

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 Specialty Insurance Company 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.

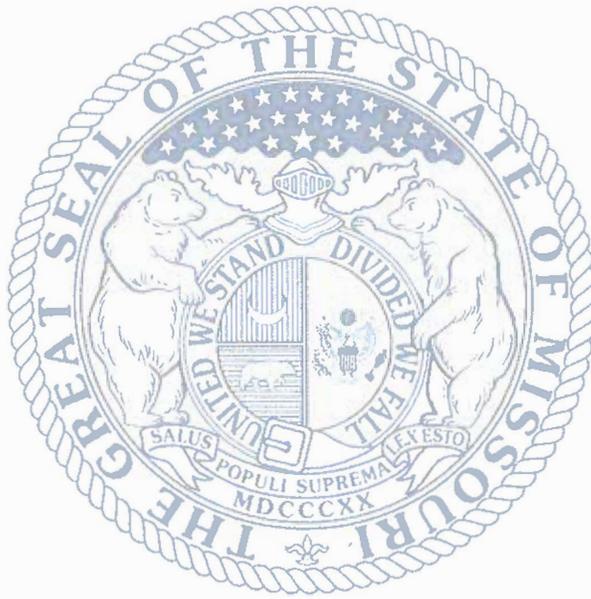
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Safety Specialty Insurance Company as of December 31, 2018 be and is hereby ADOPTED as filed and for Safety Specialty Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) 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 30th day of March, 2020.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

SAFETY SPECIALTY INSURANCE COMPANY

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 Specialty Insurance Company

hereinafter referred to as "Safety Specialty," "SSIC" 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 Specialty Insurance Company. The last examination was completed as of December 31, 2015. This examination covers the period from January 1, 2016, 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.

SSIC 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 National Casualty Corporation (SNCC).

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

Prior to 2014, SSIC was known as SPARTA Specialty Insurance Company, a Connecticut-domiciled insurer owned by SPARTA Insurance Company. In 2014, after incurring heavy losses, the Company was put in run-off status. Later in 2014, SPARTA Insurance Company was acquired by Catalina Holdings Bermuda, Ltd., which became the ultimate controlling entity.

In April of 2015, SPARTA Insurance Company entered into a Stock Purchase Agreement with Safety National Casualty Company for the sale of SPARTA Specialty Insurance Company. The sale was completed in December 2015, at which time the Company became a wholly owned subsidiary of SNCC. In conjunction with the acquisition, the Company also redomiciled from Connecticut to Missouri, changed its name to Safety Specialty Insurance Company and became licensed as a Domestic Surplus Lines Insurer under Chapter 384 RSMo (Surplus Lines Insurance Laws).

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 (Surplus and Quasi-Reorganizations), and SSIC's Unassigned Funds (Surplus) balance was reset to \$0 upon completion of the purchase.

Effective December 31, 2015, SNCC made a \$30 million capital contribution to SSIC, consisting of approximately \$28.7 million of investment grade bonds and \$1.3 million cash. The purpose of the contribution was to enhance SSIC's surplus and further its ability to write surplus lines insurance on a national basis.

Capital Stock and Paid-In Surplus

SSIC has 6,000 shares of \$1,000 par value common stock authorized, with 4,200 shares issued and outstanding as of December 31, 2018, resulting in \$4,200,000 capital stock. All outstanding shares are owned by SNCC. The Company has no preferred stock authorized, issued or outstanding. Total paid-in surplus was \$58,817,973 as of December 31, 2018. No capital contributions were made during the examination period.

Dividends

The Company did not issue any dividends during the exam period.

Acquisitions, Mergers and Major Corporate Events

As detailed above, SSIC was acquired by SNCC in December 2015. There were no acquisitions, mergers or other major corporate events during the examination period.

Surplus Debentures

The Company issued a \$1 million surplus note to Tokio Marine Kiln, Ltd (TMK) in exchange for cash on December 31, 2016. The interest rate for this note was 3%, and it had a maturity date of January 15, 2037. The Company paid \$30,147.67 interest on this note during the examination period and repaid the note in full in December 2017.

The Company issued a \$3.6 million surplus note to TMK in exchange for cash on December 31, 2017. The interest rate for this note was 3%, and it had a maturity date of January 15, 2038. The Company paid \$113,100 interest on this note during the examination period and repaid the note in full in December 2018.

The Company issued a \$8.6 million surplus note to TMK in exchange for cash on December 31, 2018. The interest rate for this note is 4%, and it has a maturity date of January 15, 2039.

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
Steven C. Divine St. Louis, MO	Senior Vice President-Finance and Treasurer 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
Nicholas A. Kriegel St. Louis, MO	Senior Vice President and General Counsel Safety National Casualty Corporation
Steven F. Luebbert St. Louis, MO	Chief Operating Officer Safety National Casualty Corporation
Seth A. Smith St. Louis, MO	Executive Vice President-Underwriting Safety National Casualty Corporation
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
Steven F. Luebbert	Chief Operating Officer
Seth A. Smith	Executive Vice President

Committees

Safety Specialty had an Audit Committee and an Executive and Investment Committee in place as of December 31, 2018.

Corporate Records

The Articles of Incorporation and Bylaws of SSIC were reviewed. There were no changes to the Articles of Incorporation during the examination period. The Bylaws were amended in 2016 to mirror the Bylaws of SNCC and to change the name of the Company to Safety Specialty Insurance Company.

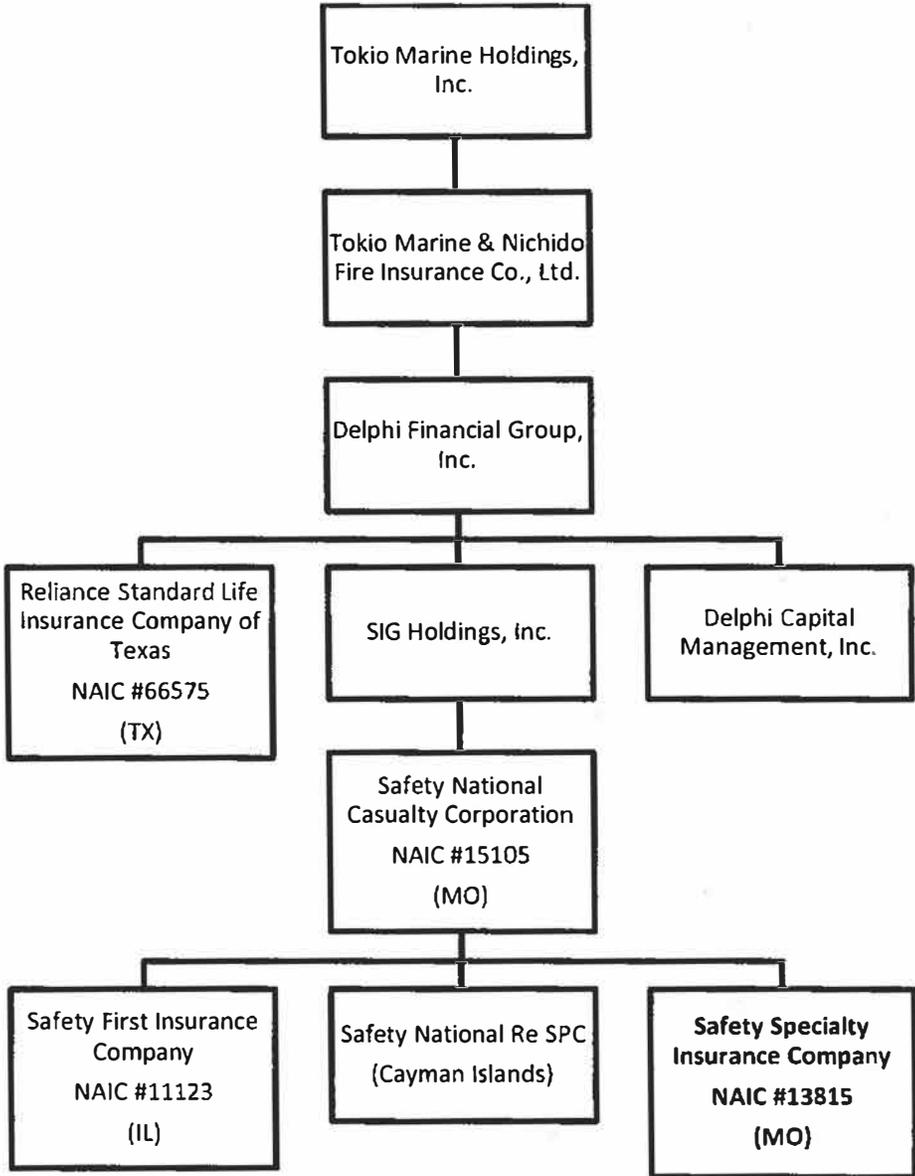
The minutes of the meetings of the shareholder, board of directors and committees were reviewed for the period under examination. The minutes appear to properly document and approve corporate events and transactions.

Holding Company, Subsidiaries and Affiliates

Safety Specialty 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 Specialty, as of December 31, 2018. All subsidiaries are wholly owned unless otherwise noted.



Affiliated Transactions

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

Capital Support Agreement

Affiliates: SSIC, SNCC, Safety First Insurance Company (SFIC) and Tokio Marine & Nichido Fire Insurance Co Ltd. (TMNF)
Effective: May 21, 2013. Amended effective January 1, 2016, to add SSIC.
Terms: TMNF will provide SSIC, SNCC and/or SFIC 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.

Tax Allocation Agreement

Affiliates: Delphi Financial Group, Inc. and subsidiaries, including SSIC.
Effective: January 1, 2001. Amended January 1, 2016 to add SSIC.
Terms: Delphi Financial Group, Inc. files a consolidated federal income tax return annually on behalf of all participating members of the agreement. Each participant will pay 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: SSIC and Delphi Capital Management, Inc. (DCM)
Effective: March 31, 2016.
Terms: DCM agrees to provide SSIC with all investment advisory and administrative services necessary for the conduct of its business. SSIC pays DCM its share of the costs of such services on an at-cost basis.

Service Agreement

Affiliates: SSIC and SNCC
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.

The following agreements were entered into as part of the commercial property fronting program with Tokio Marine Kiln, Ltd. This program is described in the Territory and Plan of Operation section below.

Service Agreement

Affiliates: SSIC and TMK
Effective: January 1, 2017
Terms: TMK provides various services to SSIC under the commercial property program including claims services, legal services, administration, actuarial, financial services and data processing. SSIC reimburses TMK for actual cost of services provided

100% Quota Share Reinsurance Agreement

Affiliates: SSIC and TMK
 Effective: January 1, 2017
 Terms: SSIC cedes 100% of premiums and losses related to the commercial property coverage written by program administrators to TMK. SSIC retains a ceding commission of between 1% and 5% based on the amount of gross net written premiums ceded.

Assumption Agreement

Affiliates: SSIC and TMK
 Effective: January 1, 2017
 Terms: TMK assumes, releases, discharges and indemnifies SSIC from any and all liabilities of SSIC arising from the commercial property insurance program.

TERRITORY AND PLAN OF OPERATIONS

Safety Specialty is licensed in Missouri under Chapter 384 RSMo (Surplus Lines Insurance) to write surplus lines insurance in Missouri. The Company is eligible or approved to write surplus lines insurance in all 50 states and the District of Columbia, as well as all U.S. territories and Canada. The Company was acquired in 2015 to write various types of surplus lines coverage to complement the products offered by SNCC.

Gross premiums written increased dramatically during the examination period due to a program began in 2017 with Tokio Marine Kiln, Ltd. under which SSIC writes commercial property business in the United States through various program administrators. The premiums are ceded to TMK through a 100% quota share reinsurance agreement. This program accounted for 71% of gross written premiums in 2018. The majority of SSIC’s remaining business is ceded to SNCC under a 90% quota share reinsurance agreement, resulting in a negligible amount of net written premiums.

REINSURANCE

General

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

	2016	2017	2018
Direct Written	\$ 2,043,070	\$ 20,069,355	\$ 66,485,713
Assumed from Affiliates	0	0	0
Assumed from Non-Affiliates	0	0	0
Ceded to Affiliates	1,838,422	17,996,924	25,116,945
Ceded to Non-Affiliates	0	1,506,321	40,238,552
Net Written Premiums	<u>\$ 204,648</u>	<u>\$ 566,110</u>	<u>\$ 1,130,216</u>

Assumed

The Company has not assumed any reinsurance since the acquisition by SNCC.

Ceded

A large portion of direct business is ceded to affiliated and unaffiliated reinsurers in an effort to transfer risk exposure. In general, approximately 90-98% of gross premiums were ceded throughout the examination period.

Effective March 15, 2016, the Company entered into a 90% quota share reinsurance agreement with Safety National Casualty Company. Under this agreement the Company cedes 90% of premiums and losses, less a ceding commission, on business classified as Public Officials Liability, Educators Legal Liability and Law Enforcement Liability insurance.

Effective January 1, 2017, the Company entered into a 100% quota share reinsurance agreement with Tokio Marine Kiln, Ltd. Under this agreement the company writes commercial property insurance through program administrators in the United States, and cedes all business to TMK less a ceding commission. Effective January 1, 2018, the Company amended this agreement to cede 75% to TMK and 25% to unaffiliated reinsurers.

Effective June 1, 2017, the Company entered into an 80% quota share reinsurance agreement with Tokio Marine Kiln, Ltd. Under this agreement the Company cedes 80% of the first \$25 million on First and Third Cyber Liability policies.

SSIC 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	\$ 91,041,790	\$ 0	\$ 91,041,790
Cash and short-term investments	15,430,475	0	15,430,475
Other invested assets	729,621	0	729,621
Investment income due and accrued	1,136,326	0	1,136,326
Uncollected premiums	4,258,262	0	4,258,262
Deferred premiums	283,664	0	283,664
Other amounts receivable under reins.	3,429,827	0	3,429,827
Net deferred tax asset	104,690	54,036	50,654
Receivables from affiliates	1,271,464	0	1,271,464
Deposits and other prepaid items	10,570,668	0	10,570,668
TOTAL ASSETS	\$ 128,256,787	\$ 54,036	\$ 128,202,751

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

Losses	\$ 537,121
Loss adjustment expenses	55,570
Other expenses	2,616,995
Taxes, licenses and fees	25,330
Current federal income taxes payable	3,958
Unearned premiums	635,974
Ceded reinsurance premiums payable	6,830,039
Funds held under reinsurance treaties	19,934,020
Payable to affiliates	7,415,784
Payable for securities	8,200
Other amounts payable under reinsurance contracts	5,130,300
TOTAL LIABILITIES	<u>\$ 43,193,291</u>
Common capital stock	4,200,000
Surplus notes	8,600,956
Gross paid in and contributed surplus	59,817,973
Unassigned funds (surplus)	12,390,531
SURPLUS AS REGARDS POLICYHOLDERS	<u>\$ 85,009,460</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$ 128,202,751</u>

STATEMENT OF INCOME
For the Year Ended December 31, 2018

Underwriting Income:

Premiums earned	\$	803,095
Deductions:		
Losses incurred	\$	316,079
Loss adjustment expenses incurred		96,746
Other underwriting expenses incurred		<u>(4,122,508)</u>
Total underwriting deductions		<u>(3,709,683)</u>
Net Underwriting Gain (Loss)	\$	4,512,778

Investment Income:

Net investment income earned	\$	3,897,397
Net realized capital gains		<u>(77,874)</u>
Net Investment Gain (Loss)	\$	3,819,523

Other Income:

Net loss from agents or premium balances charged off	\$	(1)
Finance and service charges		0
Other income		<u>0</u>
Total Other Income	\$	<u>(1)</u>

Net income before dividends and FIT **\$ 8,332,300**

Dividends to policyholders	0
Federal income taxes incurred	<u>1,669,110</u>
Net income	<u>\$ 6,663,190</u>

RECONCILIATION OF SURPLUS
Changes from December 31, 2015 to December 31, 2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus, end of prior year	\$ 64,078,303	\$ 67,631,356	\$ 73,484,472
Net income	2,537,398	3,287,221	6,663,190
Change in net U/R capital gains	0	(31,723)	(131,618)
Change in net deferred income tax	74,612	(24,159)	10,272
Change in nonadmitted assets	(58,957)	21,777	(16,856)
Change in surplus notes	1,000,000	2,600,300	5,000,956
Unapproved interest on surplus notes	0	(300)	(956)
Change in capital and surplus	<u>3,553,054</u>	<u>5,853,117</u>	<u>11,524,988</u>
Capital and surplus, end of current year	<u>\$ 67,631,356</u>	<u>\$ 73,484,472</u>	<u>\$ 85,009,460</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 Specialty Insurance Company 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, CPU, 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.



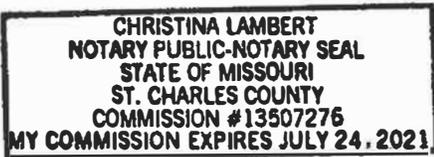
Thomas Cunningham, CFE, CPA
Examiner-in-Charge
Missouri Department of Commerce and
Insurance



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

Sworn to and subscribed before me this 15th 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.



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