STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION

OF

CONSUMERS INSURANCE USA, INC.

(NAIC # 10204)

MURFREESBORO, TENNESSEE

AS OF

DECEMBER 31, 2012

EXHIBIT

"A"

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Murfreesboro, Tennessee
May 13, 2014

Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce & Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with the Tenn. Code Ann. § 56-1-408, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full-scope financial examination and market conduct review as of December 31, 2012, has been made of the conditions and affairs of:

CONSUMERS INSURANCE USA, INC.
NAIC # 10204
1620 Gateway Boulevard
Murfreesboro, Tennessee 37129

hereinafter generally referred to as the "Company" or "CIUSA" and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or Department) under rules promulgated by the NAIC and commenced on March 11, 2013, and was conducted by duly authorized representatives of the TDCI. The examination was conducted under the association plan of the NAIC and was called through the NAIC's Financial Examination Electronic Tracking System. No other states replied indicating an interest in participating in the examination.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2007. This examination covers the period January 1, 2008, through December 31, 2012, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with the *NAIC Financial Condition Examiners Handbook*, as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2012. The examination sought to identify prospective risks by obtaining information about the Company, including; the corporate governance of the holding company, Consumers Insurance Group (CIG), by identifying and assessing inherent risks within the Company and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions.

During planning, the examiners reviewed all accounts and balances and determined the key activities and accounts to be examined. The key activities included; Investments; Premiums; Claims; Underwriting; Reinsurance Ceded; Taxes; Expenses; Reserves – Actuarial; and Reserves – Completeness and Accuracy.

The Company's 2012 annual statement was compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examination by Noble Consulting Services, Inc. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A separate market conduct review was also performed concurrently with the financial examination. The examination included a review of the following: underwriting and rating; policy forms and filings; advertising; policyholder complaints; and claims review.

Independent actuaries, Lewis & Ellis, Inc., were utilized in the review of the Company's loss reserves.

Crowe Horwath, LLP, was the certified public accountants (CPAs) and independent auditor for the Company and its parent for all years under examination. The examiners reviewed the CPAs' work papers for all years, copies of which were incorporated into the examination as deemed appropriate.

The Company provided a letter of representation, dated as of the date of this report certifying that management has disclosed all significant matters and is included in the work papers of this examination.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

Our examination included a review to determine the current status of the comments and recommendations in the previous report on examination dated June 17, 2009, which covered the period from January 1, 2003, through December 31, 2007. The report contained one comment which was corrected during the previous examination, and one recommendation that required corrective action by the Company. The Company made the recommended correction. Set forth below is a description of the prior examination report's comment and recommendation and our findings during this examination:

Comment:

- At December 31, 2007, the Company had no Fidelity Bond or any other insurance coverage of its own and was not a named insured on any of the policies issued to its parent, CIG.

  Prior to the completion of this examination, the Company was added to the Fidelity Bond carried by CIG as a named insured.

As a result of the above action, the issue was satisfactorily addressed during the course of the previous examination.

Recommendations:

- During the course of the examination it was discovered that applications for insurance were being maintained by the independent agents. When a sample of applications was selected to be reviewed, approximately 9% of the applications could not be found or had been destroyed. This issue was also noted during the prior examination.

The prior recommendation, which the Company was directed to correct within 30 days as stipulated in the Examination Report Order, has been issued to the Company in the last two examination reports.

During the examination, a review was performed on the Company's policy application files to determine if the Company had complied with the prior exam recommendation and Examination Report Order. A sample of the Company's policy application files were requested to be provided to the examiners to verify the Company could produce such records. It was noted that the Company was able to provide the requested policy application files for review. Therefore, it was determined that the Company had complied with the prior exam recommendation and Examination Report Order concerning its policy application files.

COMPANY HISTORY

The Company was incorporated in Tennessee on August 9, 1994, as a wholly-owned subsidiary of Consumers Insurance Group, Inc. (CIG). The Company remained dormant until it was licensed as a Tennessee property and casualty insurance company on April 21, 1995.

The Company was incorporated as a perpetual for-profit corporation under the provisions of the Tennessee General Corporation Act. Authorized capital stock was 1,000 shares of common capital stock with a par value of $1,000 per share. All shares were held by CIG on April 25, 1995, having been acquired at a purchase price of $2,865 per share. Thus, there was $1,000,000 in common capital stock and $1,865,000 in gross paid in and contributed surplus on the same date.

The Company is a stock for profit property and casualty insurance company licensed to transact business in twenty states. The Company underwrites private passenger and commercial automobile insurance utilizing a network of independent agents throughout Tennessee, Missouri, Virginia, Illinois, Arkansas, Indiana and Alabama.

During February, 1999, CIG received net proceeds of approximately $4,194,000 as a result of a private placement offering of its preferred stock. On February 25, 1999, the Company received $3,870,000 of these proceeds from CIG as additional paid-in surplus. A $242,200 surplus note payable to CIG and executed on June 29, 1998, was paid in full on June 10, 1999. The payoff of this surplus note was approved by the TDCI on June 2, 1999.

