, Inc. as they held of UFC immediately prior to the reorganization. On February 2, 2012, shares of United Fire Group, Inc. common stock commenced trading on the NASDAQ Global Select Market under the symbol “UFCS”.

Capitalization

The Company is authorized to issue 242,000 shares of common stock with a par value of $650 per share. As of December 31, 2013, there were 4,620 shares outstanding.

During 2009, MIGP contributed $1.095 million to FPIG, which then contributed $1.095 million in cash to the Company as paid-in surplus.

During 2011, MIGP contributed $5.25 million to FPIG, which then contributed $1 million in cash to the Company as paid-in surplus.

Dividends Paid to Parent

In 2009, the Company declared and paid ordinary dividends totaling $2.014 million to its sole shareholder and properly notified the CDI in accordance with the California Insurance Code (CIC) Section 1214.4(f). The following ordinary dividends were paid to the parent, FPIG, in 2009:

Date	Amount
January 21	$596,000
April 15	$598,000
July 15	$584,000
November 18	$236,000

In 2010, the Company declared and paid ordinary dividends totaling $2.034 million to its sole shareholder and properly notified the CDI in accordance with CIC Section 1214.4(f). The following ordinary dividends were paid to the parent, FPIG, in 2010:

Date	Amount
January 14	$483,000
April 19	$481,000
July 19	$233,000
October 14	$837,000

In 2011, the Company declared and paid ordinary dividends totaling $930,000 to its sole shareholder and properly notified the CDI in accordance with CIC Section 1214.4(f). The following ordinary dividends were paid to the parent, FPIG, in 2011:

Date	Amount
February 21	$233,000
June 13	$230,000
September 12	$233,000
December 9	$234,000

In 2013, the Company declared and paid ordinary dividends totaling $10 million to its sole shareholder and properly notified the CDI in accordance with CIC Section 1214.4(f). The following ordinary dividends were paid to the parent, FPIG, in 2013:

Date	Amount
April 1	$4,000,000
September 12	$4,000,000
December 13	$2,000,000

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. United Fire Group, Inc. is the ultimate controlling entity. The following is a partial organizational chart depicting the interrelationship the Company had with other entities as of December 31, 2013 (all ownership is 100% unless otherwise noted):

The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2013:

Directors

Name and Location	Principal Business Affiliation
Jack B. Evans Cedar Rapids, Iowa	Chairman of the Board Hall-Perrine Foundation
John R. Hollingshead Roseville, California	Vice President, Corporate Counsel Financial Pacific Insurance Company
Randy A. Ramlo Cedar Rapids, Iowa	President and Chief Executive Officer United Fire Group, Inc.
Edward E. Sullivan Rocklin, California	Vice President, West Coast Regional Office United Fire & Casualty Company
Michael T. Wilkins Cedar Rapids, Iowa	Executive Vice President, Corporate Administration United Fire Group, Inc.

Principal Officers

Name	Title
Randy A. Ramlo	President and Chief Executive Officer
Michael T. Wilkins	Executive Vice President
Dianne M. Lyons [(a)]	Senior Vice President and Chief Financial Officer
Janice A. Martin	Treasurer
Neal R. Scharmer	Secretary
Dennis J. Richmann	Vice President, Surety Bonds
Edward E. Sullivan	Vice President, West Coast Regional Office
John R. Hollingshead	Vice President, Corporate Counsel

The following changes in management occurred subsequent to the examination date:

[(a)] Dianne Lyons resigned as Senior Vice President and Chief Financial Officer in November 2014. In the interim, Kevin Helbing, Assistant Vice President and Controller, has assumed the position of interim principal financial officer.

Management Agreements

Intercompany Investment Apportionment Agreement: Effective July 1, 2011, the Company entered into an Intercompany Investment Apportionment Agreement with United Fire & Casualty Company (UFC) and various subsidiaries/affiliates, whereby UFC provides investment related services on an at-cost basis. This Agreement was approved by the California Department of Insurance (CDI) on January 18, 2012 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Agents' Balances Payment and Reimbursement Agreement: On January 1, 2012, the Company entered into an Agents' Balances Payment and Reimbursement Agreement between UFC and various subsidiaries/affiliates. Under the terms of the Agreement, UFC provides its subsidiaries/affiliates with certain agents' balances collections, payment and reconciliation services. This Agreement was approved by the CDI on August 29, 2012 pursuant to CIC Section 1215.5(b)(4). The effective date was originally intended to be January 1, 2012; however, the Company postponed the effective date due to delays in system integration between UFC and Mercer Insurance Group. The Agreement became effective in 2013.

