

# STATE OF MISSOURI



## DEPARTMENT OF COMMERCE & INSURANCE

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

### ORDER

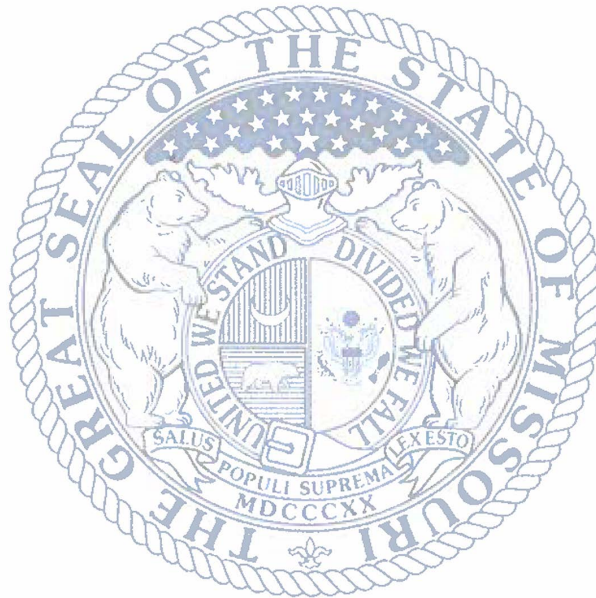
After full consideration and review of the report of the financial examination of Safety National Casualty Corporation for the period ended December 31, 2018, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the 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, reinsurance, accounts and records, financial statements, analysis of examination changes, comments on financial statements, subsequent events and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Safety National Casualty Corporation as of December 31, 2018 be and is hereby ADOPTED as filed and for Safety National Casualty Corporation 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) 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 30<sup>th</sup> day of March, 2020.



*Chlora Lindley-Myers*  
Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF THE  
FINANCIAL EXAMINATION OF

# **SAFETY NATIONAL CASUALTY CORPORATION**

AS OF  
DECEMBER 31, 2018

**STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE**

JEFFERSON CITY, MISSOURI



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January 2, 2020  
St. Louis, MO

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

### **Safety National Casualty Corporation**

hereinafter referred to as "Safety National," "SNCC" or the "Company." The Company's home office is located at 1832 Schuetz Road, St. Louis, Missouri 63146, telephone number (314) 995-5300. Examination fieldwork began on June 11, 2019, and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

We have performed a multi-state examination of Safety National Casualty Corporation. The last examination was completed as of December 31, 2014. This examination covers the period from January 1, 2015, through December 31, 2018, and also includes material transactions or events occurring subsequent to December 31, 2018.

#### **Procedures**

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Commerce and Insurance (Department or DCI) 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 identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

SNCC is a member of the Tokio Marine Holdings, Inc. group (NAIC #3098). The examination was conducted concurrently with the examination of the Company's Missouri-domiciled affiliate, Safety Specialty Insurance Company.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination

does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment is documented separately following the Company's financial statements. The following key activities were identified during the examination: Affiliated Companies, Capital and Surplus, Claims Handling, Investments and Treasury, Premiums and Underwriting, Reserves, and Reinsurance.

This examination report includes significant findings of fact 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 separately communicated to other regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance issues or material changes to the balance sheet or income statement identified during the examination.

### **COMPANY HISTORY**

#### **General**

Safety Mutual Casualty Corporation was incorporated in the state of Missouri on November 28, 1942, and commenced business on December 28, 1942, as a mutual property and casualty insurer operating under Chapter 379 RSMo (Insurance Other than Life).

Safety Mutual Casualty Corporation was converted to a stock company on September 30, 1991, and the name was changed to Safety National Casualty Corporation. SIG Holdings, Inc., a Missouri corporation, became the sole shareholder of the Company at that time.

On March 5, 1996, SIG Holdings, Inc., a Delaware corporation and subsidiary of Delphi Financial Group, Inc., (DFG) purchased SIG Holdings, Inc. of Missouri and merged it into SIG Holdings Inc., of Delaware.

In 2012, Tokio Marine Holdings, Inc. acquired 100% of the stock of Delphi Financial Group, Inc. As a result of this transaction Tokio Marine Holdings, Inc. is now the ultimate controlling entity of the Company.

#### **Capital Stock and Paid-In Surplus**

The Company is authorized to issue 5,000 shares of common stock with a par value of \$1,000 per share. The Company is also authorized to issue 1,000,000 shares of preferred stock with a par value of \$100 per share. At December 31, 2018, the Company had 5,000 shares of common stock and 250,000 shares of preferred stock issued and outstanding, resulting in total capital stock of \$30 million. There were no changes in either stock account during the examination period.

Total paid-in and contributed surplus increased by \$90 million during the examination period, from \$311,649,399 to \$401,649,399. This increase resulted from three \$30 million contributions

received in 2015, 2016 and 2017 from Tokio Marine & Nachido Fire Insurance Co., Ltd. (TMNF) through SIG Holdings, Inc. The contributions were made to provide a cushion for the Company's Risk Based Capital ratio, which must remain above 300% per the Capital Support Agreement with TMNF.

### **Dividends**

Dividends paid from inception through 2014 totaled \$103 million. The Company paid ordinary preferred stock dividends of \$2 million per year for each year during the examination period. All of the dividends were paid to Delphi Financial Group, Inc.

### **Acquisitions, Mergers and Major Corporate Events**

In 2015, Safety National acquired 100% of the issued and outstanding stock of SPARTA Specialty Insurance Company (SSIC). The agreement was approved by DCI and became effective on December 4, 2015.

SSIC was a shell company at the time of acquisition with no existing operations, in-force policies or outstanding claims. The transaction was accounted for as a Quasi-Reorganization in accordance with SSAP No. 72 and SSIC's Unassigned Funds (Surplus) balance was reset to \$0 upon completion of the purchase.

SSIC was previously domiciled in Connecticut and subsequently redomiciled to Missouri. Upon completion of the acquisition, SPARTA Specialty Insurance Company was renamed Safety Specialty Insurance Company. The purpose of this acquisition was to allow Safety National to write surplus lines and other coverage to existing excess workers compensation customers.

Effective December 28, 2018, SNCC acquired 100% of the issued and outstanding stock of Midlands Management Corporation (MMC), an Oklahoma-based managing general underwriter. MMC acts as a broker of excess and surplus lines of insurance, with a specialty in excess workers compensation.

### **Surplus Debentures**

SNCC issued a \$40,000,000 surplus note to Delphi Financial Group in exchange for cash on December 24, 2008. The effective interest rate for this note is 7.0% per annum paid semiannually. The Company paid \$11,200,000 interest on this note during the examination period. The initial maturity date was set at January 15, 2029. The note was amended in 2009 to extend the maturity date to January 15, 2035.

SNCC issued a \$40,000,000 surplus note to Reliance Standard Life Insurance Company in exchange for cash on December 29, 2014. The effective interest rate for the note is 5.0% per annum paid semiannually. The Company paid \$7,183,333 interest on this note during the examination period. The maturity date is January 15, 2045.

Issuance of the surplus notes and subsequent interest payments were properly requested by the Company and approved by DCI. No principal payments have been made by the Company to date on either note.

**MANAGEMENT AND CONTROL****Board of Directors**

The management of the Company is vested in a Board of Directors which, per the Articles of Incorporation, will consist of not less than nine nor more than twenty-five members. The Directors serving as of December 31, 2018, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Gus E. Aivaliotis St. Louis, MO	Senior Vice President-Large Casualty Safety National Casualty Corporation
John P. Csik St. Louis, MO	Executive Vice President, Chief Financial & Chief Risk Officer Safety National Casualty Corporation
Thomas V. Grove St. Louis, MO	Senior Vice President-Business Development Safety National Casualty Corporation
Duane A. Hercules St. Louis, MO	President Safety National Casualty Corporation
Steven A. Hirsh Highland Park, IL	President and Chairman Astro Communications, Inc.
Seigo Ishimaru New York, NY	Chief Financial Officer Tokio Marine Seguradora
James M. Litvack Princeton, NJ	Retired Professor Princeton University
Steven F. Luebbert St. Louis, MO	Chief Operating Officer Safety National Casualty Corporation
James N. Meehan Arlington Heights, IL	Retired Managing Director Bank of America
Donald A. Sherman New York, NY	President and Chief Operating Officer Delphi Financial Group
Koki Umeda New York, NY	President and Chief Executive Officer Tokio Marine Management, Inc.
Mark A. Wilhelm St. Louis, MO	Chief Executive Officer Safety National Casualty Corporation

**Officers**

Officers serving as of December 31, 2018, were as follows:

<u>Name</u>	<u>Position</u>
Mark A. Wilhelm	Chief Executive Officer
Duane A. Hercules	President
Nicholas A. Kriegel	Secretary
Steven C. Divine	Treasurer
John P. Csik	Chief Financial Officer
Gus E. Aivaliotis	Chief Underwriting Officer
Thomas V. Grove	Chief Business Development Officer
Raymond Harkins, Jr.	Senior Vice President Treaty Reinsurance
Steven F. Luebbert	Chief Operating Officer
Cynthia A. Morton	Senior Vice President Operations
Mitchell A. Neuhaus	Senior Vice President Claims
Keith A. Rogers	Senior Vice President & Chief Actuary
Seth A. Smith	Senior Vice President Workers Compensation Underwriting

**Committees**

Safety National had an Audit Committee, Executive and Investment Committee and Dividend Use Plan Compliance Committee in place as of December 31, 2018.

**Corporate Records**

The Articles of Incorporation and Bylaws of SNCC were reviewed. There were no changes to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the meetings of the shareholder, board of directors and committees were reviewed for the period under examination. The minutes appear to properly document and approve corporate events and transactions.

**Holding Company, Subsidiaries and Affiliates**

Safety National 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. Tokio Marine Holdings, Inc. is the ultimate controlling entity within the holding company system.



**Organization Chart**

The following is an abridged organization chart, which depicts the structure of companies relating to Safety National, as of December 31, 2018. All subsidiaries are wholly owned unless otherwise noted.



Note: Other non-insurance companies owned directly by SNCC include Midlands Management Corporation, Insurance Data Services Corporation and Greenbrook LLC.

**Affiliated Transactions**

The Company was a party to the following affiliated agreements at December 31, 2018:

**Tax Allocation Agreement**

Affiliates: Delphi Financial Group, Inc. and subsidiaries, including SNCC.  
Effective: January 1, 2001  
Terms: Delphi Financial Group, Inc. files a consolidated federal income tax return annually on behalf of all participating members of the agreement. Each participant pays its share of the consolidated tax liability on the same basis as if it had filed its tax return on a separate and individual basis.

**Cost Sharing Agreement**

Affiliates: SNCC and Delphi Capital Management, Inc. (DCM)  
Effective: January 1, 1997  
Terms: DCM provides SNCC with all investment advisory and administrative services necessary for the conduct of its business, and SNCC pays DCM its share of the costs of such services on an at-cost basis.

**Cost Sharing Agreement**

Affiliates: SNCC and First Reliance Standard Life Insurance Company (FRSL)  
Effective: December 16, 1997  
Terms: FRSL provides office space and personnel support to SNCC within its offices in the State of New York. SNCC pays FRSL its proportionate share of the costs of such services on an at-cost basis.

**Service Agreement**

Affiliates: SNCC and Safety First Insurance Company (SFIC)  
Effective: October 4, 2007  
Terms: SNCC provides services, staff and data processing functions to SFIC as necessary for the conduct of SFIC's insurance operations. SFIC reimburses SNCC for its allocable share of the costs of providing such services, based on generally accepted allocation methodologies.

**Revolving Loan Agreement**

Affiliates: SNCC and Delphi Financial Group, Inc.  
Effective: September 14, 2011  
Terms: SNCC agrees to advance to DFG amounts for short-term cash needs as deemed necessary for the conduct of DFG's operations. DFG may pre-pay the outstanding advances (and interest accrued on same) at any time and without penalty during the term of the agreement. All advances and accrued interest outstanding are due and payable by DFG to SNCC on the Termination Date of the agreement, defined in the agreement as December 31, 2026.

**Capital Support Agreement**

Affiliates: SNCC, SFIC, SSIC and TMNF  
Effective: May 21, 2013

Terms: TMNF agrees to provide SNCC, SFIC and/or SSIC an amount of statutory capital and surplus that is necessary to maintain a level at least equal to 300% of the amount of their authorized control level RBC.

Investment Expense Sharing Agreement

Affiliates: SNCC, Reliance Standard Life Insurance Company (RSLIC), Philadelphia Indemnity Insurance Company (PIIC), Tokio Millennium Re AG (TMR) and DCM

Effective: July 1, 2014

Terms: SNCC, RSLIC, PIIC and TMR all have service agreements with DCM under which DCM provides investment services. As part of their services, DCM sometimes utilizes third party investment managers, some of whose fees are based on the performance of the portfolio they manage. Under the terms of the agreement, when one or more of the insurers who are party to this agreement have investments with a manager whose fees are performance-based, the fees may be based on the aggregate performance of their portfolios, rather than on a per company basis.

Master Participation and Loan Advisory Agreement

Affiliates: SNCC, RSLIC, PIIC, Delphi CRE Funding LLC (DCRE), ACORE Capital LP (ACORE) and ACORE Capital Mortgage LP (ACORE Mortgage).

Effective: July 15, 2015

Terms: Under the agreement, SNCC, RSLIC, and PIIC will acquire from DCRE participation interests in certain commercial real estate mortgage loans. The participation interests basically serve as a pass through allowing the insurance companies to gain the economic benefits of the loans without being the lenders, which would require involving the borrowers if interests in the loans were transferred.

The loans will be originated and serviced by ACORE through its wholly-owned subsidiary ACORE Mortgage. ACORE is providing these services through separate investment management agreements it has in place with each of the insurance companies who are party to the agreement.

90% Quota Share Reinsurance Agreement

Affiliates: SNCC and SSIC

Effective: March 15, 2016

Terms: SSIC cedes 90% of premiums and losses to SNCC for the specific lines classified as Public Officials Liability, Educators Legal Liability and Law Enforcement Liability. SNCC pays SSIC a ceding commission of 27.5%. SNCC's loss liability is limited to \$1.8 million per claim per policy. The contract also covers 90% of loss adjustment expenses as well as extra contractual obligations.

Service Agreement

Affiliates: SNCC and SSIC

Effective: January 1, 2016

Terms: SNCC provides services, staff and data processing functions to SSIC as necessary for the conduct of SSIC's insurance operations. SSIC reimburses SNCC for its

allocable share of the costs of providing such services based on generally accepted allocation methodologies.

Capital Support Agreement

Affiliates: SNCC and Tokio Marine Kiln Group, Ltd. (TMK)  
Effective: January 1, 2017  
Terms: TMK and affiliate SSIC (a wholly owned subsidiary of Safety National) participate in a program in which SSIC writes certain commercial and residential property business which is ceded 100% to TMK. This is a capital support agreement under which TMK agrees to take actions necessary to ensure that there is no impact on any capital adequacy models used by SNCC as a result of the property insurance program between SSIC and TMK.

**TERRITORY AND PLAN OF OPERATIONS**

Safety National is licensed in Missouri under Chapter 379 RSMo (Insurance Laws Other than Life) to write property, liability, fidelity and surety, accident and health, and miscellaneous insurance. The Company is licensed in all 50 states, the District of Columbia, Guam, Puerto Rico, the US Virgin Islands, and Canada.

The Company's largest line of business is excess workers compensation for self-insured employers, which comprised approximately 39% of earned premiums in 2018. For excess workers compensation policies, the Company provides coverage for death and disability cases which are in excess of the self-insured employers' retention. Safety National is the largest writer of this coverage in the United States, with approximately 45% of the domestic market. The Company's excess workers compensation policyholders consist primarily of municipalities, hospitals, educational institutions and manufacturing entities.

Other significant lines of business include primary and large deductible workers compensation, automobile and general liability, and treaty reinsurance. These lines of business have expanded in recent years, and should continue to represent growth opportunities in the future.

Business is produced through a network of 312 independent agents and brokers. The top ten brokers produced over 72% of premium revenue in 2018. The Company also uses licensed third party administrators, which provide loss control and claims settlement services.

DCI has a separate Division of Insurance Market Regulation which performs reviews of market conduct issues and generates market conduct reports. The Department conducted a market conduct examination of Safety National during the examination period and issues were noted relating to payment of sales tax for total loss vehicles. On December 29, 2016, the Department issued a Stipulation of Settlement under which the Company agreed to a voluntary forfeiture of \$1,000.