Effective December 12, 2001, the Company amended its charter to void its initial authorized common capital stock and reissued 1,000 shares of authorized common capital stock with a par value of $2,000 per share.

In September, 2003, CIG borrowed $2,000,000 and contributed $1,980,000 of those funds to the Company as paid-in surplus. Additionally, in October, 2003, CIG made a stock offering which raised approximately $2,148,088 and contributed $1,900,000 of those funds to the Company as paid-in surplus.

In 2009, the Company amended its charter to reflect another change to its par value per share. The Company changed the par value of the common capital stock from $2,000 per share to $3,000 per share. The Company's Board of Directors approved the amendment on November 13, 2009. The Company subsequently filed the amendment with the TDCI in 2010 and received approval from the TDCI on September 22, 2010. The Company filed the amendment with the Secretary of State on October 1, 2010.

At December 31, 2012, the Company had authorized capital stock of 1,000 shares of common stock with a par value of $3,000 per share, all of which shares were issued and outstanding for a capital paid up of $3,000,000. All of the Company's shares are owned by CIG. CIG is the ultimate parent of the Company.

DIVIDENDS

During the period of examination the Company declared and paid one ordinary dividend to its shareholders each year during the period, for a total of five during the period.

The following table lists each dividend amount, whether the dividend was determined to be Ordinary (O) or Extraordinary (E), the date the Company notified the TDCI of the dividend, and the date the Company paid the dividend to its shareholders.

Year	Ordinary (O) or Extraordinary (E)	Notify Date	Paid Date	Dividend Amount
2012	O	03/07/12	04/01/12	$750,000
2011	O	02/23/11	04/01/11	950,000
2010	O	02/11/10	03/01/10	1,000,000
2009	O	05/15/09	04/24/09	630,000
2008	O	03/18/08	03/18/08	1,500,000
Total paid during period of Exam				$4,830,000

The Company violated Tenn. Code Ann. § 56-11-105 (e) (2008) by failing to notify the TDCI of the declarations of the dividends within the timeframe allotted in the statute in 2008 and 2009. The Company was sent a letter by the TDCI notifying them of their non-compliance with the statute after the 2009 dividend. Since that time, the Company has complied with the requirements of Tenn. Code Ann. § 56-11-105 (e) (2008). See "Comments and Recommendations" section of this report.

MANAGEMENT AND CONTROL

MANAGEMENT

The Company's Bylaws state that the business and affairs of the corporation shall be managed by a Board of Directors who shall be elected at the annual meeting of the shareholders. Directors need not be shareholders of the corporation. The Company's Bylaws state that the number of directors shall consist of not less than four or more than seven as set forth from time to time by resolution of the Board of Directors. A majority of directors constitutes a quorum.

Directors serve until the next annual meeting of the shareholders and thereafter, until a successor has been elected.

The following persons were duly elected by the shareholders on May 2, 2012, and were serving as members of the Board of Directors as of December 31, 2012:

Name	**Title**
Amanda C. Farnsworth	Chairman of the Board
David A. Sciortino	President and CEO
John K. Harrington	Treasurer
C. Louis Patten, Jr.	Secretary

The Company's Bylaws require an annual meeting of the shareholders be held to elect directors and to conduct such other business. The meeting may be held within or without the State of Tennessee, at a date and time the Board of Directors designates.

The Bylaws allow action to be taken without a meeting, if, prior to the action, a written consent is signed by all Board or committee members, if applicable, and the written consent is filed with the minutes. Any or all of the stockholders, directors, or committee members may participate in meetings by means of conference telephone or similar communication equipment.

The Bylaws provide that the officers of the corporation shall consist of a President and a Secretary and such other officers or assistant officers, including Chairman of the Board, Vice Presidents and Treasurer. One person may hold more than one office, except the President may not also hold the office of Secretary.

The following senior persons were duly elected by the Board of Directors on May 2, 2012, and were serving as officers of the Company as of December 31, 2012:

Name	**Title**
Amanda C. Farnsworth	Chairman of the Board
David A. Sciortino	President and CEO
John K. Harrington	Treasurer
C. Louis Patten, Jr.	Secretary
Dennis W. Kunkel	Chief Financial Officer

The Board of Directors, by resolution adopted by a majority of the whole Board, may appoint an Executive Committee consisting of at least 3 directors, one of whom shall be designated as Chairman of the Executive Committee. The Board of Directors may create other committees as it deems necessary. Members of such other committees need not be directors of the Company. The Company's Board of Directors did not designate or establish any committees during the period of examination.

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

The Company is required to comply with Tenn. Code Ann. § 56-3-103 prohibiting officers and directors of insurance companies from having a pecuniary interest in the investment or disposition of funds of a domestic insurance company. CIG and all its subsidiaries have adopted a Code of Conduct Policy that requires all companies to be in compliance with all laws and regulations that are applicable to its business at all governmental levels. The policy requires that all directors and employees should conduct business of the Company on the highest ethical level and be free from conflicting interests and relationships, and it requires that all directors and management employees report once each year all information required to be reported herein and such other information as may be relevant to determine the existence or likely development of a significant conflict of interest.

