

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**WESTMINSTER AMERICAN
INSURANCE COMPANY
FARGO, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2021**

STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT


I, the undersigned, Insurance Commissioner of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Westminster American Insurance Company
Fargo, North Dakota

as of December 31, 2021, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 22nd day of
June, 2023.





Jon Godfread
Insurance Commissioner

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Fargo, North Dakota
May 10, 2023

Honorable Jon Godfread
Insurance Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination has been made of the books, records and financial condition of

Westminster American Insurance Company

Fargo, North Dakota

hereinafter referred to as the "Company", was last examined as of December 31, 2017, by representatives from the Maryland Insurance Administration.

SCOPE OF EXAMINATION

This examination was a risk-focused financial condition examination conducted in accordance with North Dakota Century Code ("N.D.C.C.") § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five year period of January 1, 2017 through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department ("Department") and procedures recommended by the NAIC. In accordance with the NAIC Financial Condition Examiners Handbook, the examination was planned and performed 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. The examination also included 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. Statements were prepared by management and are therefore the responsibility of management. 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.

Concurrent examinations were made of the following Nodak Mutual Group ("NMG") companies:

<u>Company and State of Domicile</u>	<u>NAIC Code</u>
Nodak Insurance Company (ND)	#34592
American West Insurance Company (ND)	#44270
Battle Creek Mutual Insurance Company (NE)	#16373
Direct Auto Insurance Company (ND)	#12721
Primer Insurance Company (ND)	#11855
Westminster American Insurance Company (ND)	#16098

This examination report includes significant findings of fact, as mentioned in the N.D.C.C. § 26.1-03-19.3, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but are separately communicated to other regulators and/or the Company.

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the five exception commented upon in the preceding Report on Examination which covered the period from January 1, 2013, to December 31, 2017. We determined that the Company had satisfactorily addressed these findings.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

No material subsequent events were noted through the date of this report.

HISTORY

The Company was incorporated as the Mutual Fire Insurance Company of Carroll County, a mutual property and casualty insurer, under the laws of Maryland on November 29, 1869. The Company commenced operations in March of 1870. In October 1990, the Company filed a certificate with the Maryland State Department of Assessments and Taxation to conduct business under the name of Carroll County Mutual.

On April 12, 2004, the Company was placed in receivership by the Circuit Court of Maryland for Baltimore City (the "Circuit Court"). The Receiver took possession and control of the Company's property and took steps toward removing the causes and conditions that made rehabilitation necessary. However, notwithstanding the efforts of the Receiver, the Company's surplus remained below minimum statutory requirements. Consequently, the Receiver sought permission from the Circuit Court to recapitalize the Company by converting the Company from a mutual company to a stock company. Contemporaneously with the filing of the motion, the Receiver, by public notice, solicited written statements of interest in acquiring the Company upon its conversion to stock form. John J. Scott, Sr. submitted a written statement of interest and was determined by the Commissioner to be a qualified purchaser.

On April 29, 2005, the Circuit Court authorized the demutualization of the Company for the purpose of issuing capital stock for sale to a qualified third-party investor to be selected by the Commissioner. On May 16, 2005, the Company amended its charter and changed its name to Westminster American Insurance Company of Carroll County and authorized the issuance of capital stock. On June 17, 2005, the Administration issued an order approving the acquisition of the Company by Westminster American, LLC, which is owned by John J. Scott, Sr. In October 2005 the Company again amended its charter to change its name to Westminster American Insurance Company.

In a stock purchase agreement, dated October 28, 2019, NI Holdings, Inc., a publicly traded North Dakota based insurance holding company, agreed to acquire the Company. The sale of WAIC to NI Holdings, Inc. closed January 1, 2020. The Company filed Articles of Conversion with the Department, dated December 9, 2021 to move its statutory home address from Maryland to North Dakota.

Dividends

The Company paid no dividends to policyholders during the examination period.