Second and Restated Federal Income Tax Allocation Agreement: Effective January 1, 2012, the Company entered into a Second and Restated Federal Income Tax Allocation Agreement between UFC and various subsidiaries/affiliates. The method of allocation between the companies is subject to a written agreement and approval by the Board of Directors. Allocation is based upon separate return calculations. This Agreement was approved by the CDI on August 29, 2012 pursuant to CIC Section 1215.5(b)(4).

Amended Credit Agreement: Effective January 1, 2013, the Company entered into an Amended Credit Agreement between UFC and various subsidiaries/affiliates, whereby UFC may borrow from its subsidiaries up to an aggregate maximum of $50 million, subject to limitation of not more than 10% of the surplus of the respective

subsidiaries/affiliates. This Agreement was approved by the CDI on March 15, 2013 pursuant to CIC Section 1215.5(b)(4).

Amended Credit Agreement: Effective January 1, 2013, the Company entered into an Amended Credit Agreement between UFC and various subsidiaries/affiliates, whereby each of the applicable subsidiary/affiliate, including the Company, may borrow from UFC up to a maximum of $5 million per subsidiary/affiliate. This Agreement was approved by the CDI on March 15, 2013 pursuant to CIC Section 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write property and casualty insurance business in the following states:

Alaska	Iowa	North Dakota
Arizona	Kansas	Oklahoma
Arkansas	Minnesota	Oregon
California	Missouri	South Dakota
Colorado	Montana	Texas
Florida	Nebraska	Utah
Idaho	Nevada	Washington
Illinois	New Mexico	Wisconsin

Direct premiums written during 2013 were $87.5 million, of which California accounted for the majority at 90.5%, followed by Nevada at 8.1%, and Oregon at 1.2%. The Company provides commercial property and casualty insurance products to small and medium-sized businesses. The Company is part of the pooled group of United Fire Group, Inc. represented by 1,200 independent agents nationwide. The Company's product line includes contractors as well as light industrial and commercial property owners.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

Second and Restated Reinsurance Pooling Agreement: Effective January 1, 2012, the Company entered into a Second and Restated Reinsurance Pooling Agreement between United Fire & Casualty Company (UFC) and various subsidiaries/affiliates whereby UFC assumes 100% of the subsidiaries/affiliates' direct and assumed premiums, losses, loss adjustment expenses and other underwriting expenses: and then retrocedes the same business to the subsidiaries/affiliates. The following table illustrates each participant's pooled share as of December 31, 2013:

Company	State of Domicile	Pooling Share
Addison Insurance Company	Iowa	4%
Financial Pacific Insurance Company	California	8%
Franklin Insurance Company	Pennsylvania	1%
Lafayette Insurance Company	Louisiana	7%
Mercer Insurance Company	Pennsylvania	9%
Mercer Insurance Company of New Jersey, Inc.	New Jersey	3%
United Fire & Indemnity Company	Texas	2%
United Fire Lloyds	Texas	1%
United Fire & Casualty Company	Iowa	65%
Pool Total		100.0%

The Company's intercompany pooling agreement stipulates that balances are to be settled on a quarterly basis within 90 days of the quarter end.

Assumed

The Company did not assume reinsurance during the examination period other than from the Intercompany Reinsurance Pooling Agreement discussed above.

