

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Old Reliable Casualty Company

### ORDER

After full consideration and review of the report of the financial examination of Old Reliable Casualty Company for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, 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 General Comments and/or Recommendations section of such report; (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 10<sup>th</sup> day of May, 2011.



A handwritten signature in black ink, appearing to read "John M. Huff".

John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

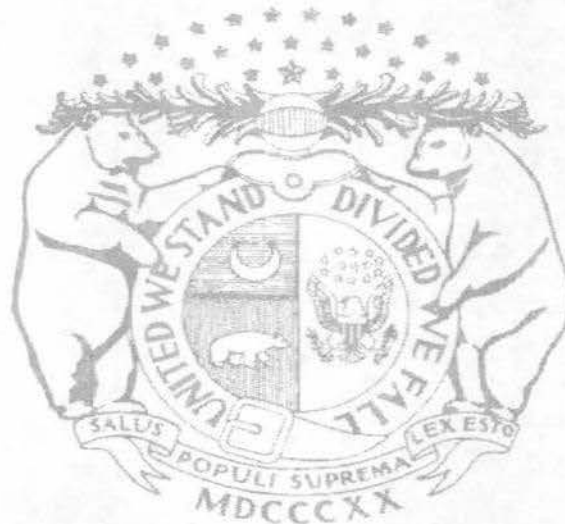
Old Reliable Casualty Company

As of:  
DECEMBER 31, 2009

FILED

MAY 20 2011

DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 17, 2011  
St. Louis, MO

Honorable Alfred W. Gross, Commissioner  
Bureau of Insurance  
Virginia State Corporate Commission  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Mary Jo Hudson, Director  
Department of Insurance  
State of Ohio  
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Lady and Gentlemen:

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

### **Old Reliable Casualty Company**

hereinafter referred to as "Old Reliable" or the "Company." The Company's office is located at 12115 Lackland Road; St. Louis, Missouri 63146; telephone number (314) 819-4300. Examination fieldwork began on March 15, 2010 and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### Period Covered

This examination covers the period from January 1, 2005 through December 31, 2009, and was conducted by examiners from the state of Missouri in conjunction with examiners from the state of Illinois. This examination also considered material transactions or events occurring subsequent to December 31, 2009.

#### Procedures

This examination was conducted as a coordinated examination with the state of Illinois acting as the lead state. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks

of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key activities were: Treasury, Premiums, Reinsurance, and Claims.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Deloitte & Touche, Chicago, Illinois, for its audit covering the period from January 1, 2009 through December 31, 2009. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

### **SUMMARY OF SIGNIFICANT FINDINGS**

This examination identified no significant findings. The Company's business was stable and profitable during the examination period, and the reinsurance program lessens much of the underwriting risk.

### **SUBSEQUENT EVENTS**

There were no significant subsequent events.

### **COMPANY HISTORY**

#### General

Old Reliable Casualty Company was incorporated on December 18, 1978 and received its certificate of authority to operate under Chapter 379 RSMo (Insurance Other than Life) on December 29, 1978.

At the time of its incorporation, 100% of the capital stock of Old Reliable was owned by The Reliable Life Insurance Company ("Reliable Life"). During 1981, Reliable Life sold the stock of Old Reliable to Clayton Holdings Corporation, a subsidiary of Capitol County Mutual Fire Insurance Company ("Capitol County"), resulting in Capitol County becoming the indirect ultimate controlling entity of Old Reliable.

In 1986, Clayton Holdings Corporation contributed all of the capital stock of Old Reliable to Capitol County, leaving Capitol County as the direct owner and ultimate controlling entity of the Company. Old Reliable has a service agreement with United Insurance Company of America ("UICA"), whereby UICA manages all the underwriting

functions of the Company on an at-cost basis. A review by the state of Texas of the agreement and management structures in place between Capitol County and Reliable Life found the two companies to be affiliates, and Texas required that the affiliation be reported by Capitol County. Subsequent inquiry into this matter by the Missouri Department of Insurance, Financial Institutions and Professional Registration resulted in an agreement by Old Reliable that it is affiliated with Reliable Life and ultimately Unitrin as well, and thus the reporting of Unitrin as the ultimate controlling entity of Old Reliable was initiated. This holding company structure has generally remained the same since that date.

Capital Stock

The Company has 500,000 shares of \$10 par common stock authorized with 250,000 shares issued and outstanding. There is no preferred stock.

Dividends

The Company has not paid any dividends since inception.

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

**CORPORATE RECORDS**

Minutes of the meetings of the Board of Directors and annual meetings of the stockholder were reviewed for the years 2005 through 2009. Those minutes document evidence of the overall guidance provided by the Board of Directors.

As of December 31, 2009, the following nine members comprised the Board of Directors:

<u>Name</u>	<u>Position</u>
John Boschelli	Treasurer Unitrin Services Company
Christopher Moses	Vice President, Treasurer Unitrin Services Company
Richard Roeske	Vice President, Controller and Assistant Treasurer Unitrin Services Company
Samuel Fitzpatrick	Assistant Vice President and Assistant Secretary Unitrin Services Company
Deborah Quaglia	Vice President  United Insurance Company of America

Dennis Sandelski	Tax Director Unitrin Services Company
Edward Konar	Vice President Unitrin, Inc.
Scott Renwick	Senior Vice President, General Counsel, and Secretary Unitrin, Inc.
Francis Sodaro	Vice President – Planning and Analysis Unitrin Services Company

Officers serving at December 31, 2009 were:

<u>Name</u>	<u>Position</u>
Edward Konar	President
James Camillo	Secretary
Thomas Meyers	Treasurer

#### Committees

Committee assignments as of December 31, 2009 were as follows:

Investment Committee: John Boschelli and Edward Konar

Executive Committee: Francis Sodaro and Edward Konar

Audit Committee: The Board of Directors appointed the audit committee of Unitrin, Inc. to serve as the audit committee of the Company.

#### Conflict of Interest

Members of the senior management of this company and related entities provided signed conflict of interest disclosures. No instances of conflict of interest situations were reported.

#### Surplus Debentures

The Company had no surplus debentures.



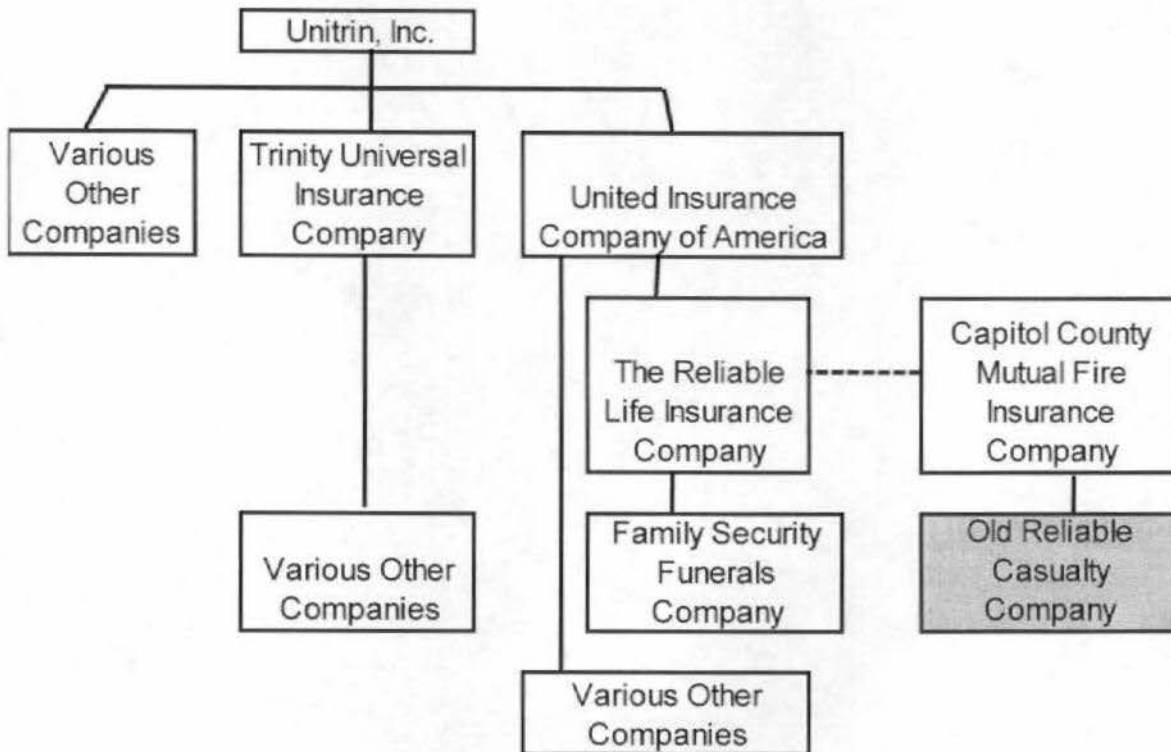
## MANAGEMENT AND CONTROL

### Holding Company

Old Reliable is a member of an insurance holding company system as defined by Chapter 382 RSMo (Insurance Holding Companies). Relationships are discussed in the Company History section above.

### Organizational Structure

Capitol County Mutual Fire Insurance Company and Old Reliable Casualty Company are affiliated with the Unitrin group by virtue of a service agreement with The Reliable Life Insurance Company. The companies also share common directors and officers. The following organizational chart shows the structure of the Company's ownership:



### Intercompany Transactions

Old Reliable was a party to the following affiliated agreements (reinsurance agreements are discussed in the reinsurance section below) at December 31, 2009:

#### *Tax Allocation Agreement*

Parties: Old Reliable Casualty Company and Capitol County Mutual Fire Insurance Company.

