

Report
of the
Examination of
Nationwide Assurance Company
Madison, Wisconsin
As of December 31, 2011

TABLE OF CONTENTS

	Page
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION	4
III. MANAGEMENT AND CONTROL	6
IV. AFFILIATED COMPANIES	8
V. REINSURANCE	11
VI. FINANCIAL DATA.....	12
VII. SUMMARY OF EXAMINATION RESULTS	21
VIII. CONCLUSION.....	23
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	24
X. ACKNOWLEDGMENT	25



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

May 9, 2013

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

NATIONWIDE ASSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Nationwide Assurance Company (the company) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of Nationwide Mutual Insurance Company. Representatives of the Ohio Department of Insurance acted in the capacity as the lead state for the coordinated exams. Work performed by the Ohio Department of Insurance was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

The Ohio Department of Insurance actuary reviewed the loss and loss adjustment expense reserves of the Nationwide Group for adequacy. The actuary's results were reported to the Ohio Department of Insurance examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1934 as Colonial Mutual Compensation Insurance Company, Ltd., under the mutual insurance laws of California. Policyholders approved the conversion from a mutual to a stock company in 1942. Concurrent with the conversion from a mutual to a stock basis of operation, the corporate name was changed to Colonial Insurance Company. The words "of California" were added to the name in 1973. The company redomesticated from California to Wisconsin in 1997 and the name was changed to Colonial Insurance Company of Wisconsin. The current name of Nationwide Assurance Company was adopted on April 30, 1999.

In 2011, the company wrote direct premium in the following states:

Ohio	\$ 6,655,729	20.4%
South Carolina	6,455,546	19.7
Virginia	3,269,396	10.0
Arkansas	3,209,086	9.8
Rhode Island	3,099,172	9.5
Delaware	2,023,128	6.2
New York	1,646,509	5.0
Tennessee	1,513,330	4.6
West Virginia	842,873	2.6
All others	3,985,595	12.2
 Total	\$32,700,364	100.0%

The company is licensed in the District of Columbia and all U.S. states except California, Hawaii, Massachusetts, Michigan, New Jersey, North Carolina and Texas. No premium was written in Wisconsin during 2011.

The major products marketed by the company include private passenger auto liability and auto physical damage. The major products are marketed through the Nationwide Group exclusive agency and direct marketing channels.

The following table is a summary of the net insurance premiums written by the company in 2011. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Inland marine	\$ 31,518	\$0	\$ 31,518	\$0
Other liability – occurrence	14,099	0	14,099	0
Private passenger auto liability	21,679,055	0	21,679,055	0
Auto physical damage	10,973,548	0	10,973,548	0
Burglary and theft	<u>2,144</u>	<u>0</u>	<u>2,144</u>	<u>0</u>
Total All Lines	<u>\$32,700,364</u>	<u>\$0</u>	<u>\$32,700,364</u>	<u>\$0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

Nationwide Assurance Company's bylaws provide that the board of directors shall consist of not less than five, provided a quorum of at least three members. The current board of directors consists of five members. The directors are elected annually to serve a one-year term. All directors hold office until their respective successors are elected and qualified. Board vacancies may be filled for the unexpired term by a vote of the majority of board members present if they constitute a quorum. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. As executive employees of the holding company system, the directors receive no compensation specific to their service on the company's board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Expiry
Wesley K. Austen Columbus, Ohio	President and Chief Operating Officer – Allied Group	2013
Mark A. Berven Dublin, Ohio	Senior Vice President	2013
Mark A. Pizzi Westerville, Ohio	President and Chief Operating Officer – Nationwide Insurance	2013
Melissa D. Gutierrez Gahanna, Ohio	Vice President, Business Development and Operations	2013
Michael A. Lex Dublin, Ohio	Senior Vice President, Sales Support	2013

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2012 Compensation*
David G. Arango	President	Not Allocated
Carol L. Dove	Vice President and Treasurer	Not Allocated
Robert W. Horner, III	Vice President and Secretary	Not Allocated

* The company's officers are paid by other affiliates and no portion of the expense of their compensation is allocated to Nationwide Assurance Company.