Additional market conduct reviews are sometimes performed by other states. The states of Colorado, Maryland and Nevada issued market conduct examination reports during the examination period. The penalties resulting from each of these examinations were immaterial, with none exceeding \$5,000.

## REINSURANCE

### General

Premiums written by the Company during the examination period were as follows:

	2015	2016	2017	2018
Direct Written	\$ 646,303,295	\$ 723,812,677	\$ 749,908,745	\$ 805,973,095
Assumed from Affiliates	2,005,759	4,537,799	5,978,345	8,989,676
Assumed from Non-Affiliates	186,078,524	218,614,227	280,106,814	383,064,731
Ceded to Affiliates	53,557,744	81,913,982	90,718,620	96,980,339
Ceded to Non-Affiliates	51,974,292	86,641,641	62,666,723	85,151,596
Net Written Premiums	<u>\$ 728,855,542</u>	<u>\$ 778,409,080</u>	<u>\$ 882,608,561</u>	<u>\$ 1,015,895,567</u>

### Assumed

The Company assumes workers' compensation risks through facultative certificates for self-insured groups. SNCC's facultative workers' compensation excess of loss reinsurance assumed is underwritten and priced in a similar manner to the excess workers' compensation product. Retrocession coverage is obtained on assumed risks under the same reinsurance agreements, and on the same terms, as the reinsurance coverage obtained on the excess workers' compensation product, described in the Ceded section below.

The Company also assumes workers' compensation and casualty risk through excess of loss reinsurance treaties. In these arrangements, SNCC provides coverage for losses in excess of a specified amount, subject to specified maximums or layers. Participation by layer varies by treaty. Coverage for losses arising out of nuclear, biological, chemical and radiological weapons terrorism is generally excluded from these treaties. The assumed treaties are underwritten in a similar manner to the Company's excess workers compensation product and all accounts are priced by the Company's actuaries.

In addition, SNCC assumes a small amount of surety business on an aggregate excess of loss basis, casualty and workers' compensation on a quota share basis, and property catastrophe on an excess of loss basis.

### Ceded

Safety National cedes business to its reinsurers primarily to reduce net liability on individual risks and to protect against catastrophic losses. A sizable number of reinsurance companies participate in the various coverages obtained by the Company. The vast majority of the reinsurers have an A.M. Best rating of at least "A" and policyholder surplus in excess of \$1 billion.

Below is a summary of the key coverages in effect as of December 31, 2018. All of the reinsurance agreements are for one year terms and are renegotiated annually.



- Treaty reinsurance coverage in the amount of \$580 million in excess of \$20 million per occurrence with various levels of participation on its Specific Excess Workers' Compensation, Specific Large Deductible Workers' Compensation and Primary Workers' Compensation business.
- Treaty reinsurance coverage in the amount of \$17 million excess of \$3 million on its Primary Workers' Compensation business.
- Treaty reinsurance coverage in the amount of \$8 million excess of \$2 million per occurrence on Texas Non-Subscriber business.
- Treaty reinsurance coverage in the amount of \$10 million excess of \$2 million per occurrence on its Texas Non-Subscribers Employers' Excess Indemnity, Umbrella, Automobile Liability, General Liability and Professional Liability business.
- Casualty Clash treaty reinsurance coverage in the amount of \$6 million excess of \$4 million per occurrence on Large Casualty business.
- 50% Quota Share of the first \$2 million on Automobile Liability business.
- 20.5% Quota Share on the Net Retained Liability on Specific Excess Workers' Compensation business.
- 20.5% Quota Share of the first \$5 million on Aggregate Excess Workers' Compensation business.
- Treaty reinsurance in the amount of \$10 million excess of the greater of the policy deductible or self-insured retention or \$250,000 per occurrence on Industrial Aid Aircraft exposure.
- Treaty reinsurance coverage in the amount of \$50 million excess of \$25 million per occurrence on Assumed Workers' Compensation business.
- Facultative reinsurance coverage in the amount of \$8 million excess of \$2 million per occurrence on Excess Public Entity Automobile Liability, General Liability and Professional Liability business.
- Treaty reinsurance coverage in the amount of \$20 million excess of \$5 million per occurrence on its Motor Vehicle Conveyance Excess Workers' Compensation exposure.