Capital Contributions

In 2018, the Company recharacterized \$500,000 of its surplus to paid-in-capital.

MANAGEMENT AND CONTROL

Stockholders

At December 31, 2021, NIH owned 100 percent of the Company's outstanding stock.

Board of Directors

Board members serving the Company as of December 31, 2021 were:

<u>Name and Address</u>	<u>Principal Occupation</u>
Seth Daggett Fargo, ND	Executive VP, Nodak Mutual Group
Ryan Hill Spearfish, SD	VP, Claims Primero Insurance Company
Timothy Milius Fargo, ND	VP Corporate Administration, Nodak Mutual Group
John Scott, Jr. Prince Frederick, MD	President, Westminster American Insurance Company
Michael J. Alexander Fargo, ND	CEO, Nodak Mutual Group

Officers

Elected officers serving with their respective duties as of December 31, 2021, were:

<u>Officer</u>	<u>Title</u>
Michael J. Alexander	Chief Executive Officer
John Scott, Jr.	President
Seth Daggett	Treasurer
Timothy Milius	Secretary

Committees

At December 31, 2021, all chartered committees were at the NIH entity level and consisted of the Audit Committee, Executive Committee, Nominating and Governance Committee, and the Compensation Committee.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

Effective May 10, 2018, the Company amended its Articles of Incorporation, increasing the par value of its common capital stock from sixty cents (\$0.60) to seventy cents (\$0.70) per share. There were no changes to the par value of the preferred stock, and the total number of shares of stock of all classes remained the same.

The Company also amended and restated its Articles of Incorporation and Bylaws on December 9, 2021, in conjunction with its redomestication from Maryland to North Dakota. Key changes include a reduction in the minimum number of Directors to one and the change in home office to the Group's main Fargo office.

Board of Directors, Policyholders, and Committee Minutes

The recorded minutes of the Board of Directors for the Company and the annual stockholder meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments in accordance with its Bylaws, N.D.C.C. § 26.1-05-18 and N.D. Admin. Code § 45-03-12-05.

Conflict of Interest

The Company has adopted a policy requiring annual disclosure of conflicts of interest in accordance with the guidelines of the NAIC Financial Condition Examiners Handbook. Signed statements are reviewed annually by the Board of Directors. The conflict of interest statements for the years 2017 through 2021 were reviewed and no material undisclosed conflicts were noted.