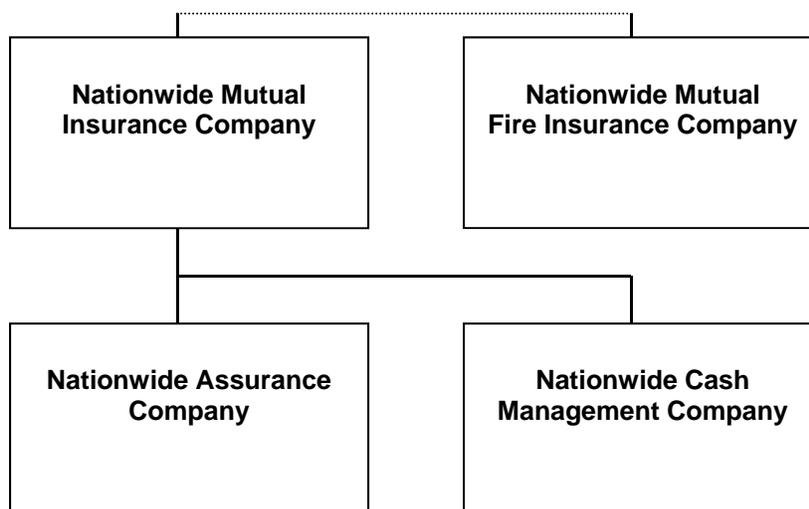
Committees of the Board

Although the company's bylaws allow for the formation of certain committees by the board of directors, all committees at the time of the examination are organized at the corporate enterprise level.

IV. AFFILIATED COMPANIES

Nationwide Assurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group that control Nationwide Assurance Company or with which the company has reinsurance or service agreements. The Nationwide Group is ultimately controlled by two mutual insurers, Nationwide Mutual Insurance Company and Nationwide Mutual Fire Insurance Company. The above entities are sister companies under the same management control which operate in tandem as the ultimate controlling entities for all subsidiaries. A brief description of the significant affiliates follows the simplified organization chart.

**Organizational Chart
As of December, 2011**



Nationwide Mutual Insurance Company (NMIC)

Nationwide Mutual Insurance Company provides personal automobile, property and commercial insurance products and services through exclusive and independent agents in all U.S. states as well as the District of Columbia and U.S. Virgin Islands. NMIC is the administrator of the Nationwide Pooling Agreement with a pool participation percentage of 83.7%. As of December 31, 2011, the audited financial statements of Nationwide Mutual Insurance Company reported assets of \$27,617,831,419, liabilities of \$17,182,942,679, and surplus as regards policyholders of \$10,434,888,740. Operations for 2011 produced a net loss of \$910,107,691.

Nationwide Mutual Fire Insurance Company (NMFIC)

Nationwide Mutual Fire Insurance Company provides private passenger auto, homeowner's multiple peril and commercial multiple peril coverage in all U.S. states as well as the District of Columbia and the U.S. Virgin Islands. Nationwide Mutual Fire Insurance Company shares in the Nationwide Pooling Agreement with a pooling participation percentage of 11.3%. As of December 31, 2011, the audited financial statements of Nationwide Mutual Fire Insurance Company reported assets of \$4,553,400,810, liabilities of \$2,310,246,490, and surplus as regards policyholders of \$2,243,154,320. Operations for 2011 produced a net loss of \$8,639,958.

Nationwide Cash Management Company (NCCM)

Nationwide Cash Management Company is a non-insurance, wholly owned subsidiary of Nationwide Mutual Insurance Company. NCCM is a stock corporation incorporated under the laws of the state of Ohio. The company acts in the capacity of an in-house money market fund through the purchase and sale of investment securities of a short-term nature as the agent for other corporations, foundations and insurance company separate accounts, including Nationwide Assurance Company. As of December 31, 2011, the unaudited financial statements of Nationwide Cash Management Company reported assets of \$2,075,239,675, liabilities of \$2,066,259,851, and shareholders' equity of \$8,979,824. Operations for 2011 produced net income of \$0.