CONTROL

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(2008), and as such, is subject to the "Insurance Holding Company System Act of 1986," set forth in Tenn. Code Ann. § 56-11-101(2008), *et seq.* All outstanding shares of the Company are owned by the parent company, Consumers Insurance Group, Inc. (CIG), which was incorporated in August 1993. CIG is the ultimate parent of the Company. The Company operates as a subsidiary of CIG, a non-insurance holding company incorporated in Tennessee. CIG is considered to be publically held since completing an intrastate (Tennessee) common stock offering of approximately 2,300,000 shares in March 1995. There are no other insurers in the CIG

Holding Company Group.

The annual conflict of interest disclosure statements filed by the Company's directors, officers and responsible employees in each year of the examination period were reviewed. No conflicts were noted.

CORPORATE RECORDS

The minutes of meetings of the Company's shareholders, Board of Directors, and committees were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board.

Charter

The original Charter of the Company was filed with the Tennessee Secretary of State on July 27, 1994. The Charter of the Company in effect at December 31, 2012, is the Company's Amended and Restated Charter that was adopted by the Board of Directors, since the last amendment on November 13, 2009. One amendment was made to the Company's Charter during the period of examination.

In 2009, the Company's charter was amended to reflect an increase to its par value per share. The Company's common capital stock was increased from $2,000 per share to $3,000 per share. The Company's Board of Directors approved the amendment on November 13, 2009. The Company subsequently filed the amendment with the TDCI in 2010 and received approval from the TDCI on September 22, 2010. The Company filed the amendment with the Secretary of State on October 1, 2010.

Bylaws

The Bylaws of the Company in effect at December 31, 2012, are the Company's Amended and Restated Bylaws that were adopted by the Board of Directors on July 31, 2002. No Amendments or Restatements were made to the Company's Bylaws during the period of examination.

The Bylaws provide for an annual shareholders' meeting at which a Board of Directors is elected. Officers are elected by the Board of Directors. The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board of Directors and its shareholders.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company had two agreements with affiliated companies in effect as of December 31, 2012. The following are summaries of the agreements in effect as of this examination date of the Company:

Service Agreement with CIG

The Company entered into a Service Agreement with its parent, CIG, effective January 1, 2002. The agreement automatically renews annually unless terminated by either party. Under the terms of the agreement, CIG will provide to the Company the following services:

- Supervise the underwriting, acceptance, and rejection of applications for insurance;
- Review qualifications and screen applicants for agents' licenses, appoint and train agents; however, such agents will not be considered agents of CIG;
- Prepare and file rates and forms for insurance where such filings are required by law or regulation;
- Review, process, adjust claims, arrange for defense when claims cannot be adjusted, and maintain claim files;
- Prepare accounting statements in sufficient detail to comply with regulatory and reinsurance contract reporting requirements, and submit invoices to reinsurers;
- Prepare quarterly and annual financial and informational statements to be filed with regulators;
- Prepare premium tax returns and any regulatory reports as may be necessary;
- Arrange for such legal, accounting, actuarial, investment and other professional services as may be reasonably required for the conduct of the business;
- Perform such other services as the parties shall from time to time agree upon as being necessary and appropriate supplements to the services, and
- Indemnify and defend against any claim, suit or proceeding arising out of any alleged wrong or error to any third party in performing the services required under the agreement.

In consideration of the services provided, the Company compensates CIG quarterly for actual costs incurred in the provision of such services plus a monthly management fee of 0.6% of direct written premium.

The Service Agreement was filed with the TDCI on October 1, 2001. The Service Agreement was deemed approved by the TDCI on November 1, 2001.

An amendment to the Service Agreement was filed on Form D on December 16, 2003. This amendment changed the fee paid to CIG. It was approved on April 15, 2004. On March 10, 2006, the Company filed another amendment which changed the fee paid to

CIG. It was filed on Form D and was approved on June 21, 2006.

<u>Tax Sharing Agreement with CIG and Subsidiaries</u>

The Company entered into a Tax Sharing Agreement with its parent, CIG, and CIG's subsidiaries, effective October 22, 2003. The agreement specifies that the tax liability of each member shall be allocated in accordance with Section 1.1552-1 (a)(2)(ii) of the Income Tax Regulations. Pursuant to Tenn. Code Ann. § 56-11-106(a)(2)(D), this agreement was filed with the TDCI on Form D on October 27, 2003, and was approved on December 2, 2003.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on a Financial Institution Bond carried by CIG. Other insurance policies were reviewed and the Company is listed as a named insured on the following insurance coverages maintained by CIG at December 31, 2012:

Commercial General Liability	Commercial Umbrella Liability
Directors and Officers Liability	Commercial Automobile
Commercial Automobile - Virginia	Commercial Property
Workers' Compensation	Data Breach Protection

The Company's fidelity coverage is in excess of the suggested minimum amount per the *NAIC Financial Condition Examiners Handbook.* The bonds and policies affording the aforementioned coverages were inspected and appear to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers. Similar coverage was in effect as of the date of this examination report.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company receives certain management, administrative and general services from CIG in accordance with the Service Agreement that is described under the heading Agreements with Parent, Subsidiaries and Affiliates. CIG provides its employees and employees of its subsidiaries with life insurance, medical insurance, disability insurance, dental insurance, vision insurance, and a 401(k) plan.