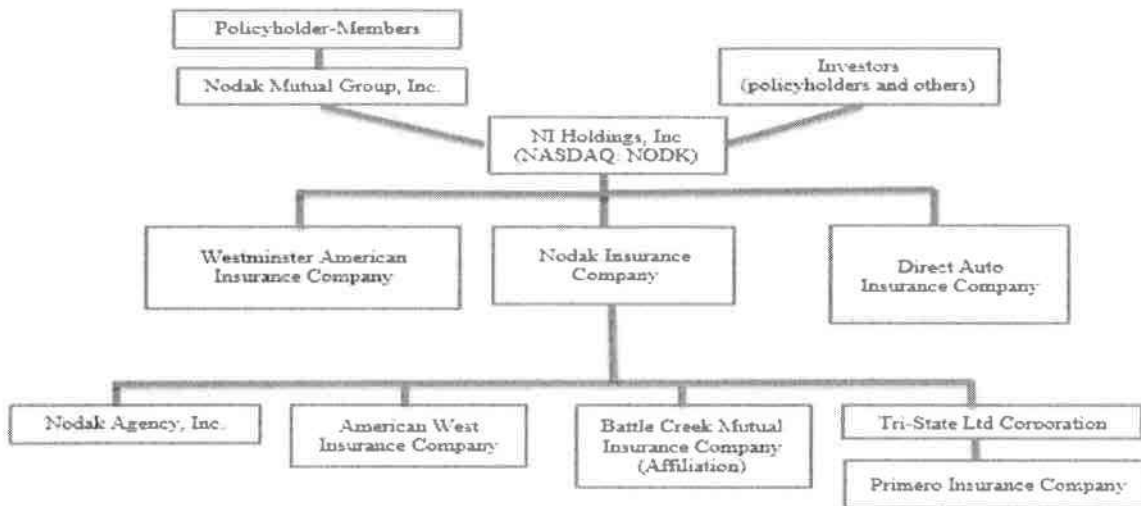
FIDELITY BOND AND OTHER INSURANCE

At December 31, 2021, the Company was protected against fraudulent or dishonest acts of its employees by a financial institution bond. The bond insures the Company and affiliates up to \$5,000,000, which is above the NAIC suggested minimum amount of fidelity insurance.

The examination determined that the Company's other coverages were adequate. The NMG affiliated entities are also named insureds on all policies.

AFFILIATED COMPANIES

The Company is a stock insurance company, owned by NMG. The Company is a member of an insurance holding company system. The organizational chart as of December 31, 2021, reflecting the holding company system is shown below:



Nodak Insurance Company (NIC) – (formerly Nodak Mutual Insurance Company) NIC is a North Dakota domestic insurance company, licensed to do business in two states. NIC was incorporated on April 15, 1946, and provides coverage for personal auto, farmowners, homeowners, crop hail and multiple peril crop insurance.

Nodak Agency Incorporated (NAI) – Effective January 1, 2008, NAI no longer transacts business but is being retained by the parent for possible future use.

American West Insurance Company (AWIC) – On March 31, 2001, the Company purchased and issued all outstanding common shares of AWIC, a North Dakota domiciled property and casualty insurer. AWIC is currently licensed to write business in Idaho, Minnesota, Montana, North Dakota, Oregon, South Dakota, Washington, and Wisconsin, but only produces business in Minnesota, North Dakota, and South Dakota. AWIC primarily produces farm, home, and auto business.

Battle Creek Mutual Insurance Company (BCMIC) – On March 4, 2011, NMIC entered into an affiliation agreement with BCMIC, a Nebraska domestic insurance company. Through the affiliation agreement, NIC appoints two-thirds of the directors to serve on the BCMIC Board of Directors.

Tri-State Limited Corporation – On December 8, 2014, the Nevada Insurance Commissioner approved the Company's acquisition of Tri-State Limited, a South Dakota corporation and 100 percent owner of PIC.

Primero Insurance Company (PIC) – The Company specializes in writing non-standard automobile coverage and is licensed in Nevada, Arizona, South Dakota and North Dakota. The Company was redomesticated to North Dakota in 2021.

Direct Auto Insurance Company (DAIC) – On August 31, 2018, the Nodak Group acquired DAIC. The Company was redomesticated to North Dakota in 2021. DAIC is only licensed in Illinois and specializes in private passenger auto liability and auto physical damage coverages.

Westminster American Insurance Company – (WAIC) – The Company was acquired by the Nodak Group in 2020 and redomesticated to North Dakota in 2021. The Company primarily writes commercial multiple peril coverages in the Mid-Atlantic region, but is licensed in 18 jurisdictions.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company wrote premiums in Maryland, the District of Columbia (“DC”), Pennsylvania, Delaware, Virginia, New Jersey, Georgia, Vermont, North Carolina, South Carolina, and West Virginia. More than half of the Company’s premiums are written in three states: Maryland, Georgia, and New Jersey. In addition, the Company is authorized to conduct business but wrote no premiums in the following states: Colorado, Kentucky, Massachusetts, Nevada, Oregon, Tennessee, Vermont, and Washington

REINSURANCE

The Group entered a Reinsurance Pooling Agreement in 2020, whereby Group members ceded 100 percent of their direct written premiums to NIC and received the following retrocession amounts:

Pool Member	Participation Percentage
Nodak Insurance Company	66%
Direct Auto Insurance Company	13%
Westminster American Insurance Company	9%
American West Insurance Company	7%
Primero Insurance Company	3%
Battle Creek Mutual Insurance Company	2%

Pool participation was initially determined based on the Group members’ respective surplus. The Group will reevaluate the participation percentages every five years to ensure appropriateness. The Group did not adequately define the basis for which corporate management, accounting and financial reporting, or information technology expenses were to be allocated among the group members. After these and other shared expenses are allocated among the members, all expenses are ceded to NIC, then retroceded based on pool participation.