Safety National also maintains additional facultative reinsurance coverage at various levels on Excess Specific Excess Workers' Compensation, Specific Large Deductible Workers' Compensation, Primary Workers' Compensation and Automobile Liability business.

Safety National does not currently maintain reinsurance for Aggregate and Specific Excess Unemployment Compensation business, Aggregate Excess Workers' Compensation business, or Surety - Workers' Compensation Self-Insurance Bonds. Instead, the Company attempts to limit exposure on these coverages through its policy terms and underwriting practices.

SNCC 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 agreement.

## **ACCOUNTS AND RECORDS**

### **Independent Auditor**

The Company is audited annually by the accounting firm of PricewaterhouseCoopers LLP. Workpapers from the most recent audit were used during the course of the examination as deemed appropriate.

### **Independent Actuaries**

Reserves and related actuarial items reported in the financial statements were certified by the Company's Chief Reserving and Appointed Actuary, TJ Clinch, FCAS.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination that are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements and therefore were only communicated to the Company and noted in the workpapers for each key activity.

**ASSETS**  
as of December 31, 2018

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$5,420,607,745	\$ 0	\$ 5,420,607,745
Preferred stocks	201,605,089	0	201,605,089
Common stocks	438,585,028	0	438,585,028
Mortgage loans: First liens	866,432,500	0	866,432,500
Mortgage loans: Other than first liens	164,424,643	0	164,424,643
Real Estate: Occupied by the company	20,883,221	0	20,883,221
Real Estate: Production of income	3,750,872	0	3,750,872
Cash and short-term investments	139,067,561	0	139,067,561
Derivatives	596,802	0	596,802
Other invested assets	337,671,994	0	337,671,994
Receivables for securities	3,142,484	289,345	2,853,139
Investment income due and accrued	84,293,305	448,689	83,844,616
Uncollected premiums	53,957,714	7,936,505	46,021,209
Deferred premiums	228,230,454	0	228,230,454
Amounts recoverable from reinsurers	8,988,073	0	8,988,073
Current federal income tax recoverable	4,661,942	0	4,661,942
Net deferred tax asset	35,510,841	9,007,389	26,503,452
Guaranty funds receivable	596,033	0	596,033
Electronic data processing equipment	24,606,367	22,332,420	2,273,947
Furniture and equipment	9,535,347	2,449,552	7,085,795
Receivables from affiliates	3,462,401	0	3,462,401
Deposits and other prepaid items	19,523,425	0	19,523,425
Prepaid assets	360,025	305,706	54,319
Prepaid insurance	501,143	501,143	0
<b>TOTAL ASSETS</b>	<b><u>\$8,070,995,009</u></b>	<b><u>\$ 43,270,749</u></b>	<b><u>\$ 8,027,724,260</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**as of December 31, 2018**

Losses	\$ 4,517,238,051
Loss adjustment expenses	225,423,400
Other expenses	86,228,500
Taxes, licenses and fees	21,851,056
Unearned premiums	422,383,148
Ceded reinsurance premiums payable	20,690,192
Funds held under reinsurance treaties	675,339
Amounts withheld for account of others	41,560,629
Remittances and items not allocated	7,954,172
Provision for reinsurance	8,202,402
Payable to affiliates	152,659
Derivatives	46,471
Payable for securities	37,152,333
Assumed retroactive insurance reserves	219,377,905
Assumed retroactive insurance other expenses	6,747,971
Deposits	29,440,946
Deposit-Other expenses	5,191,997
Contingent liability related to acquisition	10,500,000
<b>TOTAL LIABILITIES</b>	<b><u>\$ 5,660,817,172</u></b>
Common capital stock	5,000,000
Preferred capital stock	25,000,000
Surplus notes	82,222,222
Gross paid in and contributed surplus	401,649,399
Unassigned funds (surplus)	<u>1,853,035,468</u>
<b>SURPLUS AS REGARDS POLICYHOLDERS</b>	<b><u>\$ 2,366,907,088</u></b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u>\$ 8,027,724,260</u></b>