TERRITORY AND PLAN OF OPERATION

<u>TERRITORY</u>

The Company is a stock for profit property and casualty insurer licensed to transact business in twenty (20) states, although they are currently only writing business in seven states. Those states are Tennessee, Missouri, Virginia, Illinois, Arkansas, Indiana and Alabama. The Company stopped writing new business in Idaho, Oregon and Washington during the period of examination. Certificates of Authority granted by the licensed states were reviewed and found to be in force at year-end 2012.

The Company currently has no applications pending for admission to any other states or territories. Premium tax records were reviewed for all states in which the Company writes business and no exceptions were noted.

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

State	Licensed? (Yes or No)	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid
Alabama	Yes	$4,145,838	$2,333,084	$3,139,329	$2,029,652
Arkansas	Yes	4,904,220	2,133,940	2,214,687	1,356,927
Idaho	Yes	18,457	4,655	4,655	-0-
Illinois	Yes	3,378,502	3,870,452	4,692,947	2,826,161
Indiana	Yes	559,097	281,466	369,894	135,473
Missouri	Yes	9,174,585	10,695,863	7,081,528	3,290,235
Oregon	Yes	30,425	7,011	7,011	-0-
Tennessee	Yes	18,059,617	12,459,655	13,111,879	7,805,752
Virginia	Yes	3,937,247	1,936,047	4,410,098	3,726,926
Washington	Yes	94,713	42,384	88,392	54,839
Totals		$44,302,701	$33,764,557	$35,120,420	$21,225,965

PLAN OF OPERATION

The Company is a stock for profit property and casualty insurance company licensed to transact business in twenty states. The Company underwrites private passenger and commercial automobile insurance utilizing a network of independent agents. The Company currently is only actively writing business in seven states which are Tennessee, Missouri, Virginia, Illinois, Arkansas, Indiana and Alabama.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination according to its annual statements as filed with the TDCI:

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Premiums Earned
2012	$57,426,637	$38,372,811	$19,053,826	$40,880,702
2011	59,071,900	37,150,601	21,921,299	39,865,046
2010	60,934,882	35,623,306	25,311,576	40,326,697
2009	61,173,086	36,131,607	25,041,479	40,855,965
2008	59,533,918	34,862,005	24,671,913	41,928,746

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with the TDCI, the ratios of losses and loss adjustment expenses ("LAE") incurred to earned premiums for the period subject to this examination were as follows:

Year	Losses & LAE Incurred	Earned Premiums	Loss Ratio
2012	$34,537,768	$40,880,702	84.48%
2011	33,906,491	39,865,046	85.05%
2010	30,396,895	40,326,697	75.38%
2009	32,499,513	40,855,965	79.55%
2008	31,407,475	41,928,746	74.91%
Total All Years	$162,748,142	$203,857,156	79.83%

REINSURANCE AGREEMENTS

The Company routinely cedes reinsurance with other insurance companies and does have catastrophe reinsurance. All material reinsurance agreements were reviewed and found to contain all of the standard clauses. There were no treaties with any unusual provisions, and all treaties provide for transfer of risk.

The Company selected to run off the 2011 Multi-Line Excess of Loss treaty with an estimated unearned premium of $17.4M associated with "in force" policies at December 31, 2011. Those polices and the associated earned premium were applied against the expiring 2011 treaty rates and terms. The 2011 treaty was adjusted at year end 2012, when the final earned premium was calculated. The 2012 Multi-Line Excess of Loss treaty picked up only "new and renewal" business, and thus the estimated subject base was revised downward by $17.4M to $27.4M.

The following is a summary of the current reinsurance agreements at December 31, 2012:

(1) Type:	**2012 Multi-Line Excess of Loss**
Reinsurers:	Munich Reinsurance America, Inc. (Lead) The Toa Reinsurance Company of America
Business Covered:	Policies of Property Insurance and Casualty Insurance which are in force as of the effective date of the Contract, or issued or renewed during the term of the Contract, and which are accepted, bound or covered, provisionally or otherwise, by or on behalf of the Company. These policies would include: Commercial and Private Passenger Automobile Physical Damage, Fire, Inland Marine, Commercial and Private Passenger Automobile Liability.
Retention and Limit:	**First Excess Layer:** **Coverage A** – Property: $150,000 excess of Company's retention each risk, each loss, subject to a limit of liability to the Reinsurer of $850,000 each risk, each loss, subject to a maximum limit of liability to the Reinsurer of $1,700,000 each Loss Occurrence. **Coverage B** – Casualty: $150,000 excess of Company's retention each Loss Occurrence, subject to a limit of liability to the Reinsurer of $850,000 each Loss Occurrence. **Coverage C** – Combined Casualty and Property: $150,000 excess of Company's retention each Loss Occurrence, subject to a limit of liability to the Reinsurer of $150,000 each Loss Occurrence. Coverages A and B inure to the benefit of Coverage C.
	Second Excess Layer: Property Only: $1,000,000 excess of Company's retention each risk, each loss, subject to a limit of liability to the Reinsurer of $1,000,000 each risk, each loss, subject to a maximum limit of liability to the Reinsurer of $2,000,000 each Loss Occurrence.
Premium:	**First Layer** – 5.4% of Gross Net Earned Premium Income Annual minimum deposit premium of $1,933,280 **Second Layer** – 0.15% times the Total Insured Value amount in excess of $1,000,000 for each risk
Term:	Effective January 1, 2012, until January 1, 2013.

Type:	**2011 Multi-Line Excess of Loss (Runoff)**
Reinsurers:	Munich Reinsurance America, Inc. (Lead) Transatlantic Reinsurance Company
Business Covered:	Any and all binders, policies, and contracts of insurance and any evidences of liability (hereinafter called Policies) of Property Insurance and Casualty Insurance, as hereinafter defined, which are in force as of the effective date of the Contract, or issued or renewed during the term of the Contract, and which are accepted, bound or covered, provisionally or otherwise, by or on behalf of the Company. These policies would include: Commercial and Private Passenger Automobile Physical Damage, Fire, Inland Marine, Commercial and Private Passenger Automobile Liability.
Retention and Limit:	**First Excess Layer:** **Coverage A** – Property: $125,000 excess of Company's retention each risk, each loss, subject to a limit of liability to the Reinsurer of $875,000 each risk, each loss, subject to a maximum limit of liability to the Reinsurer of $1,750,000 each Loss Occurrence. **Coverage B** – Casualty: $125,000 excess of Company's retention each Loss Occurrence, subject to a limit of liability to the Reinsurer of $875,000 each Loss Occurrence. **Coverage C** – Combined Casualty and Property: $125,000 excess of Company's retention each Loss Occurrence, subject to a limit of liability to the Reinsurer of $125,000 each Loss Occurrence. Coverages A and B inure to the benefit of Coverage C.
	Second Excess Layer: **Property Only:** $1,000,000 excess of Company's retention each risk, each loss, subject to a limit of liability to the Reinsurer of $1,000,000 each risk, each loss, subject to a maximum limit of liability to the Reinsurer of $2,000,000 each Loss Occurrence.
Premium:	**First Layer** – 3.95% of Gross Net Earned Premium Income Annual minimum deposit premium of $1,402,320 **Second Layer** – 0.15% times the Total Insured Value amount in excess of $1,000,000 for each risk
Term:	Effective January 1, 2011, until January 1, 2012.

(2) Type:	Catastrophe Excess of Loss
Reinsurers:	Lloyd's of London Syndicate 2001 (Lead), Lloyd's of London Syndicate 1302, Amlin AG, Allied World Reinsurance Co., Platinum Underwriters Reinsurance, Inc., R+V Versicherung AG.
Business Covered:	Policies of Property Insurance which are in force as of the effective date of the Contract, or issued or renewed during the term of this Contract, and which are accepted, bound or covered, provisionally or otherwise, by or on behalf of the Company. These policies would include: Commercial and Private Passenger Automobile Physical Damage, Fire, Inland Marine.
Retention and Limit:	see below
Premium:	**First Layer:** 2.17% of net written premium income subject to a deposit premium of $200,000. Minimum premium of $160,000. **Second Layer:** 2.38% of net written premium income subject to a deposit premium of $220,000. Minimum premium of $176,000. **Third Layer:** 2.17% of net written premium income subject to a deposit premium of $200,000. Minimum premium of $160,000.
Term:	Effective January 1, 2012, to January 1, 2013.

Retention and Limit:

Layer	Company Retention Ultimate Net Loss	Reinsurers' Limit Each Loss Occurrence	Reinsurers' Limit All Loss Occurrences
First Excess	$500,000	$500,000	$2,000,000
Second Excess	$1,000,000	$1,000,000	$4,000,000
Third Excess	$2,000,000	$4,000,000	$8,000,000

Reinsurers/Participation:

	Layer				
Reinsurers:	**1st Excess**	**2nd Excess**	**1st Cat.**	**2nd Cat.**	**3rd Cat.**
Munich Reinsurance America, Inc.	75.0%	75.0%			
The Toa Reinsurance Company	25.0%	25.0%			
Lloyd's of London Syndicate 2001			25.0%	25.0%	25.0%
R+V Versicherung AG			25.0%	20.0%	20.0%

Lloyd's of London Syndicate 1301			20.0%	20.0%	20.0%
Amlin AG			15.0%	15.0%	15.0%
Platinum Underwriters Reins., Inc.			10.0%	15.0%	15.0%
Allied World Reinsurance Co.			5.0%	5.0%	5.0%

As of December 31, 2012, all reinsurance companies, with the exception of Amlin AG and R+V Versicherung AG, are authorized. There is no commission equity, because all agreements are written on an excess of loss basis.