It is recommended that the Group draft and file an expense management agreement which addresses an allocation scheme for the above captioned shared corporate expenses, in compliance with SSAP 70.

Assumed

Outside of the intercompany pooling agreement, the Company does not assume any reinsurance business.

Ceded

The Company participates in various small regional reciprocal catastrophe pools run by Mutual Reinsurance Bureau ("MRB") and American Agricultural Insurance Company ("AAIC") with other NMG companies.

The Company also is a named reinsured on several other interests and liabilities agreements ("I&L") with other members of NMG. Agreements with material cessions were limited to two reinsurers. Factory Mutual Insurance Co ("Factory Mutual") had \$2.33 million in premiums ceded, primarily from the reciprocal pools mentioned above. The most significant reinsurance contract for the Company, in terms of coverage, is its GenRE facultative treaty which provides \$20 million, excess of \$5 million. In 2021, the Company ceded \$1.76 million to GenRE and booked \$1.76 million in net recoverables.

All treaties contained appropriate risk transfer and included an insolvency clause and entire agreement clause as required by N.D.C.C. § 26.1-02-21.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2021 was traced to the appropriate schedules of the Company's 2021 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is annually audited by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to extent deemed appropriate for this examination.

Safekeeping Agreement

During the period under examination, the Company's securities were held by Wells Fargo Bank, N.A. The safekeeping agreement contained all of the provisions required by N.D. Admin. Code § 45-03-23-02.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets and a Statement of Liabilities, Surplus, and Other Funds as of December 31, 2021. These statements are followed by supporting statements and reconciliations presented in the following order:

Summary of Income, Year 2021

Reconciliation of Capital and Surplus, January 1, 2017, through December 31, 2021

These financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2021. 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.

Westminster American Insurance Company
Statement of Assets
December 31, 2021

	Ledger & Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$35,729,050		\$35,729,050
Stocks:			
Preferred	3,518,465		3,518,465
Common	4,141,248		4,141,248
Real Estate			
Properties Occupied by Company	2,606,832		2,606,832
Cash	21,419,627		21,419,627
Short Term Investments	300,038		300,038
Investment Income Due and Accrued	268,683		268,683
Uncollected Premiums	9,591,900	66,986	9,524,914
Deferred Premiums	10,360,400		10,360,400
Reinsurance Recoverable	8,487,322		8,487,322
Net Deferred Tax Asset	644,304		644,304
Furniture and Equipment	40,604	40,604	
Prepaid Expenses	76,556	76,556	
Totals	<u>\$97,185,029</u>	<u>\$184,146</u>	<u>\$97,000,883</u>

Westminster American Insurance Company
Liabilities, Surplus, and Other Funds
December 31, 2021

Losses		\$8,985,195
Reinsurance Payable on Paid Losses and LAE		6,233,988
Loss Adjustment Expenses		1,676,340
Commissions Payable		539,949
Other Expenses		183,094
Taxes, Licenses, and Fees		153,817
Unearned Premiums		11,449,405
Advance Premium		573,377
Ceded Reinsurance Premiums Payable		15,847,477
Payable to Parent, Subsidiaries or Affiliates		319,371
Funds Held (Nodak)		<u>26,333,174</u>
Total Liabilities		72,295,187
Common Capital Stock	\$3,500,000	
Gross Paid In and Contributed Surplus	1,500,000	
Unassigned Funds (Surplus)	<u>19,705,696</u>	
Surplus as Regards Policyholders		<u>24,705,696</u>
Total Liabilities and Surplus		<u>\$97,000,883</u>

