



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

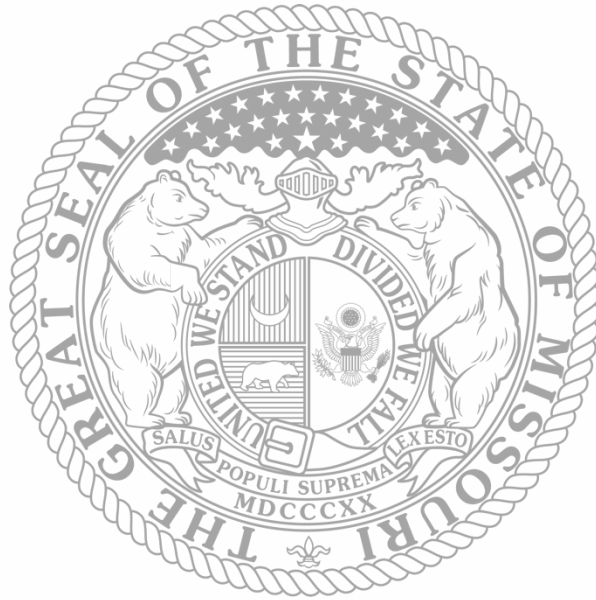
After full consideration and review of the report of the financial examination of Cornerstone National Insurance Company for the period ended December 31, 2019, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on the financial statement items, financial statement changes resulting from examination, summary of recommendations and subsequent events.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Cornerstone National Insurance Company as of December 31, 2019 be and is hereby ADOPTED as filed and for Cornerstone National Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement and verify compliance with each item mentioned in the Comments on the Financial Statement and/or Summary of Recommendations section of such report; and (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 11th day of August, 2020.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

CORNERSTONE NATIONAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2019

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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St. Louis, MO
June 23, 2020

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

Cornerstone National Insurance Company (NAIC #10783)

hereinafter referred to as such, as Cornerstone, or as the Company. Its administrative office is located at 19 S. Sixth Street, Columbia, Missouri 65201, telephone number (573) 817-2481. The fieldwork for this examination began on March 2, 2020, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a multi-state financial examination of Cornerstone National Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2014 through December 31, 2016. The current examination covers the period of January 1, 2017 through December 31, 2019, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination 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. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to Cornerstone included Capital & Surplus, Claims & Reserves, Investments & Treasury, Premiums & Underwriting, Reinsurance, Related Parties and Taxes. The examination also included a review and evaluation of information technology general controls.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

During our review of the Related Parties activity, it was noted that the majority of Innovated Holdings employees' salaries and benefits were allocated to CFM Insurance, Inc., with a relatively small percentage allocated to Cornerstone. For example, several executives did not have any of their salaries allocated to Cornerstone even though it appears they were actively managing the Company and spending time on activities related to the Company. Exhibit B of the Cost Allocation Agreement between the parties states that the allocable portion of the salary and benefits of Innovated Holdings employees will be determined by a study of employee activities by company (i.e. time spent) and will be adjusted annually as necessary. To date no such study has been performed.

The Company reported an asset for net deferred tax assets of \$290,125 as of December 31, 2019. Based on the requirements of SSAS No. 101, Income Taxes, it appears that a valuation allowance should have been made to reduce this balance to \$0. Therefore, the net deferred tax asset balance was non-admitted in the financial statements of this report of financial examination.

COMPANY HISTORY

General

Cornerstone National Insurance Company was organized on March 6, 1997 as a stock property and casualty insurer pursuant to Chapter 379 of the Revised Statutes of Missouri. The Company was a wholly-owned stock subsidiary of Cornerstone Management Partners, Inc. (CMP), a Missouri general corporation. At the time, CMP was considered the ultimate controlling entity of Cornerstone.

Mergers, Acquisitions, and Major Corporate Events

On October 4, 2018, a Form A was filed by CFM Insurance, Inc. (CFM) seeking the Department's approval to acquire the common capital stock of Cornerstone by cash purchase. Subsequently, Innovated Holdings, Inc. (IH) was organized on February 8, 2019, as a subsidiary of CFM, and IH purchased 100% of the outstanding stock of Cornerstone.