Effective: Effective with filing of the 1994 consolidated tax return.

Terms: This agreement apportions the tax liability to each participant the same as if an individual return had been filed by each company.

*Insurance Administrative Agreement*

Parties: Old Reliable Casualty Company and United Insurance Company of America ("United").

Effective: Effective August 1, 2007.

Terms: United will provide to Old Reliable all of the services necessary for the conduct of the Company's existing and future fire, allied lines and burglary/theft insurance book of business. Services to be provided by United under the agreement will include but not be limited to the formulation and implementation of underwriting guidelines, printing and rating of policies and endorsements, premium collection and processing, data processing and compilation of statistical data, maintenance of a call center, defense, adjustment and settlement of claims, legal support, and adherence to all applicable insurance laws and regulations. Old Reliable will reimburse United on a monthly basis for the actual costs incurred by United in provision of the services, with the identifiable direct expenses billed directly to Old Reliable and the shared expenses billed to Old Reliable on a generally acceptable allocation methodology using premium volume or in-force policies as a base.

Rate(s): The Company incurred fees of \$3.1 million for 2009 and \$3.4 million for 2008.

#### **FIDELITY BOND AND OTHER INSURANCE**

The Company has a fiduciary liability policy with a limit of \$25,000,000 and a \$750,000 deductible. This coverage is provided for all companies within the holding company system and exceeds the National Association of Insurance Commissioners' suggested minimum guidelines.

The Company is also adequately insured through policies providing coverage for personal property, general liability, automobile liability, workers compensation and employer liability, and directors' and officers' liability.

#### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company's staffing needs are met by employees of affiliates. These employees are provided a variety of standard benefits through Unitrin, Inc.'s benefit plans. Unitrin, Inc. sponsors certain contributory and non-contributory qualified defined pension plans, a 401-K savings plan and defined benefit postretirement plans that provide certain medical

and life insurance benefits for retired and active employees. The Company is allocated its share of the net expenses under these plans.

## **TERRITORY AND PLAN OF OPERATION; TREATMENT OF POLICYHOLDERS**

### Territory and Plan of Operation

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance laws other than life) as a multiple line carrier to write fire and allied lines, homeowners multiple peril and auto liability insurance. The Company is licensed in the following eleven states:

Arkansas	Kansas	South Carolina
Illinois	Louisiana	Tennessee
Indiana	Missouri	Texas
Iowa	Oklahoma	

### Treatment of Policyholders

The Missouri Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff which performs a review of these issues and generates a separate market conduct report. No market conduct examination occurred during this examination period.

## **GROWTH OF COMPANY**

The Company's direct written premium has experienced a slight decline in recent years. The decline is attributed largely to the general decline in the nation's economy over the past few years. Net income is derived mainly from investment income and has been stable except for a loss incurred in 2008. The Company's reinsurance program has essentially eliminated underwriting risk, helping the Company achieve these stable results.

## **LOSS EXPERIENCE**

The Company reinsures all losses and, as a result, maintains no claims related reserves.

## REINSURANCE

Premiums written by Old Reliable since 2006 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct Written	\$11,266,111	\$10,762,603	\$10,607,572	\$10,155,056
Assumed from Non-Affiliates	16,874	13,137	10,430	14,745
Ceded to Affiliates	11,736,582	10,750,780	10,565,426	10,166,019
Ceded to Non-Affiliates	<u>59,552</u>	<u>24,960</u>	<u>52,576</u>	<u>3,782</u>
Net Written Premiums	<u>(\$513,149)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

### Assumed Reinsurance

Old Reliable Casualty Company's only assumed reinsurance is related to its participation in mandatory state insurance pools.

### Ceded Reinsurance

Old Reliable Casualty Company cedes 100% of its existing and future business to its affiliated company, Trinity Universal Insurance Company. This 100% cession agreement was mandated by Unitrin, Inc., and the agreement effectively eliminates all pricing, underwriting, and loss reserving risks for the Company. As a result, the Company carries no loss or LAE reserves as of December 31, 2009.

## ACCOUNTS AND RECORDS

### General

The Company uses modified commercially written mainframe policy and claims administration systems, as well as a commercially written general ledger software system (Oracle).

### Independent Auditor

The Company is audited by the accounting firm of Deloitte & Touche, LLP. Workpapers from the most recent audit were used in the course of this examination as deemed appropriate.

### Independent Actuaries

Reserves and related actuarial items reported in the financial statements were certified by the Company's chief actuary, Ronald E. Greco, FCAS, MAAA.