Agreements with Affiliates

Nationwide Assurance Company is a party to the following affiliate agreements:

Cost Sharing Agreement

Nationwide Mutual Insurance Company provides various operational and administrative services to the company under an Amended & Restated Cost Sharing Agreement, effective January 1, 2011. Operational services provided under the agreement include functions associated with field acquisition, policy pricing and administration, data processing, accounting, actuarial and investment. Administrative services provided under the agreement include functions associated with payroll, benefits, investment management, legal and human resources.

Costs associated with these services are allocated based on various standard cost accounting procedures which are in conformity with NAIC statutory accounting principles.

Methods used to allocate costs to respective parties include special cost studies, individual time estimates, claim counts, policies in force, direct premium written or pro rata share. The agreement remains in effect until terminated by either party providing 90 days' written notice.

Investment Agency Cost Allocation Agreement

Nationwide Cash Management Company, a subsidiary of NMIC, acts as agent on behalf of Nationwide Assurance Company in handling the purchase and sale of short-term securities under an Investment Agency Cost Allocation Agreement, effective November 14, 2002. Nationwide Cash Management Company's authority as agent encompasses the purchase, sale or transfer of investments, collection and account credit of all dividends, interest and other investment income as well as the proceeds from the sale, redemption, or other disposition of investments and the maintenance of agent bank accounts to hold funds. The agreement may be terminated at the end of each business day by the company upon written notice to the agent and at any time by the agent upon 30 days' written notice.

Tax Sharing Agreement

Nationwide Mutual Insurance Company provides consolidated federal income tax return filing to affiliates, including Nationwide Assurance Company, under a revised Tax Sharing Agreement, effective January 1, 2008. NMIC's consolidated tax return preparation and filing responsibilities under the agreement include consolidated federal, state or local income tax return filing on behalf of the affiliates for eligible years, amended return filing, acting as agent for the affiliate in the event of any tax audit, administrative or judicial proceedings and retention of copies of all tax return related work papers. Subsidiary responsibilities under the Tax Sharing Agreement include payment to NMIC of an amount equal to the income tax liability attributable to such subsidiary within 90 days following the filing of group tax returns, payment to NMIC of tax liabilities which may be incurred related to estimated taxes, tax deficiencies, interest or penalties and providing information required in connection with tax return preparation.

V. REINSURANCE

The company's reinsurance agreement in force at the time of the examination is summarized below. The contract contained proper insolvency provisions.

Affiliated Ceding Contracts

1. Type: 100% Quota Share
Reinsurer: Nationwide Mutual Insurance Company
Scope: Property and casualty lines of business written or assumed in all states and territories in the United States and Canada
Retention: None
Coverage: 100% of all liabilities, net of existing reinsurance, under policies and contracts of insurance and reinsurance which may be written subsequent to the agreement date
100%, net of existing reinsurance, of all liabilities for all claims sustained whether occurring before, on, or subsequent to the effective date of this agreement
Premium: 100% of net premium
Effective date: January 1, 1999
Termination: Agreement is entered into for an indefinite period but may be cancelled at any time upon 90 days' advance written notice to the other party

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2011, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Nationwide Assurance Company
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$32,134,707	\$ 0	\$32,134,707
Cash, cash equivalents, and short-term investments	21,686,856	0	21,686,856
Other invested assets	2,061,043	500,000	1,561,043
Investment income due and accrued	410,130	0	410,130
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	2,292,958	0	2,292,958
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	7,172,008	2,563	7,169,445
Reinsurance:			
Amounts recoverable from reinsurers	1,781,368	0	1,781,368
Other amounts receivable under reinsurance contracts	675,702	0	675,702
Net deferred tax asset	714,013	500,078	213,935
Receivable from parent, subsidiaries, and affiliates	627,141	51,156	575,985
Write-ins for other than invested assets:			
Miscellaneous assets	<u>3,530,949</u>	<u>2,475</u>	<u>3,528,474</u>
Total Assets	<u>\$73,086,875</u>	<u>\$1,056,272</u>	<u>\$72,030,603</u>