The above transaction was approved by the Department with a closing date of March 1, 2019. CFM currently owns 90.1% of IH, with the other 9.9% owned by Forrester Mutual Insurance Company, an Illinois-domiciled insurer. IH contributed \$3 million surplus to Cornerstone effective February 27, 2019. This contribution was made to restore the Company's RBC Ratio to above 300%.

Effective September 30, 2019, DCI approved a quasi-reorganization of the Company under SSAP No. 72. Under the quasi-reorganization, Gross Paid-in and Contributed Surplus was debited \$15,261,445 and Unassigned Funds (Surplus) was credited by the same amount, leaving the Unassigned Funds balance at \$0 as of 9/30/19.

Dividends and Capital Contributions

Cornerstone did not pay any dividends during the examination period.

In 2017, Cornerstone paid an extraordinary distribution of \$150,000 to its parent from its gross paid-in and contributed surplus account. The purpose of this distribution was to fund the purchase by the parent of an additional 1,500 shares of common stock. This purchase was made to bring the Company into compliance with a Texas state law that requires all licensed property and casualty insurers to maintain a minimum of \$2.5 million of capital stock.

As noted above, Cornerstone's direct parent company, IH, contributed \$3 million surplus to Cornerstone effective February 27, 2019. In addition, the Company's former parent, CMP, made a \$3 million capital contribution in 2018.

Surplus Notes

Cornerstone issued a \$5,000,000 surplus note to Dekania CDO II, Ltd. in exchange for cash on July 7, 2004. The interest rate to be accrued each year is based on the 3-month LIBOR rate plus 4.2%, and the note has a maturity date of April 29, 2034.

No interest was paid on the surplus note during the examination period. As part of the Department's approval of the acquisition by CFM, Cornerstone obtained a waiver from the note holder agreeing to forgive the accumulated interest at that time. The balance as of December 31, 2019, was \$5,287,153.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that is elected by the shareholders. The Articles of Incorporation specify that there shall be no less than 9 and no more than 25 Board members. The members elected and serving as of December 31, 2019, were as follows.

Name and Address

Jacob R. Black
Columbia, Missouri

Dale L. Dieckhoff
Concordia, Missouri

Robert R. Gass
Trenton, Missouri

Todd M. Hartley
Marshall, Missouri

Eric C. Hoffman
Trenton, Missouri

James E. Joyner
Warrensburg, Missouri

Roger E. Needham
Roscoe, Illinois

Cynthia S. Tolia
Concordia, Missouri

David W. Wiedeman
Sedalia, Missouri

Elizabeth B. Wilkens
Warrensburg, Missouri

Philip D. Woods
Warrensburg, Missouri

George H. Zimmerschied
Independence, Missouri

Marla J. Zirkle
Oak Grove, Missouri

Principal Occupation and Business Affiliation

President/Chief Executive Officer
CFM Insurance, Inc.

Retired Information Systems Professional

Vice President of Underwriting & Policy Compliance
CFM Insurance, Inc.

Owner/President
Hartley Furniture Galleries

Owner/Operator
Hoffman Farms, Inc.

Owner
Insurance Associates of Johnson County, Inc.

Operations Manager/Treasurer
Forreston Mutual Insurance Company

Chief Financial Officer
CFM Insurance, Inc.

Real Estate Broker
Re/Max of Sedalia

Chief Operating Officer
CFM Insurance, Inc.