**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2018**

**Underwriting Income :**

Premiums earned		\$ 948,746,672
Deductions:		
Losses incurred	\$ 715,201,995	
Loss adjustment expenses incurred	65,946,020	
Other underwriting expenses incurred	262,314,301	
Retroactive insurance loss	<u>(30,358,084)</u>	
Total underwriting deductions		<u>1,013,104,232</u>
<b>Net Underwriting Gain (Loss)</b>		<b>\$ (64,357,560)</b>

**Investment Income :**

Net investment income earned	\$ 385,823,237	
Net realized capital gains	<u>6,817,594</u>	
<b>Net Investment Gain (Loss)</b>		<b>\$ 392,640,831</b>

**Other Income :**

Net loss from agents or premium balances charged off	\$ (3,438,546)	
Finance and service charges	0	
Other income	<u>22,189</u>	
<b>Total Other Income</b>		<b>\$ (3,416,357)</b>

**Net income before dividends and FIT** **\$ 324,866,914**

Dividends to policyholders	0
Federal income taxes incurred	<u>37,884,987</u>
<b>Net income</b>	<b>\$ <u>286,981,927</u></b>



**RECONCILIATION OF SURPLUS**  
**Changes from December 31, 2014 to December 31, 2018**  
**(\$000's omitted)**

	<u><b>2015</b></u>	<u><b>2016</b></u>	<u><b>2017</b></u>	<u><b>2018</b></u>
Capital and surplus, end of prior year	\$ 1,367,629	\$ 1,526,972	\$ 1,812,580	\$ 2,081,922
Net income	159,297	175,332	203,615	286,982
Change in net U/R capital gains	(1,518)	32,292	52,883	18,207
Change in net U/R fx capital gains	(12,870)	13,414	5,097	(6,270)
Change in net deferred income tax	(2,406)	28,502	(11,638)	(1,943)
Change in nonadmitted assets	(9,615)	10,524	(12,972)	(3,347)
Change in provision for reinsurance	(1,547)	(2,455)	4,356	(7,078)
Change in surplus notes	2,222	2,222	2,222	2,222
Surplus adjustments: Paid in	30,000	30,000	30,000	0
Dividends to stockholders	(2,000)	(2,000)	(2,000)	(2,000)
Unapproved interest on surplus notes	(2,222)	(2,222)	(2,222)	(2,222)
Other	0	0	0	434
Change in capital and surplus	<u>159,342</u>	<u>285,610</u>	<u>269,342</u>	<u>284,985</u>
Capital and surplus, end of current year	<u><b>\$ 1,526,972</b></u>	<u><b>\$ 1,812,580</b></u>	<u><b>\$ 2,081,922</b></u>	<u><b>\$ 2,366,907</b></u>

**ANALYSIS OF EXAMINATION CHANGES**

No adjustments or reclassifications were made as a result of the examination.

**COMMENTS ON FINANCIAL STATEMENTS**

There are no comments on the financial statements.

**SUBSEQUENT EVENTS**

There were no significant subsequent events noted from December 31, 2018, through the date of the report.

**SUMMARY OF RECOMMENDATIONS**

There are no recommendations.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of Safety National Casualty Corporation during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Andy Balas, AES, CFE, CPA, Doug Daniels, CFE, CPA, Richard Hayes, CFE, James Le, ARE, CFE, CPA, CPCU, and Scott Reeves, CFE, CPA; examiners for the Missouri Department of Commerce and Insurance participated in this examination. Consulting actuary Kristine Fitzgerald, ACAS, MAAA, FCA, of Actuarial and Technical Solutions, Inc. was retained by DCI to review the adequacy of the Company's reserves.


VERIFICATION

State of Missouri )  
                                  )  
County of St. Louis )

I, 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 the 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.



Thomas Cunningham, CFE, CPA  
Examiner-in-Charge  
Missouri Department of Commerce and Insurance

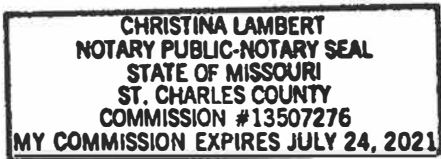


John Boczkiewicz, CFE, CPA  
Examiner-in-Charge  
Missouri Department of Commerce and Insurance

Sworn to and subscribed before me this 15<sup>th</sup> day of January, 2020

My commission expires:

07/24/2021

  
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.

A handwritten signature in blue ink, appearing to read "Michael Shadowens", is written over a horizontal line.

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