Other Considerations

All of the Company's significant reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.

LITIGATION AND CONTINGENT LIABILITIES

During 2012 the Company entered into an unlimited guaranty with a financial institution to secure debt of its parent, CIG, in the amount of $4 million. This unlimited guaranty is provided over the term of the related note payable which expires on April 1, 2017. The Company does not believe that the guaranty made for the benefit of CIG will result in a material contingent exposure of the Company's assets to liability.

During the period of examination and as of December 31, 2012, the Company is a party to various pending legal proceedings arising in the ordinary course of business. Based in part upon the opinion of its counsel as to the ultimate disposition of such lawsuits and claims, Company management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained deposits with the named jurisdictions or custodians as of December 31, 2012.

The following are deposits with states where special deposits are for the benefit of all policyholders, claimants, and creditors of the Company:

Jurisdiction	Description of Security	Book / Adjusted Carrying Value	Fair Value	Par Value
Tennessee – Department of Insurance	MET GVT NASHVILLE TN 4.00%, Due 07-01-2020 CUSIP# 592090CA0	$255,564	$260,930	$250,000
	MEMPHIS SHELBY TN 5.00%, Due 11-01-2014 CUSIP# 586123BZ3	209,291	219,229	205,000
	KNOX CNTY TN 1ST 4.25%, Due 12-01-2015 CUSIP# 499553JW6	101,666	109,976	100,000
	MISSISSIPPI DEV BK 5.00%, Due 01-01-2020 CUSIP# 60534PN90	356,464	381,304	350,000
	MEMPHIS TN ELEC SYS 5.00%, Due 12-01-2017 CUSIP# 586158MH7	101,737	119,147	100,000
	TENNESSEE ST SER C 5.00%, Due 05-01-2016 CUSIP# 880541NA1	1,091,709	1,146,300	1,000,000
	MEMPHIS TN ELEC SYS 5.00%, Due 12-01-2013 CUSIP# 586158KY2	154,186	156,482	150,000
Sub-Total		$2,270,617	$2,393,368	$2,155,000

The following are deposits with jurisdictions where special deposits are **not** for the benefit of all policyholders, claimants, and creditors of the Company:

Jurisdiction	Description of Security	Book/Adjusted Carrying Value	Fair Value	Par Value (Dollars)
Georgia - Department of Insurance	PUTNAM CNTY TN REF 5.25%, Due 01-01-2020 CUSIP# 746673TG7	$35,223	$35,428	$35,000
Missouri - Department of Insurance	MISSOURI ST CTFS 2.125%, Due 10-01-2018 CUSIP# 60635ADR2	632,595	672,276	650,000
North Carolina - Department of Insurance	NORTH CAROLINA MED 4.00%, Due 06-01-2016 CUSIP# 65820HC7	312,138	331,986	300,000
South Carolina - Department of Insurance	MEMPHIS TN GEN IMPT 5.00%, Due 11-01-2016 CUSIP# 586145QR8	137,932	151,214	135,000
Virginia - Department of Insurance	COLORADO SPRINGS CO 5.00%, Due 12-01-2015 CUSIP# 19662UAF9	225,976	239,241	215,000
Sub-Total		$1,343,864	$1,430,145	$1,335,000
Grand-Total		$3,614,481	$3,823,513	$3,490,000

Deposits with said jurisdictions or custodians were verified by direct correspondence with the custodians of such deposits.

Tennessee Statutes provide that if an insurance company maintains a special deposit in another state that is held for the benefit of only that state's policyholders and that deposit exceeds the Company's liabilities for that state's policyholders, the excess shall be reported as a non-admitted asset. At December 31, 2012, the Company reported a non-admitted statutory deposit amount of $485,294 as a result of excess special deposits in several states. The examiners agreed with the Company's calculation of its non-admitted statutory deposit amount and accepted it for this examination.

ACCOUNTS AND RECORDS

Tenn. Comp. R. & Regs. § 0780-01-65-.08(4), states that no partner or other person responsible for rendering a report by a certified public accounting firm may act in that capacity for more than five (5) consecutive years. The Company is audited annually by Crowe Horwath, LLP, and is in compliance with this regulation.

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to confirm values for assets and liabilities appearing in the Company's financial statements. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed and a sample was tested for correctness. These test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Murfreesboro, Tennessee.

MARKET CONDUCT ACTIVITIES

In accordance with the policy of the TDCI, a market conduct review was made of the Company as of December 31, 2012, in conjunction with this examination. The following items were addressed:

Underwriting and Rating

The Company maintains and utilizes its own underwriting guidelines to assess and classify property and casualty insurance risks. The underwriting guidelines provided by the Company were reviewed as part of the examination and found to be a reliable underwriting source. The Company's underwriting guidelines are frequently updated based on current statutory requirements. The Company's use of this underwriting source results in a uniform and efficient determination of acceptable risk.

In the examination of the Company's underwriting procedures and policy administration, policy files for open in-force polices were reviewed in accordance with statutory requirements of Tenn. Code Ann. § 56-8-104, Tenn. Comp. R. & Regs. § 0780-1-34, and established Company guidance. A statistical sample number of policies were selected at random to review. In the examination of these policies, there were no instances of unfair methods of competition or unfair or deceptive acts found. Underwriting procedures and policy administration conducted by the Company appear to be in compliance with established Company guidance.

Policy Forms and Filings

The examiners reviewed a sample of the policy forms that were used by the Company during the period of examination. All forms reviewed were noted without exception as having been filed with the TDCI prior to their use in accordance with Tenn. Code Ann. §

56-5-305 (a) and Tenn. Code Ann. § 56-5-306 (a) (1). The filings are consistent in form and include appropriate documentation.

Advertising

In the examination of Company advertising, all advertising items were selected for examination that included print, radio, and internet materials issued by the Company to target agents and consumers. Advertising items were examined in accordance with Tenn. Code Ann. § 56-8-104-(1) and the NAIC Market Regulation Handbook (*Chapter 16 - Marketing and Sales*) and were found to be in compliance.

The Company was found to have controls in place for the production and use of all advertising materials with only company approved materials authorized for use.

Policyholder Complaints

The Company maintains a complaint register as required by various state Unfair Trade Practices Acts and the register and the accompanying files are maintained for a minimum of five years in accordance with statutory requirements. The Company's complaint procedures and complaint register were examined in accordance with requirements of Tenn. Code Ann. § 56-8-104-(11) and the NAIC 2012 Market Regulation Handbook and were found to be in full compliance.

A random sample of Company complaint files was selected for examination. The average complaint processing time was reasonable and in compliance with statutory time limits of various states.

Claims Review

A statistical sample of Company claims open and unpaid as of the examination date and another statistical sample of closed claims during 2012 were examined for adequacy of the Company's claim process in accordance with Tenn. Code Ann. § 56-8-105 and requirements listed in Chapter 16 (Claim Standards) of the NAIC 2012 Market Regulation Handbook.

Claims in each sample appeared to have been handled properly in accordance with policy provisions and applicable statutes, rules, and regulations.

The claims files were also examined for:

a. Accuracy of disbursement
b. Correctness of payments
c. Number of days of processing time
d. Payments compared to policy contract provisions

e. Sufficient documentation to support action taken, especially denials, requests for more info and partial or reduced payments

No major issues were discovered during the claims file examination review process. Sample claims were handled timely, accurately, and sufficiently.

SUBSEQUENT EVENTS

Proposed Acquisition of the Company by Motorists Mutual Insurance Company

As announced on May 12, 2014, the Company has signed a definitive agreement to be acquired by Motorists Mutual Insurance Company (Motorists Mutual) of Columbus Ohio. Under the agreement, which is subject to regulatory approval by the Tennessee and Ohio regulators as well as CIUSA shareholders, the Company will become a wholly owned subsidiary of Motorists Mutual.

Motorist Mutual is an affiliate of The Motorists Insurance Group. The Motorists Insurance Group, headquartered in Columbus, Ohio, consists of 10 property and casualty insurance, life insurance and insurance brokerage companies. They are A rated (Excellent) by A. M. Best. The group markets insurance solutions through more than 11,000 independent agents and producers in a network of more than 1,600 agencies across the Midwest, Northeast and Southeast regions. The group reported $1.7 billion in assets and $681 million in premiums at the end of 2013. The plan calls for CIUSA to pool its premium, losses and underwriting expenses with other companies in the Motorists group.

During the examination, the examiners performed a review for subsequent events and did not note any that required additional disclosure in this examination report, other than the proposed acquisition described above. Our review confirmed the Company's disclosures in its 2012 Annual Statement and in its Letter of Representation signed at the conclusion of this examination, that they were not aware of any events subsequent to December 31, 2012, that could have a material effect on its financial condition.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and a statement of income as of December 31, 2012, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$32,449,831		$32,449,831
Cash and short-term investments	9,133,434		9,133,434
Investment income due and accrued	399,157		399,157
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	328,143		328,143
Deferred premiums and installments booked and not yet due	12,450,756		12,450,756
Reinsurance:			
Amounts recoverable from reinsurers	63,379		63,379
Current federal income tax recoverable	116,655		116,655
Net deferred tax asset	2,485,282		2,485,282
Totals	$57,426,637	$0	$57,426,637

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$17,392,118
Loss adjustment expenses		1,705,598
Commissions payable and other similar charges		802,581
Other expenses		517,487
Taxes, licenses and fees		238,380
Unearned premiums		16,724,804
Advance premium		322,872
Ceded reinsurance premiums payable		663,768
Amounts withheld or retained by company for account of others		5,203
Total Liabilities		$38,372,811
Common capital stock	$3,000,000	
Gross paid in and contributed surplus	8,246,000	
Unassigned funds (surplus)	7,807,826	
Surplus as Regards Policyholders		19,053,826
Totals		$57,426,637