Retired Business Owner

Sales Manager
Kinze Manufacturing

Controller
Steel City Media

Senior Officers

The officers elected and serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Office</u>
Jacob R. Black	President & Chief Executive Officer
Elizabeth B. Wilkens	Executive Vice President & Chief Operating Officer
Cynthia S. Tolias	Executive Vice President, Secretary & Chief Financial Officer
David S. Forrest	Assistant Secretary & General Counsel
Robert R. Gass	Senior Vice President Underwriting & Policy Compliance
Nancy P. Parsons	Vice President Claims

Principal Committees

The following Board committees were in place as of December 31, 2019:

Audit/Investment Committee

Todd M. Hartley, Chairman
 Roger E. Needham
 David W. Wiedeman
 Philip D. Woods

Corporate Governance Committee

Dale L. Dieckhoff, Chairman
 Todd M. Hartley
 James E. Joyner
 Marla J. Zirkle

Executive Committee

Dale L. Dieckhoff, Chairman
 Jacob R. Black
 James E. Joyner

HR/Compensation Committee

Marla J. Zirkle, Chairman
 Eric C. Hoffman
 George H. Zimmerschied

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed. The Articles were amended in 2017 to increase the number of authorized shares of common stock from 23,500 to 25,000. The amendment was properly filed with the Missouri Secretary of State.

The minutes of the meetings of the shareholder, board of directors and committees were reviewed for the period beginning January 1, 2019, through current. The minutes appear to properly document and approve corporate events and transactions.

Holding Company, Subsidiaries, and Affiliates

Cornerstone is a member of an insurance holding company system as defined by Chapter 382 RSMo (Insurance Holding Companies). Affiliations are described in the Company History section above. CFM Insurance, Inc. is the ultimate controlling entity within the holding company system.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group as of December 31, 2019. All subsidiaries shown are wholly-owned unless otherwise noted.



CFM Insurance, Inc. currently owns 90.1% of Innovated Holdings, Inc. The remaining 9.9% is owned by Forrester Mutual Insurance Company, an Illinois-domiciled insurer.

Intercompany Transactions

The following agreements represent significant contracts executed with affiliated entities that were in effect as of December 31, 2019. A brief description of these agreements are as follows:

Cost Allocation Agreement: This agreement, effective April 1, 2019, is between CFM, IH and Cornerstone. Per the terms of the agreement, IH will provide various management and administrative support services to Cornerstone and CFM, including claims processing, underwriting, marketing/advertising, accounting/tax, and numerous others. On the effective date of the agreement, all employees of Cornerstone and CFM became employees of IH. The monthly fee paid by Cornerstone and CFM is equal to the direct costs incurred by IH for the provision of such services.

Tax-Sharing Agreement: This agreement, effective February 27, 2019, is between CFM, IH and Cornerstone. The terms of this agreement state that the tax liability apportioned to each member of the group is based on the relative federal income tax liability each company would have incurred on a separate company basis. Estimated payments or refunds are to be made quarterly, with a final settlement to be made within 30 days of filing the combined return or receipt of refund.

During our review of the Related Parties activity, it was noted that the majority of Innovated Holdings employees’ salaries and benefits were allocated to CFM, with a relatively small percentage allocated to Cornerstone. For example, several executives did not have any of their salaries allocated to Cornerstone (including the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Senior Vice President Underwriting) even though it appears they were actively managing the Company and spending time on activities related to the Company.

Per SSAP No. 25, paragraph 19, expenses that result from cost allocations shall be allocated subject to a fair and reasonable standard. Paragraph 19 further states, “Regulatory scrutiny of related party transactions where amounts charged for services that do not meet the fair and reasonable standard established, may result in (a) amounts charged being recharacterized as dividends or capital contributions, (b) transactions being reversed, (c) receivable balances being nonadmitted, or (d) other regulatory action.

Exhibit B of the Cost Allocation Agreement between the parties states that the allocable portion of the salary and benefits of Innovated Holdings employees will be determined by a study of employee activities by company (i.e. time spent) and will be adjusted annually as necessary. To date no such study has been performed.

As stated in Exhibit B of the Cost Allocation Agreement, a study of employee activities should be conducted to ensure that the percentage of salaries and benefits to be allocated between the companies under the Cost Allocation Agreement meet the fair and reasonable standard required by SSAP No. 25.