Westminster American Insurance Company
Statement of Income
December 31, 2021

Underwriting Income

Premiums Earned		\$26,963,034
Deductions:		
Losses Incurred	\$17,937,300	
Loss Adjustment Expenses Incurred	1,536,815	
Other Underwriting Expenses Incurred	<u>8,394,354</u>	
Total Underwriting Deductions		<u>27,868,469</u>
Net Underwriting Gain or (Loss)		<u><u>(\$905,435)</u></u>

Investment Income

Net Investment Income Earned	\$ 720,000	
Net Realized Capital Gains or (Losses)	<u>1,628,907</u>	
Net Investment Gain or (Loss)		<u><u>\$2,348,907</u></u>

Other Income

Service Charges Not Included in Premiums	147,620	
Miscellaneous Income	<u>18,069</u>	
Total Other Income		<u><u>\$ 165,689</u></u>

Net Income Before Federal Income Taxes		(\$1,609,161)
Federal Income Taxes Incurred		<u>(113,629)</u>
Net Income		<u><u>(\$1,722,790)</u></u>

**Westminster American Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2017, Through December 31, 2021**

	2021	2020	2019	2018	2017
Surplus as Regards Policyholders, December 31, Prior Year	\$23,591,521	\$20,897,457	\$20,174,643	\$19,581,410	\$18,136,860
Net Income	1,722,790	2,719,156	224,853	700,813	1,522,181
Change in Net Unrealized Capital Gains or (Losses)	(618,380)	189,854	411,468	(187,741)	242,129
Change in Net Deferred Income Tax	(13,662)	(299,450)	92,164	40,374	(401,203)
Change in Nonadmitted Assets	23,427	84,504	(5,671)	39,787	81,443
Paid in Capital				500,000	
Surplus Adjustment				(500,000)	
Change in Surplus for the Year	1,114,175	2,694,064	722,814	593,233	1,444,550
Surplus as Regards Policyholders, December 31, Current Year	\$24,705,696	\$23,591,521	\$20,897,457	\$20,174,643	\$19,581,410

CONCLUSION

The financial condition of the Company, as of December 31, 2021, as determined by this examination is summarized as follows:

ADMITTED ASSETS		<u>\$97,000,883</u>
Total Liabilities	\$72,295,187	
Surplus as Regards Policyholders	<u>24,705,696</u>	
LIABILITIES, SURPLUS, AND OTHER FUNDS		<u>\$97,000,883</u>

No adjustment of the balance sheet amounts reported by the Company in its 2021 Annual Statement was made by this examination.

Since the last examination conducted as of December 31, 2017, the Company's admitted assets have increased \$58,344,923, its total liabilities have increased \$51,864,313, and its surplus as regards policyholders has increased \$6,480,610.

In addition to the undersigned, the following people also participated on this examination:

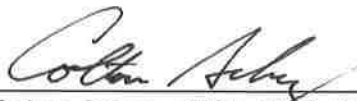
Actuarial Specialists – Risk and Regulatory Consulting, LLC
Scott Merkord, FCAS, MAAA, CPCU
Dave Heppin, FCAS, MAAA

IT Specialists – Jennan Enterprises
Joseph Detrick, CPA, CISA, CFE, AES
Jenny Jeffers, CISA, AES, CFE (Fraud)

North Dakota Insurance Department Staff
Matt Fischer, CFE, Chief Examiner
Pat Hendrickson, AFE, Financial Analyst
Mike Andring, FCAS, MAAA, P&C Actuary

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,



Colton Schulz, CISA, CFE, CFE (Fraud)
Supervising Examiner
North Dakota Insurance Department

COMMENTS & RECOMMENDATIONS

It is recommended that the Group draft and file an expense management agreement which addresses an allocation scheme for the above captioned shared corporate expenses, in compliance with SSAP 70.