The reserving process of the Company was evaluated by Chantel Long, Actuarial Examiner with the Illinois Department of Insurance and Robert Gardner, FCAS, MAAA, consulting actuary with INS Consultants, Inc. There were no significant findings identified in that review.

### Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Missouri Department of Insurance, Financial Institutions and Professional Registration conducted a review of the Company's information systems. No material significant issues were identified.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2009, as reflected below, had sufficient par and market values to meet the deposit requirement for the state of Missouri per Section 379.098 RSMo (Securities deposit) and Section 375.460 RSMo (Deposits with director):

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Bond	\$642,000	\$686,840	\$635,901
US Treasury Bond	125,000	134,903	125,317
US Treasury Bond	25,000	26,981	25,063
US Treasury Bond	100,000	107,922	100,254
US Treasury Bond	250,000	292,744	278,209
US Treasury Bond	250,000	278,906	295,504
US Treasury Bond	250,000	271,074	269,086
	<u>\$1,642,000</u>	<u>\$1,799,369</u>	<u>\$1,729,334</u>

### Deposits with Other States

The Company has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2009, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arkansas	US Treasury Note	\$100,000	\$120,141	\$122,563
Louisiana	US Treasury Note	80,000	86,725	100,868
Louisiana	US Treasury Note	20,000	24,028	24,513
South Carolina	US Treasury Bond	175,000	209,289	193,142
Texas	US Treasury Bond	60,000	82,341	72,244
	<b>TOTALS</b>	<u>\$435,000</u>	<u>\$522,524</u>	<u>\$513,329</u>

## FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2009, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial

statements and/or comments regarding such are made in the "Comments on Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which 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 individual annual statement item.

**BALANCE SHEET**  
As of December 31, 2009

Line	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$3,530,704	\$0	\$3,530,704
Common stocks	542,369	0	542,369
Cash and short-term investments	4,657,504	0	4,657,504
Investment income due and accrued	46,721	0	46,721
Uncollected premiums	163,263	0	163,263
Amounts recoverable from reinsurers	1,713,488	0	1,713,488
Funds held	11,573	0	11,573
Net deferred tax asset	94,183	23,174	71,009
Guaranty funds receivable or on deposit	21,660	0	21,660
Receivables from parent, subsidiaries and affiliates	236,893	0	236,893
Aggregate write-ins for other than invested assets	158	0	158
<b>Total Assets</b>	<u>\$11,018,517</u>	<u>\$23,174</u>	<u>\$10,995,343</u>
Losses			0
Reinsurance payable			10,253
Loss adjustment expenses			0
Commissions payable			258
Other expenses			10,723
Taxes, licenses and fees			82,572
Current federal and foreign income taxes			136,911
Advance premium			244,248
Ceded reinsurance premiums payable			1,724,539
Remittances and items not allocated			9,683
Payable to parent, subsidiaries and affiliates			447,404
Aggregate write-ins for liabilities			<u>84,313</u>
<b>Total Liabilities</b>			2,750,904
Aggregate write-ins for special surplus funds			36,266
Common capital stock			2,500,000
Gross paid in and contributed surplus			6,500,000
Unassigned funds (surplus)			<u>(791,827)</u>
<b>Surplus as regards policyholders</b>			<u>8,244,439</u>
<b>Total liabilities and surplus</b>			<u>\$10,995,343</u>

**INCOME STATEMENT**  
**For Year Ending December 31, 2009**

Premiums earned		\$0
Losses incurred	\$0	
Loss adjustment expenses incurred	0	
Other underwriting expenses incurred	<u>24,040</u>	
Total underwriting deductions		<u>24,040</u>
Net underwriting gain (loss)		(24,040)
Net investment income earned	195,949	
Net realized capital gains (losses)	<u>194,132</u>	
Net investment gain (loss)		<u>390,081</u>
Net income before dividends to policyholders		366,041
Dividends to policyholders		<u>0</u>
Net income before all other federal income taxes		366,041
Federal and foreign income taxes incurred		<u>43,829</u>
Net income		<u><u>\$322,212</u></u>

**CAPITAL AND SURPLUS**  
**Changes for 2009**

Surplus as regards policyholders, December 31, 2008		\$8,037,493
Net income	\$322,212	
Change in net unrealized capital gains or (losses)	(115,341)	
Change in net deferred income tax	(60,483)	
Change in nonadmitted assets	17,712	
Change in provision for reinsurance	6,581	
Changes per examination	0	
Aggregate write-ins for gains and losses in surplus	<u>\$36,266</u>	
Change in surplus as regards policyholders for the year		<u>206,947</u>
Surplus as regards policyholders, December 31, 2009		<u><u>\$8,244,440</u></u>



**COMMENTS ON FINANCIAL STATEMENTS**

None

**SUMMARY OF RECOMMENDATIONS**

None