TERRITORY AND PLAN OF OPERATION

Cornerstone is licensed as a property and casualty insurer by the Missouri Department of Commerce and Insurance under Chapter 379 RSMo (Insurance Other than Life). The Company is licensed in 20 states, but only wrote business in 10 states during 2019. The states with the largest percentage of written premiums in 2019 were Arkansas (38.8%), Oklahoma (26.7%), and Missouri (24.1%).

The Company’s two main lines of business are Private Passenger Auto Liability and Auto Physical damage, which accounted for 57% and 39% of net written premiums in 2019, respectively. The Company also writes small amounts of Allied Lines business for the National Flood Insurance Program that is 100% reinsured with other reinsurers.

An agency force of 676 independent agents is utilized to produce business. The production of business is highly diversified among the agencies. No agent accounted for more than 1.7% of direct written premiums in 2019.

After the acquisition by CFM in 2019, the new management team has revised the Company’s business plan. Business will only be written in the core states of Arkansas, Illinois, Indiana, Kansas, Missouri, Oklahoma and Tennessee going forward. The Company will compete in the standard and preferred auto markets going forward, compared with the non-standard auto coverage previously offered. The Company will also begin offering a homeowners product in select states in 2020. This coverage will be offered only as a compliment to the existing auto coverage. No mono-line homeowners coverage will be offered.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The table below summarizes the Company's premium writings and writing ratios for the period under examination:

(\$000s omitted)

Year	Net Premiums Written	Change in Net Premiums	Benefit and Loss Payments	Capital and Surplus	Ratio of Net Premiums to Surplus	Net Income (Loss)
2017	19,925	(8,796)	19,358	7,571	2.63	(1,087)
2018	16,582	(3,343)	14,848	8,169	2.03	(1,139)
2019	10,743	(5,839)	9,995	7,590	1.42	(625)

Cornerstone reported net losses for each year in the examination period. Capital and surplus remained adequate as of 12/31/19, due to the \$3 million capital contribution received from Innovated Holdings, Inc. Premiums written decreased significantly in 2019 due to the new management team's focus on moving away from non-standard auto and exiting unprofitable states.

In its plan to become profitable in 2020, management has also ended relationships with non-profitable agencies, reduced staff, and relocated its home office to reduce rent expense by 85%.

The table below summarizes the Company's incurred losses and loss ratios for the period under examination:

(\$000s omitted)

Year	Net Premiums Earned	Net Losses and Loss Adjustment Expenses	Loss Ratio
2017	\$ 22,940	\$ 21,109	92.0%
2018	18,100	16,043	88.6%
2019	13,386	11,461	85.6%

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2017	2018	2019
Direct Premiums Written	\$ 30,433	\$ 23,243	\$ 12,828
Reinsurance Assumed:			
Affiliates	0	0	0
Non-Affiliates	0	0	0
Reinsurance Ceded:			
Affiliates	0	0	0
Non-Affiliates	10,508	6,662	2,085
Net Premiums Written	\$ 19,925	\$ 16,582	\$ 10,743

Assumed Reinsurance

The Company did not assume any premiums during the period under examination.

Ceded Reinsurance

Cornerstone had a Quota Share reinsurance agreement in effect from August 1, 2019, to January 1, 2020, with Grinnell Mutual Reinsurance Company (Grinnell). Under the agreement the Company cedes 15% of its Company's automobile liability and physical damage coverage to Grinnell, subject to limits of liability of \$250,000 per occurrence on automobile physical damage business and \$500,000 per occurrence on extra contractual obligations. BMS was the reinsurance broker for the agreement. Grinnell has an A rating by AM Best.

Cornerstone also had property catastrophe and casualty clash coverage in effect from January 1, 2019, to January 1, 2020. The property catastrophe agreement provides coverage of \$3.75 million in excess of \$250,000 per occurrence. The casualty clash agreement provides coverage of \$4.5 million in excess of \$500,000 per occurrence. The agreements were brokered on behalf of the Company by Willis Re and coverage is provided by various reinsurers, primarily large, well-capitalized companies.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, Hauk Kruse & Associates, in St. Louis, MO, performed the 2019 statutory audit of the Company. Reliance was placed upon the CPA workpapers as deemed appropriate.