STATEMENT OF INCOME

UNDERWRITING INCOME:		
Premiums earned		$40,880,702
Losses incurred	$29,567,104	
Loss adjustment expenses incurred	4,970,664	
Other underwriting expenses incurred	14,397,702	
Total underwriting deductions		48,935,470
Net Underwriting Gain or (Loss)		(8,054,768)
INVESTMENT INCOME:		
Net investment income earned	1,064,321	
Net realized capital gains or (losses)	(15,246)	
Net Investment Gain or (Loss)		1,049,075
OTHER INCOME:		
Net gain (loss) from agents' or premium balances charged off	(30,169)	
Finance and service charges not included in premiums	3,715,121	
Total Other Income		3,684,952
Net income before dividends to policyholders, after capital gains tax and before all other federal income taxes		(3,320,741)
Dividends to policyholders		0
Net income after dividends to policyholders, after capital gains tax and before all other federal income taxes		(3,320,741)
Federal income taxes incurred		0
Net Income (loss)		($3,320,741)

CAPITAL AND SURPLUS ACCOUNT

	2012	2011	2010	2009	2008
Surplus as Regards Policyholders December 31, previous year	$21,921,297	$25,311,576	$25,041,478	$24,671,912	$23,178,217
Net income or (loss)	($3,320,741)	($2,915,545)	$1,320,768	$1,122,484	$2,803,151
Change in net deferred income tax	1,572,945	1,097,582	128,041	25,126	31,248
Change in non-admitted assets	(1,000,676)	(622,316)	(178,711)	(148,044)	159,296
Capital changes:					
Paid in	-0-	-0-	-0-	1,000,000	-0-
Surplus adjustments:					
Paid in	631,000	-0-	-0-	(1,000,000)	-0-
Dividends to stockholders	(750,000)	(950,000)	(1,000,000)	(630,000)	(1,500,000)
Net change in surplus as regards policyholders for the year	(2,867,472)	(3,390,279)	270,098	369,566	1,493,695
Surplus as Regards Policyholders December 31, current year	$19,053,825	$21,921,297	$25,311,576	$25,041,478	$24,671,912

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Surplus as Regards Policyholders: $19,053,826

Total surplus as regards policyholders as established by this examination is the same as what was reported by the Company in its December 31, 2012, Annual Statement. There were no changes made to any asset or liability items as a result of our examination as performed as of December 31, 2012.

Tenn. Code Ann. §§ 56-2-114 and 115 require an insurer of this Company's type to maintain a minimum capital and surplus of at least two million dollars ($2,000,000). Therefore, the Company as of December 31, 2012, for this examination does maintain capital and surplus in excess of the amounts required per Tennessee Statutes.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

COMMENTS

Failure to Give Proper Notice of Shareholder Dividend

As noted earlier in the "Dividends" section of this report, the Company violated Tenn. Code Ann. § 56-11-105 (e) (2008) in 2008 and 2009. There have been no subsequent violations.

RECOMMENDATIONS

There were no recommendations noted during the completion of this examination.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in connection with the verification and valuation of assets and the determination of liabilities of Consumers Insurance USA, Inc. located in Murfreesboro, Tennessee.

In such manner, it was found that as of December 31, 2012, the Company had admitted assets of $57,426,637 and liabilities, exclusive of surplus, of $38,372,811. Thus, there existed for the additional protection of the policyholders, the amount of $19,053,826 in the form of common capital stock, gross paid in and contributed surplus, and unassigned funds.

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

In addition to the undersigned, Jerry Ehlers, CISA, AES, CITP, Robert Panah, CISA, Lee Hoeppner, and Jordan Wood, of the contracting IT firm, Noble Consulting Services, Inc., Indianapolis, Indiana, participated in the work of this examination.

In addition to the undersigned, Mike Bacon, Insurance Examiner from the State of Tennessee, Greg Wilson, FCAS, MAAA, Mike Mayberry, FSA, MAAA, and Wes Campbell, FSA, MAAA, of the contracting actuarial firm, Lewis & Ellis, Inc., Richardson, Texas, participated in the work of this examination.

Respectfully submitted,

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Consumers Insurance USA, Inc. located in Murfreesboro, Tennessee dated May 13, 2014, and made as of December 31, 2012, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 16th day of June, 2014

Notary Helen W. Dorsey

My Commission Expires: 11/06/2017

HELEN W DORSEY
STATE
OF
TENNESSEE
NOTARY
PUBLIC
DAVIDSON COUNTY

Consumers
service experience trust Insurance USA

P.O. Box 12269 Murfreesboro, TN 37129 Phone: 615-896-6133 Fax: 615-896-0766 Visit us online at www.ciusa.com

June 23, 2014

Jay Uselton
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Re: Examination Report

Dear Mr. Uselton:

We have received the completed Examination Report and accept the report as transmitted without rebuttal.

Respectfully Submitted,

Dennis W. Kunkel, CFO
Consumers Insurance USA, Inc.

EXHIBIT
"B"