Ceded

The Company is a participant in the following United Fire Group reinsurance program as of December 31, 2013:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Catastrophe, excess, with one reinstatement	Lloyd's (UK), R+V (Germany), Arch Re (US), Tokio Millennium (Bermuda), and QBE Re (US)	$20,000,000	95% of 180,000,000
Multiple Line Excess of Loss			
Property	Hanover Re (31.25%), Partner Re US (22.50%), Toa Re US (10.00%), QBE Re (18.75%), SCOR Re (10.00%), Axis Re (7.50%)	$2,000,000 each and every risk, each and every loss	$3,000,000 every risk, each and every loss. Subject to an occurrence limitation of $9,000,000
Casualty, Umbrella, Workers' Compensation, EL and EPL	Hanover Re (31.25%), Partner Re US (22.50%), Toa Re US (10.00%), QBE Re (18.75%), SCOR Re (10.00%), Axis Re (7.50%)	$2,000,000 each and every loss occurrence, including Mold & Cyber	$4,000,000 each and every loss occurrence
Basket (Property, Casualty, Umbrella, Workers' Compensation, EL and EPL	Hanover Re (31.25%), Partner Re US (22.50%), Toa Re US (10.00%), QBE Re (18.75%), SCOR Re (10.00%), Axis Re (7.50%)	$2,000,000 each and every loss occurrence	$2,000,000 each and every loss occurrence
Casualty Second-Fourth Excess of Loss (including Terrorism)			
Second Layer	Hanover Re (31.25%), Partner Re US (22.50%), Toa Re US (10.00%), QBE Re (18.75%), SCOR Re (10.00%), Axis Re (7.50%)	$6,000,000 each and every loss occurrence	$5,000,000 each and every loss occurrence
Third Layer	Hanover Re (31.25%), Partner Re US (22.50%), Toa Re US (10.00%), QBE Re (18.75%), SCOR Re (10.00%), Axis Re (7.50%)	$11,000,000 each and every loss occurrence	$9,000,000 each and every loss occurrence; $18,000,000 ultimate net loss in the aggregate in any one contract year
Fourth Layer	Lloyd's UK (69.00%, Arch Re US (16.00%), Hannover Re Germany (15.00%)	$20,000,000 each and every loss occurrence	$20,000,000 each and every loss occurrence; $40,000,000 ultimate net loss in the aggregate in any one contract year

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Per Risk Excess of Loss (including Terrorism)	Hanover Re (31.25%), Partner Re US (22.50%), Toa Re US (10.00%), QBE Re (18.75%), SCOR Re (10.00%), Axis Re (7.50%)	$5,000,000 each and every loss	$10,000,000 each and every risk; $20,000,000 ultimate net loss in the aggregate in any one contract year

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

Assets	Ledger and Non-ledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 171,718,786	$	$ 171,718,786	
Real Estate	5,651,371		5,651,371	
Cash and short-term investments	4,865,333		4,865,333	
Investment income due and accrued	1,767,179		1,767,179	
Premiums and agents' balances in course of collection	7,046,023	1,736	7,044,287	(1)
Premiums, agents' balances and installments booked but deferred and not yet due (including $11,974,363 earned but unbilled premiums)	17,718		17,718	
Amount recoverable from reinsurers	5,595,043		5,595,043	
Current federal and foreign income tax recoverable and interest thereon	381,653		381,653	
Net deferred tax asset	8,811,829	2,654,437	6,157,392	
Guaranty funds receivable or on deposit	50		50	
Furniture and equipment, including health care delivery assets	105,914	105,914		
Receivables from parent, subsidiaries and affiliates	1,751,929		1,751,929	
Total assets	$ 207,712,828	$ 2,762,087	$ 204,950,741	

Liabilities, Surplus and Other Funds			
Losses and loss adjustment expenses		$ 69,840,120	(2)
Reinsurance payable on paid loss and loss adjustment expenses		3,647,501	
Commissions payable, contingent commissions and other similar charges		12,749,280	
Other expenses		1,807,358	
Taxes, licenses and fees		280,756	(3)
Unearned premiums		26,978,135	
Ceded reinsurance premiums payable		8,317,866	
Provision for reinsurance		30,553	
Aggregate write-ins for liabilities		30,382	
Total liabilities		123,681,951	
Common capital stock	$ 3,003,000		
Gross paid-in and contributed surplus	28,513,974		
Unassigned funds (surplus)	49,751,813		
Surplus as regards policyholders		81,268,787	
Total liabilities, surplus and other funds		$ 204,950,741	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2013

Statement of Income

Underwriting Income		
Premiums earned		$ 55,535,364
Deductions:		
Losses and loss expenses incurred	$ 35,172,312	
Other underwriting expenses incurred	16,642,827	
Total underwriting deductions		51,815,139
Net underwriting gain		3,720,225
Investment Income		
Net investment income earned	$ 6,500,906	
Net realized capital gain	118,712	
Net investment gain		6,619,618
Other Income		
Net loss from agents' or premium balances charged off (amount recovered $95,591 amount charged off $263,424)	$ (164,834)	
Finance and service charges not included in premiums	243,694	
Aggregate write-ins for miscellaneous income	5,640	
Total other income		84,500
Net income after dividends to policyholders, after capital gains tax and before federal income taxes		10,424,343
Federal and foreign income taxes incurred		3,090,507
Net income		$ 7,333,836

Capital and Surplus Account

Surplus as regards policyholders, December 31, 20012		$ 84,380,041
Net income	$ 7,333,836	
Change in net deferred income tax	(198,779)	
Change in nonadmitted assets	(249,649)	
Change in provision for reinsurance	3,341	
Dividends to Stockholders	(10,000,000)	
Change in surplus as regards policyholders for the year		(3,111,251)
Surplus as regards policyholders, December 31, 20013		$ 81,268,790

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2013

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2008 per Examination			$ 64,079,717
Net income	$ 28,241,908	$	
Net unrealized capital gains	46,024		
Change in net deferred income tax		(130,898)	
Change in nonadmitted assets	1,669,031		
Change in provision for reinsurance	36,842		
Surplus adjustments: Paid-in	2,095,000		
Dividends to Stockholders		(14,978,000)	
Aggregate write-ins for gains and losses in surplus	209,166		
Total gains and losses	$ 32,297,971	$ (15,108,898)	
Net increase in surplus as regards policyholders			17,189,073
Surplus as regards policyholders, December 31, 2013, per Examination			$ 81,268,790

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Premiums and Agents' Balances in Course of Collection

The Company did not report premiums received prior to the effective date of the policies as advanced premiums. Instead, the Company recorded unearned premiums in the amount of advance deposits. The Company's accounting methodology for premiums received prior to the effective date of the policies is not in compliance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions, nor with the Statement of Statutory Accounting Principles (SSAP) 53, paragraph 13. It is recommended that the Company comply with the NAIC Annual Statement Instructions and SSAP 53, paragraph 13, for the reporting of advance premiums.

(2) Losses and Loss Adjustment Expense

An analysis of the pooled loss and loss adjustment expense reserves was performed by a Casualty Actuary from the California Department of Insurance who reviewed the Statement of Actuarial Opinion and the supporting actuarial report prepared by the Group's consulting actuary and concluded that the carried loss and loss adjustment reserves are reasonable as of December 31, 2013.

(3) Taxes, Licenses, and Fees

The Company was unable to provide a detailed file containing the vehicle identification numbers in accordance with California Code of Regulations (CCR) Title 10, Section 2698.62. According to this regulation, in order to verify the number of vehicles for which an assessment is due and has been paid, each insurer shall maintain a file known as the Automobile Assessment File. The Auto Assessment File shall contain the vehicle identification, policy number and transaction date for every vehicle for which a policy of insurance was in-force for each quarter or any part thereof. It is recommended that the Company comply with CCR Title 10, Section 2698.62.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items - Premiums and Agents' Balances in Course of Collection (Page 15): It is recommended that the Company comply with the National Association of Insurance Commissioners Annual Statement Instructions and Statement of Statutory Accounting Principles (SSAP) 53, paragraph 13, for the reporting of advance premiums. This is a repeat finding from the last examination.

Comments on Financial Statement Items - Taxes, Licenses, and Fees (Page 15): It is recommended that the Company comply with California Code of Regulations (CCR) Title 10, Section 2682.62.

Prior Report of Examination

Management and Control – Intercompany Agreements (Page 5): It was recommended that the Services Allocation Agreement be amended to comply with Statements of Statutory Accounting Principles (SSAP) No. 96 and No. 25, paragraph 6. This finding is no longer applicable. The agreement was superseded by the United Fire Intercompany Pooling Agreement which was filed with the California Department of Insurance (CDI) in December 2011 and approved on August 29, 2012.

Reinsurance – Intercompany Pooling (Page 7): It was recommended the Company settle all balances covered by the intercompany pooling agreement in accordance with the terms of the agreement. The Company is now in compliance.

Accounts and Records (Page 11): It was recommended that the Company develop a formal claims manual. It is also recommended that the Company implement procedures

to ensure compliance with CCR, Title 10, Chapter 5, Subchapter 7.5, Article I, Sections 2695.4(a), 2695.3, 2695.7(c) (1), and 2695.9 (f). The Company is now in compliance.

Comments on Financial Statement Items – Premiums and Agents' Balances in Course of Collection (Page 15): It was recommended that the Company report advance premiums as a liability in accordance with SSAP No. 53, paragraph 13. The Company is not in compliance.

Comments on Financial Statement Items – Loss and Loss Adjustment Expenses (Page 15): It was recommended that the Company establish reserves in accordance with California Insurance Code Section 11558. This code section was repealed; therefore, this finding is no longer applicable.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

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Kyo Chu, CFE
Examiner-In-Charge
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California