Actuarial Opinion

The Company’s 2019 actuarial opinion regarding loss reserves, loss adjustment reserves, and other actuarial items was issued by Scott Anderson, FCAS, MAAA, President of Actuarial Advisors, Inc. of Minneapolis, Minnesota.

Consulting Actuary

Pursuant to a contract with the Department, Kristine Fitzgerald of Actuarial & Technical Solutions, Inc. reviewed the underlying actuarial assumptions and methodologies used by Cornerstone to determine the adequacy of loss reserves and LAE reserves. Ms. Fitzgerald determined that the Company made a reasonable provision for the loss and LAE reserves that were reported in the statutory financial statements, as of December 31, 2019.

Information Systems

In conjunction with this examination, Andy Balas, AES, CFE, CPA, Information Systems Financial Examiner with the Department, conducted a review of the Company’s information systems.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Cornerstone for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS
As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 14,390,559	\$ 0	\$ 14,390,559
Common Stocks	522,476	0	522,476
Cash, Cash Equivalents, and Short-Term Investments	1,644,211	0	1,644,211
Investment Income Due and Accrued Premiums and Considerations:	92,966	0	92,966
Uncollected Premiums and Agents' Balances in the Course of Collection	1,391,595	0	1,391,595
Reinsurance:			
Amounts Recoverable from Reinsurers	443,511	0	443,511
Other Amounts Receivable Under Reinsurance Contracts	260,594	0	260,594
Net Deferred Tax Asset (Note 1)	887,283	597,158	290,125
Electronic Data Processing Equipment and Software	148,511	148,511	0
Aggregate Write-Ins for Other-Than-Invested Assets	123,886	3,003	120,884
TOTAL ASSETS	\$ 19,905,592	\$ 748,672	\$ 19,156,920

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2019

Losses	\$ 6,952,666
Loss Adjustment Expenses	1,728,966
Commissions Payable, Contingent Commissions, and Other Similar Charges	128,213
Other Expenses	169,257
Unearned Premiums	2,134,668
Advance Premiums	94,247
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	239,110
Payable to Parent, Subsidiaries, and Affiliates	32,239
Payable for Securities	87,926
TOTAL LIABILITIES	\$ 11,567,292
Common Capital Stock	2,500,000
Surplus Notes	5,287,153
Gross Paid In and Contributed Surplus	212,897
Unassigned Funds (Surplus)	(410,422)
TOTAL CAPITAL AND SURPLUS	\$ 7,589,628
TOTAL LIABILITIES AND SURPLUS	\$ 19,156,920

STATEMENT OF INCOME
For the Year Ended December 31, 2019

Premiums Earned	\$	13,385,533
DEDUCTIONS:		
Losses Incurred		9,918,573
Loss Adjustment Expenses Incurred		1,542,369
Other Underwriting Expenses Incurred		4,668,399
Aggregate Write-Ins for Underwriting Deductions		0
Total Underwriting Deductions	\$	16,129,342
Net Income of Protected Cells		0
Net Underwriting Gain (Loss)	\$	(2,743,809)
Net Investment Income Earned		523,556
Net Realized Capital Gains		145,450
Net Investment Gain (Loss)	\$	669,006
Net Gain (Loss) from Agents' or Premium Balances Charged Off		0
Finance and Service Charges Not Included in Premiums		1,217,953
Aggregate Write-Ins for Miscellaneous Income		100,000
Dividends to Policyholders		0
Federal and Foreign Income Taxes Incurred		(132,318)
NET INCOME (LOSS)	\$	(624,532)

RECONCILIATION OF CAPITAL AND SURPLUS

Changes from January 1, 2017 to December 31, 2019

(\$000s omitted)

