

STATE OF INDIANA)
) SS:
COUNTY OF MARION)

BEFORE THE INDIANA
COMMISSIONER OF INSURANCE

CAUSE NO.: FC24-1010-001

IN THE MATTER OF:)
)
Patrons Mutual Fire Insurance Company)
571 Monon Blvd., Suite 200)
Carmel, IN 46032)
NAIC Number: 92323)
Respondent.)
Type of Agency Action: Order of Compliance)

FILED
OCT 11 2024
STATE OF INDIANA
DEPT. OF INSURANCE

ORDER OF COMPLIANCE

The Commissioner (“Commissioner”) of the Indiana Department of Insurance (“Department”), pursuant to Indiana Codes §§ 27-1-3-19, 27-1-20-19, and 27-1-3.1-14(c) and (d), hereby finds and gives notice to Patrons Mutual Fire Insurance Company (“Respondent” or “Patrons”) of the following Administrative Order:

Introduction

Respondent, Patrons Mutual Fire Insurance Company, is a standard Indiana farm mutual insurance company authorized to provide coverage under Title 27, Article 5.1, of the Indiana Code, with a statutory address of 571 Monon Blvd., Suite 200, Carmel, Indiana 46032. Respondent’s historical headquarters is maintained at 415 Walnut Street, Lawrenceburg, Indiana 47025.

Findings of Fact

1. Respondent is a standard farm mutual insurance company in Indiana using NAIC Company Code 92323.

2. Respondent was organized and commenced business in Indiana in 1878.
3. Respondent elected to operate under Chapter 145, Acts 1919, during 1924, which was repealed by Acts 1972, P.L. 129-2003 and restated as Indiana Code 27-5.1, which applies to farm mutual insurance companies.
4. Respondent maintains a Certificate of Authority to operate in the State of Indiana.
5. Respondent is authorized to issue homeowners, farm owners, and dwelling fire insurance policies in Indiana.
6. Respondent's Articles of Incorporation provide that the Company can engage in business only within the State of Indiana.

The Company may engage in its business of insurance in any location in Indiana as determined by the board of directors of the Company, from time to time . . . All counties in which the board of directors of the Company determine the Company should engage in business in, from time to time, make up the Company's standard territory on and after the date of such determination.

7. Patrons submitted documentation to the Department as a part of a request for approval of a surplus note being issued.
8. Patrons represented to the Department that the assets backing the surplus note were proceeds "in the form of cash or other admitted assets having readily determinable values and liquidity satisfactory to the Department" in the amount of twenty-five million dollars (\$25,000,000), in accord with Statutory Accounting Principles.
9. Based on the documentation and information provided to the Department at the time of filing, the Department approved the surplus note request initially on May 23, 2023. A revised agreement reflecting a new lender name was accepted and marked approved after the name of the lending party changed in October 2023, but no new approval letter was issued.

10. Respondents, on October 2, 2023, sent an email to the Department regarding the assets of the surplus note: “We can now confirm, the surplus supported by the U.S. Treasury assets for the initial \$25 M surplus note has been placed into Patrons Mutual Fire U.S. Bank account.” The Company indicated the surplus note was backed by a private corporate bond, CUSIP Number 65172QAA5, which was secured by a U.S. Treasury Bond, CUSIP Number 912810QZ4.
11. Department asked questions about the specifics of the assets supposedly backing the note in order to further understand the value and liquidity, but received inadequate responses.
12. In 2023 and 2024, Patrons acted, both within Indiana and outside of Indiana, as though it were a company with sufficient assets to engage in reinsurance and the assumption of reinsurance risks, and Patrons engaged in reinsurance agreements with insurance companies, both within and outside of Indiana.
13. The Department continued to request that Patrons provide information about the assets backing the note and the nature of its liquidity but continued to receive inadequate responses.
14. Patrons submitted its annual financial statement to the Department in compliance with Indiana Code 27-5.1-3-5. The annual statement included \$24,959,600 that Respondents claimed to be attributable to the surplus note.
15. The Department commenced an examination of Patrons on March 18, 2024, under Indiana Code 27-1-3.1, which is still open.
16. As part of the examination, Respondent was asked to provide details about the assets and their liquidity.
17. Respondent failed to provide information that would indicate that the assets were in Respondent’s possession or that the assets were liquid as required by Statutory Accounting Principles. Patrons’ response to examiners about this subject, through its President, is below:

Assets in question were delivered by the lender as their consideration and were not directly purchased by Patrons. I am not sure I am using the correct term but they were essentially pledged. I may need discussion on this item to more specifically understand what needs to be procured if this documentation does not meet the request.

18. Based on the representations of Respondent, the asset is merely a promissory note and does not have readily determinable value or liquidity as was represented or as required by Statutory Accounting Principles. Patrons has presented no documentation to the Department showing otherwise.
19. Based on Patrons' 2023 annual statement, if the \$24,959,600 asset is disallowed and considered a non-admitted asset, Patrons would not possess funds or assets available for the payment of reinsurance losses and claims.
20. In the absence of the asset, Patrons' 2023 annual statement would show a surplus of \$251,444, a 41% reduction from their 2022 surplus. Such a reduction in surplus would be a materially adverse event.
21. Patrons' 2023 annual statement shows a retention of \$772,055 in assumed business, primarily in the category of "other perils" from an out-of-state ceding insurer, a sum that is over three times the amount of Patrons' surplus.
22. On April 15, 2024, after the Department had commenced an examination and elaborated concerns regarding the assets backing the surplus note, Respondents filed to amend their Articles of Incorporation to, among other things, allow Patrons to "engage in its business of insurance in any location consistent with the statutory authority issued to a farm mutual company under the Law or otherwise authorized by the Commissioner of the Department of Insurance."
23. The Department did not approve the amendment of Respondent's Articles of Incorporation.

24. Respondent's continued engagement in reinsurance business both within and outside of the State of Indiana without adequate funding is deemed to be conducting its business contrary to law, and in an unsafe and unauthorized manner.
25. Patrons provides reinsurance to at least two Indiana farm mutual insurance companies, and one of those companies has an overlapping territory with Patrons.
26. Respondent does not have the financial capacity to engage in reinsurance agreements or fund reinsurance trust accounts where either no assets or insufficient assets support the business.
27. Conclusions of Law that are properly stated as Findings of Fact are incorporated herein.

Conclusions of Law

1. Patrons Mutual Fire Insurance Company is subject to the jurisdiction and control of the Department in the State of Indiana.
2. The Department is authorized to regulate the practice of insurers in Indiana under Indiana Code § 27-1 *et seq.*
3. The Commissioner is the chief executive officer and chief administrative officer for the Department under Indiana Code § 27-1-1-2(a).
4. Indiana Code 27-1-20-19, provides that “

No company doing business in this state or agent thereof shall state or represent by advertisement in any newspaper, periodical or magazine or by any sign, circular, card, policy of insurance or certificate of renewal thereof or otherwise that any funds or assets are in possession of such company which are not actually owned by it and available for the payment of losses and claims and held for the protection of its policyholders and creditors. Funds deposited by any company, under depository laws of this or other states, shall be considered as in the company's possession for the payment of losses or policy claims.

5. In 2023 and 2024, Patrons held itself out to other insurers, both within Indiana and outside of Indiana, as a company with sufficient assets to engage in reinsurance and the assumption of reinsurance risks, and Patrons engaged in reinsurance agreements with insurance companies, both within and outside of Indiana. Respondent does not possess adequate funds or assets for the payment of reinsurance losses and claims and to protect its reinsureds, in violation of Indiana Code 27-1-20-19.
6. Respondent is engaging in reinsurance contracts outside of the State of Indiana in contravention of their Articles of Incorporation.
7. Indiana Code § 27-1-3.1-14(c) provides that “[i]f the commissioner determines that regulatory action is appropriate as a result of any examination, the commissioner may initiate any proceedings or actions authorized by law.”
8. Under Indiana Code 27-1-3.1-14(d), the Commissioner may use, and if appropriate, make public:

any final or preliminary examination report, any examiner or company work papers or other documents, or any other information discovered or developed during the course of any examination in the furtherance of any legal or regulatory action that the commissioner may, in the commissioner’s sole discretion, consider appropriate.
9. Indiana Code § 27-1-3-19(a)(1) provides, in part, that when the Commissioner determines that an insurance company “is conducting its business contrary to law or in an unsafe or unauthorized manner”, the Commissioner can issue an order to “direct the discontinuance of any such illegal, unauthorized, or unsafe, practice, the restoration of an impairment to the capital or the surplus fund, or the compliance with any such law.”
10. The compliance order cited in Indiana Code § 27-1-3-19(a) “shall be mailed to the last known principal office of the insurance company by certified or registered mail or delivered to an

officer of the company”. The statute requires that the compliance order is directed to and addressed to the board of directors, board of trustees, attorney in fact, partners or owners of the insurance company.


11. Pursuant to Indiana Code § 27-1-3-19(b) Respondent shall have thirty (30) days from the date of receipt of this Order to comply with this order. If Respondent fails, neglects, or refuses to comply with the terms of this Order the Commissioner may bring an action against Respondent to compel compliance.
12. Indiana Code § 27-1-3-19(c) provides that the action shall be brought by the Commissioner in the Marion County circuit court.
13. This Order serves as notice under Indiana Code § 27-1-3-19(a)(1).
14. Findings of Fact that are properly stated as Conclusions of Law are incorporated herein.

BY ORDER OF THE COMMISSIONER OF INSURANCE:

1. Effective immediately, Respondent and its principals, employees, and agents shall not solicit, negotiate, or participate in new reinsurance contracts, treaties, or otherwise termed agreements, or violate any Department orders or the insurance laws and regulations of this State.
2. It is further ordered that the asset held to support the surplus note is determined to be non-admitted.
3. Respondent shall not hold itself out to possess the authority to provide reinsurance outside the State of Indiana.
4. Respondent shall not hold itself out to possess adequate funds or assets available for the payment of reinsurance losses and claims.

5. Respondent shall not continue writing reinsurance within or outside the State of Indiana.

10/11/2024
Dated



Amy L. Beard, Commissioner
Indiana Department of Insurance

Distribution:

Board of Directors, Patrons Mutual Fire Insurance Company
c/o Scott Piper, President
571 Monon Blvd., Ste. 200
Carmel, IN 46032

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CERTIFICATE OF SERVICE

The undersigned certifies that on October 11, 2024, this Order of Compliance was sent by email and certified U.S. Mail to:

Board of Directors, Patrons Mutual Fire Insurance Company
571 Monon Blvd. Ste. 200
Carmel, IN 46032
Scott.Piper@patronsmutualfire.com

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/s/ Chris Erickson
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Indiana Department of Insurance