Nationwide Assurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Current federal and foreign income taxes		\$ 190,993
Ceded reinsurance premiums payable (net of ceding commissions)		11,736,143
Payable to parent, subsidiaries, and affiliates		271,483
Write-ins for liabilities:		
Miscellaneous liabilities		102,769
State surcharge/recoupment payable		4,768
Escrow liability		<u>267,201</u>
 Total liabilities		 12,573,357
 Common capital stock	\$ 3,500,000	
Gross paid in and contributed surplus	38,000,000	
Unassigned funds (surplus)	<u>17,957,246</u>	
 Surplus as regards policyholders		 <u>59,457,246</u>
 Total Liabilities and Surplus		 <u>\$72,030,603</u>

**Nationwide Assurance Company
Summary of Operations
For the Year 2011**

Investment Income

Net investment income earned	\$1,153,049	
Net realized capital gains (losses)	<u>(1,064)</u>	
Net investment gain (loss)		\$1,151,985

Other Income

Write-ins for miscellaneous income:		
Other miscellaneous expense	<u>(4,677)</u>	
Total other income		<u>(4,677)</u>

Net income (loss) after dividends to policyholders but before federal and foreign income taxes		1,147,308
Federal and foreign income taxes incurred		<u>367,273</u>

Net Income		<u>\$ 780,035</u>
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**Nationwide Assurance Company
Cash Flow
For the Year 2011**

Premiums collected net of reinsurance		\$ (41,033)
Net investment income		1,455,350
Miscellaneous income		<u>742,804</u>
Total		2,157,121
Benefit- and loss-related payments	\$ (666,787)	
Federal and foreign income taxes paid (recovered)	<u>377,184</u>	
Total deductions		<u>(289,603)</u>
Net cash from operations		2,446,724
Proceeds from investments sold, matured, or repaid:		
Bonds	\$ 6,201,859	
Miscellaneous proceeds	<u>4,275</u>	
Total investment proceeds		6,206,134
Cost of investments acquired (long-term only):		
Bonds	<u>11,250,172</u>	
Total investments acquired		<u>11,250,172</u>
Net cash from investments		(5,044,038)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>3,201,250</u>	
Net cash from financing and miscellaneous sources		<u>3,201,250</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		603,936
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>21,082,919</u>
End of Year		<u>\$21,686,855</u>

**Nationwide Assurance Company
Compulsory and Security Surplus Calculation
December 31, 2011**

Assets	\$72,030,603
Less liabilities	<u>12,573,357</u>
Adjusted surplus	59,457,246
Compulsory surplus (subject to a minimum of \$2 million)	<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)	<u>\$57,457,246</u>
Adjusted surplus (from above)	\$59,457,246
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)	<u>2,800,000</u>
Security Surplus Excess (or Deficit)	<u>\$56,657,246</u>

**Nationwide Assurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2011**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2011	2010	2009	2008	2007
Surplus, beginning of year	\$58,193,644	\$56,845,774	\$55,466,695	\$ 73,371,365	\$71,181,038
Net income	780,035	1,066,057	1,939,055	2,080,306	2,008,204
Change in net unrealized capital gains/losses	93,345	(222,767)	222,767	0	89,248
Change in net deferred income tax	76,642	37,670	160,645	95,766	292,864
Change in nonadmitted assets	313,580	466,910	(943,388)	(80,742)	(199,989)
Dividends to stockholders	<u>0</u>	<u>0</u>	<u>0</u>	<u>(20,000,000)</u>	<u>0</u>
Surplus, End of Year	<u>\$59,457,246</u>	<u>\$58,193,644</u>	<u>\$56,845,774</u>	<u>\$ 55,466,695</u>	<u>\$73,371,365</u>

**Nationwide Assurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2011**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2011	2010	2009	2008	2007
#1 Gross Premium to Surplus	55%	69%	98%	156%	204%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	2.2*	2.4*	2.9*	4.0	4.7
#7 Gross Change in Surplus	2	2	2	-24*	3
#8 Change in Adjusted Surplus	2	2	2	-24*	3
#9 Liabilities to Liquid Assets	10	6	9	20	14
#10 Agents' Balances to Surplus	4	0	0	0	0
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Ratio No. 6 provides the percentage of annual income on an investment portfolio. The usual range for this ratio includes results greater than 3.0% and less than 6.5%. The exceptional results for this ratio from 2009 to 2011 are attributable to the very low interest rate environment of recent years.

Ratio Nos. 7 and 8 measure the improvement or deterioration in the insurer's financial condition during the year based on operational results. The usual range for these ratios includes results less than 25% and greater than -10%. For 2008, the unusual results in these ratios were due to a one-time \$20 million dollar dividend to the stockholder, Nationwide Mutual Insurance Company.

The zero IRIS ratio results reflect the impact of the company's 100% quota share contracts with the Nationwide Pool.

Growth of Nationwide Assurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2011	\$72,030,603	\$12,573,357	\$59,457,246	\$ 780,035
2010	61,265,910	3,072,266	58,193,644	1,066,057
2009	61,148,983	4,303,209	56,845,774	1,939,055
2008	65,253,081	9,786,386	55,466,695	2,080,306
2007	83,269,468	9,898,103	73,371,365	2,008,204
2006	86,035,353	14,854,315	71,181,038	2,585,124

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2011	\$ 32,700,364	\$0	\$0	0.0%	0.0%	0.0%
2010	40,304,376	0	0	0.0	0.0	0.0
2009	55,903,682	0	0	0.0	0.0	0.0
2008	86,752,211	0	0	0.0	0.0	0.0
2007	149,724,277	0	0	0.0	0.0	0.0
2006	207,353,642	0	0	0.0	0.0	0.0

Gross premium written has decreased significantly over the last six years. This decrease is attributed to a decrease in nonstandard and motorcycle liability and physical damage lines in conjunction with the overall transfer of business to other companies of the Nationwide Group.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus of \$59,457,246 reported by the company as of December 31, 2011, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Shareholder and Board of Directors' Actions Without a Meeting—It is recommended that the company comply with the intention of formal bylaw meeting requirements or amend its bylaws to clarify that “Action by Unanimous Written Consent Without a Meeting” is an acceptable alternative for all shareholder and board of directors’ meetings.

Action—Compliance.

2. Bylaw Amendment Filing—It is again recommended that the company file amendments to its bylaws within 60 days of such changes, pursuant to s. 611.12 (4), Wis. Stat.

Action—Compliance.

3. Board of Directors' Oversight—It is recommended that the minutes of the board of directors demonstrate more complete oversight as it relates to annual acknowledgment and acceptance of summary reports of investment transactions as well as auditor appointment.

Action—Compliance.

4. Intercompany Settlement—It is recommended that intercompany settlement, which also incorporates affiliated reinsurance account settlement, be completed on a monthly basis going forward to provide for timely settlement and minimize potential write-offs.

Action—Compliance.

Summary of Current Examination Results

There were no adverse or material examination findings as a result of the current examination of the company.

VIII. CONCLUSION

Nationwide Assurance Company reported admitted assets of \$72,030,603, liabilities of \$12,573,357 and surplus as regards policyholders of \$59,457,246 as of December 31, 2011.

The company cedes 100% of its business to its parent, Nationwide Mutual Insurance Company, with no pool participation in the Nationwide Pool. The company has been profitable for all years under review. Gross premium written has decreased significantly over the last six years. This decrease is attributed to a decrease in nonstandard and motorcycle liability and physical damage lines in conjunction with the overall transfer of business to other companies in the Nationwide Insurance Enterprise.

The company has complied with all four prior examination recommendations and the current examination did not result in any recommendations. Additionally, the examination did not result in any adjustments to policyholders' surplus as reported by the company.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Tom Janke	Insurance Financial Examiner
Randy Milquet	IT Specialist

Respectfully submitted,

Amanda Schroeder
Examiner-in-Charge