	2017	2018	2019
Capital and Surplus, Beginning of Year	\$ 10,250,884	\$ 7,571,465	\$ 8,169,475
Net Income (Loss)	(1,087,133)	(1,139,488)	(624,532)
Change in Net Unrealized Capital Gains (Losses) Less Capital Gains Tax	(356,414)	(7,039)	11,045
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)			
Change in Net Deferred Income Tax	25,907	(314,352)	(4,912,639)
Change in Nonadmitted Assets	(1,261,779)	(941,088)	5,797,939
Change in Surplus Notes	233,536	321,660	287,153
Capital Changes:			
Paid In	150,000		
Surplus Adjustments:			
Paid In	(150,000)	3,000,000	(15,261,445)
Aggregate Write-Ins for Gains and Losses in Surplus	(233,536)	(321,683)	14,122,632
Net Change in Capital and Surplus	(2,679,419)	598,010	(579,847)
Capital and Surplus, End of Year	\$ 7,571,465	\$ 8,169,475	\$ 7,589,628

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1 – Net Deferred Tax Asset

\$0

Cornerstone reported an admitted deferred tax asset (DTA) balance of \$290,125 on the 2019 Annual Statement. A DTA is realized when it is used as a loss carryforward to reduce taxes in a future year with positive taxable income. The Company did not realize any DTAs in the exam period due to the taxable losses that occurred.

Statement of Statutory Accounting Principle (SSAP) No. 101, Income Taxes, provides guidance for DTAs. Paragraph 7.e. of SSAP No. 101 states that a statutory valuation allowance adjustment shall be made to reduce gross DTAs that are more than likely not to be realized. SSAP No. 101 further states that the statutory valuation allowance is to be determined in accordance with paragraphs 20-25 of Statement of Financial Accounting Standard (FAS) No. 109, Accounting for Income Taxes.

Paragraph 23 of FAS 109 states – “Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years.” Cornerstone had taxable losses during each year of the examination period and for several consecutive years prior to the examination period. Further, the Company has reported a net operating loss in 2020 through April. The continuous losses in recent years support a conclusion that the DTAs are likely not to be realized in the near future and that a valuation allowance is needed.

An examination change was made to non-admit the \$290,125 balance of DTAs that were reported on the 2019 Annual Statement.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

Reported Surplus at December 31, 2019			\$	7,589,628
	<u>Increase</u>			
Net Deferred Tax Asset (Note 1)		\$	<u>290,125</u>	
Net Increase (Decrease) to Surplus				<u>(290,125)</u>
Adjusted Surplus at December 31, 2019			\$	<u>7,299,503</u>

SUMMARY OF RECOMMENDATIONS

Intercompany Transactions (page 7)

As stated in Exhibit B of the Cost Allocation Agreement, a study of employee activities should be conducted to ensure that the percentage of salaries and benefits to be allocated between the companies under the Cost Allocation Agreement meet the fair and reasonable standard required by SSAP No. 25 (Affiliates and Other Related Parties).

Net Deferred Tax Assets (page 14)

The Company should consider the valuation allowance requirements of SSAP No. 101 when evaluating the admissibility of its net deferred tax asset in the future.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators, with the assistance of the NAIC, are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Department has been in communication with Cornerstone regarding the impact of COVID-19 on its business operations and financial position.

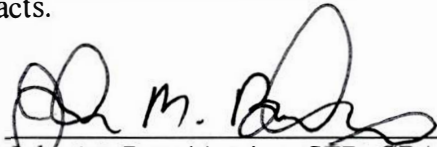
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Cornerstone National Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Andy Balas, AES, CFE, CPA; Josh Nash, CPA, CFE; and Conner Nilges, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, John M. Boczkiewicz, CFE, CPA, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Cornerstone National Insurance Company, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

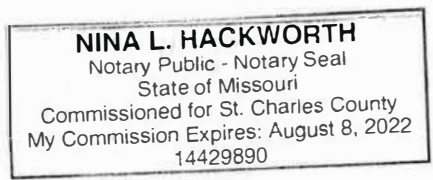


John M. Boczkiewicz, CFE, CPA
Examiner-In-Charge
Missouri Department of Commerce and Insurance

Sworn to and subscribed before me this 21st day of July, 2020.

My commission expires: 8/8/22 

Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance