

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

ORDER

After full consideration and review of the report of the financial examination of The Bar Plan Surety and Fidelity Company for the period ended December 31, 2016, 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 Insurance, Financial Institutions and Professional Registration 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, corporate records, management and control, territory and plan of operations, reinsurance, accounts and records, financial statements, 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 The Bar Plan Surety and Fidelity Company as of December 31, 2016 be and is hereby ADOPTED as filed and for The Bar Plan Surety and Fidelity 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 29th day of April, 2018.



Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF

FINANCIAL EXAMINATION

THE BAR PLAN SURETY AND FIDELITY COMPANY

As of:

DECEMBER 31, 2016



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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December 21, 2017
St. Louis, MO

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

Director Lindley-Myers:

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

The Bar Plan Surety and Fidelity Company

hereinafter also referred to as the "Bar Plan Surety" or as the "Company." The Company's main office is located at 1717 Hidden Creek Court, Saint Louis, MO 63131; phone number (314) 965-3333. Examination fieldwork began on August 14, 2017, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The last examination of the Bar Plan Surety was completed as of December 31, 2011. This examination covers the period of January 1, 2012, through December 31, 2016. This examination also includes material transactions or events occurring subsequent to December 31, 2016.

Procedures

This examination was conducted as a full scope, multi-state comprehensive examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook "Handbook." 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.

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 will be documented separately following the Company's financial statements. The following key activities were identified: Investments, Claims and Reserves, Premiums, Reinsurance, Related Parties, and Capital and Surplus.

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 insurer 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 in the examination report but are separately communicated to other regulators or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings resulting from the examination.

COMPANY HISTORY

General

The Bar Plan Surety and Fidelity Company was incorporated in Missouri on August 14, 1998. The Company began operations on February 5, 1999.

Capital Stock

The Company is authorized to issue up to 1.5 million shares of \$1.00 par value common stock. At year-end 2016, the Company had 1.5 million shares issued and outstanding for a common capital stock balance of \$1.5 million. All shares are owned by TBP Holding Company, Inc.

Dividends

On December 9, 2016, the Company paid an ordinary dividend of \$83,355 to its sole shareholder, TBP Holding Company, Inc. There were no other dividends paid during the current examination period.

Acquisitions, Mergers and Major Corporate Events

There were no mergers, acquisitions or other major corporate events during the current examination period.

Surplus Debentures

The Company had no surplus notes at December 31, 2016.

CORPORATE RECORDS

The Articles of Incorporation and the Bylaws were reviewed. There were no amendments to the Articles of Incorporation during the examination period. The Bylaws were amended as of September 25, 2013, to allow board meetings to be held via electronic communications.

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

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of nine (9) directors. The directors serving at December 31, 2016, were as follows:

<u>Director</u>	<u>Affiliation</u>
John Bild St Louis, MO	Attorney John F. Bild, PC
Phillip Frain Edmond, OK	President and Chief Executive Officer Oklahoma Mutual Insurance Company
John Gunn St. Louis, MO	Attorney The Gunn Law Firm, PC
Micah Hall St. Louis, MO	Attorney The Hall Law Firm, LLC
Vanita Massey Kansas City, MO	Attorney Social Security Administration
Karen McCarthy St. Louis, MO	President and Chief Executive Officer Bar Plan Mutual Insurance Company
Thomas Watson Verona, WI	Senior Vice-President Wisconsin Lawyers Mutual Insurance Co.
Michael Yarber Austin, TX	President Texas Lawyers' Insurance Exchange
Lois Zerrer Springfield, MO	Attorney Zerrer Elder Law Office LLC

Officers

Officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2016, were as follows:

<u>Name</u>	<u>Office</u>
Karen McCarthy	President and Chief Executive Officer
Philip Frain	Secretary
John Bild	Treasurer
Gregory Klaus	Chief Financial Officer
Kimberly Edgar	Vice-President
Patrick O'Leary	Vice-President
Teresa Niederwimmer	Vice-President

Committees

At year-end 2016, the Company reported the following standing committees:

Executive

John Gunn, Chair
Karen R. McCarthy
Phillip D. Fraim
John F. Bild

Audit

Phillip D. Fraim, Chair
John Gunn
Vanita Massey
Lois Zerrer

Finance & Investment

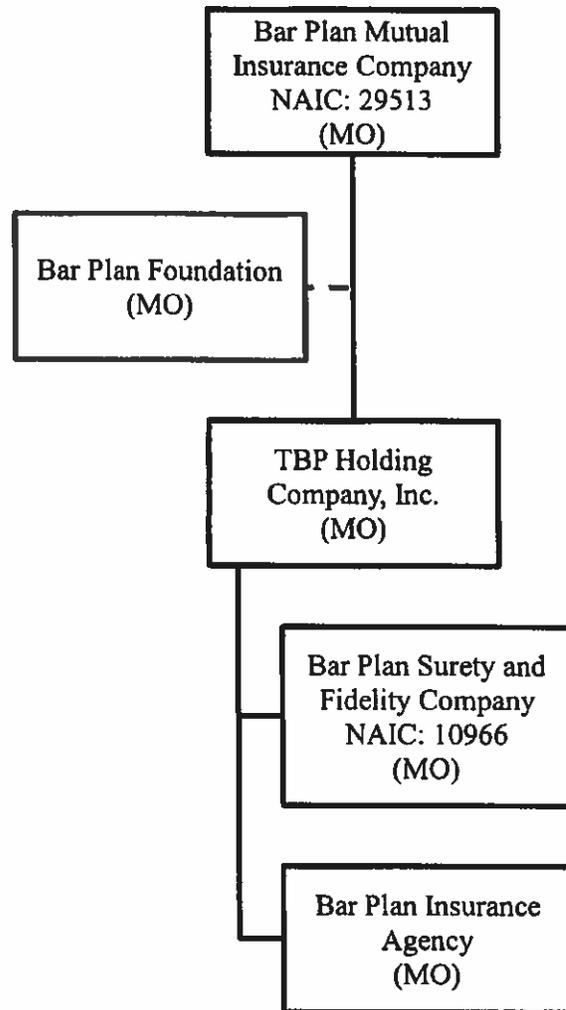
John Gunn, Chair
Thomas Watson
Micah Hall
Michael Yarber

Board Succession

John Gunn, Chair
Karen R. McCarthy
Phillip D. Fraim
John F. Bild

Organizational Chart

The Company is a member of an insurance holding company system as defined in Section 382.010 RSMo (Definitions): The Bar Plan Mutual Insurance Company is the ultimate controlling entity (UCE) in the system. The following organizational chart depicts the holding company system at December 31, 2016. All subsidiaries are wholly-owned unless otherwise noted. A dotted line indicates an affiliate not within the holding company system.



AFFILIATED TRANSACTIONS

As of December 31, 2016, the Company was party to the following intercompany agreements:

Administrative and Management Services Agreement

Parties: The Company and Bar Plan Mutual Insurance Company (Bar Plan Mutual)

Effective: January 1, 1999, most recent amendment effective January 1, 2016

Terms: Bar Plan Mutual provides to Bar Plan Surety the full and part-time personnel and other resources necessary for the conduct of surety insurance including but not limited to underwriting, record keeping, claim handling, service and billing, accounting, EDP, legal and other general administrative functions. Bar Plan Surety in turn furnishes the Bar Plan Mutual with management oversight, association memberships, and other general administrative functions related to the surety business produced.

Rate(s): In exchange for the services provided, Bar Plan Surety pays Bar Plan Mutual \$18,250 per month, which represents the approximate cost of employees and other overhead costs pertaining to the operation of its business. In turn, Bar Plan Mutual pays the Company that share of the board, association assessments and other expenses related to the production of surety business that the Bar Plan Mutual's annual surety direct written premiums bear to the total of the surety direct written premiums produced as a whole by both the Company and Bar Plan Mutual. Amounts due under this agreement are paid on or before the 15th day of each month.

Tax Allocation Agreement

Parties: The Company, Bar Plan Mutual and all other affiliated members of The Bar Plan Holding Company subject to taxation.

Effective: November 9, 1998, most recent amendment effective November 11, 2008

Terms: Parties agree to file a consolidated tax return. Any additional professional fees or other expenses borne by parent in connection with the production of the tax return shall be allocated among the members in an equitable manner. The agreement shall remain in force for 7 years with all terms and conditions to be renegotiated every 3 years. The latest version of this agreement was approved by the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) on October 10, 2008, with the revision made to eliminate Bar Plan Title, no longer an affiliate, from the agreement.

Rate(s): Each party pays or receives taxes incurred or credits gained on the basis as if the entity had filed separately from the group of companies on a non-consolidated basis.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed under Chapter 379 RSMo (Insurance Other Than Life) to write fidelity and surety insurance in Missouri. At year-end 2016, the Company was also licensed in five other states: Connecticut, Illinois, Kansas, Oklahoma and New Hampshire. The Bar Plan Surety and Fidelity writes court fiduciary bonds and court guarantee judicial bonds on an occurrence basis. Despite its small size, the Company is the largest court surety underwriter in the state of Missouri. The Company produces business through direct marketing and independent agents: direct marketing generates approximately one-half of written premiums; independent agents account for the remaining half.

REINSURANCE

General

The Company uses excess of loss reinsurance to limit its exposure. Premiums reported during the current examination period were as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Direct Premiums Written	\$ 924,068	\$ 948,120	\$ 984,750	\$ 971,476
Premiums Ceded	<u>(515,601)</u>	<u>(533,033)</u>	<u>(559,994)</u>	<u>(545,733)</u>
Net Premiums Written	<u>\$ 408,467</u>	<u>\$ 415,087</u>	<u>\$ 424,756</u>	<u>\$ 425,743</u>

Ceded**Excess of Loss (pro-rata)**

The Company and an affiliate, Bar Plan Mutual, are parties to a surety pro-rata excess of loss agreement under which they retain 50% of premiums and losses with a maximum retention of \$250,000. This agreement became effective January 1, 2016. For bonds written in excess of \$500,000, the retention is the percentage that \$250,000 bears to the total bond penalty. This treaty is limited to bonds up to \$2,000,000 for the audit period until 2013 and was increased to \$2,500,000 beginning with treaty year 2014. Bonds issued in excess of \$2,000,000 and \$2,500,000 respectively are reinsured facultatively. The counterparties to this agreement are three authorized reinsurers: Endurance Reinsurance Corporation of America (55%), Transatlantic Reinsurance Company (35%) and Aspen Re America (10%).

The Company remains contingently liable for all reinsurance losses ceded to other insurers. This contingent liability would become an actual liability in the event an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

ACCOUNTS AND RECORDS

General

The Company's general ledger and accounts payable are maintained on Freedom®, a commercially-supported Windows® software program. The Company's two main administration applications are Windows®-based client-server programs. Surety coverage is maintained on Infinity-Bonds.

Independent Accountant

Brown Smith Wallace, LLP, a certified public accounting firm, audited the Company's financial statements for each year under examination. The 2016 audit workpapers were reviewed and used in the examination as deemed appropriate.

Actuarial Opinion

For 2013 and 2014, reserves and related actuarial items were reviewed and certified by Charles Faerber, FSA, ACA, MAAA, of Rudd and Wisdom, Inc. For 2015 and 2016, reserves and related actuarial items were reviewed and certified by Charles Emma, FCA, MAAA, of EVP Advisors, Inc.

Consulting Actuary

Pursuant to a contract with the Department, Kristine Fitzgerald, ACAS, FCA, MAAA, of Actuarial & Technical Solutions, Inc., reviewed the underlying actuarial assumptions and actuarial methods used in determining the reserves and related liabilities. She found that the Company fairly and adequately represented its financial position with respect to the actuarial liabilities.

Information Systems

In conjunction with this examination, Andrew Balas, CFE, AES, CPA, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. He found the Company's information technology general controls to be effective.

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 the Company for the period ending December 31, 2016. 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, which are not shown in the "Comments on Financial Statement Items" section. 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 Annual Statement item.

ASSETS
As of December 31, 2016

	<u>Assets</u>	<u>Non- admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 4,097,002	\$ -	\$ 4,097,002
Common stocks	176,873	-	176,873
Cash, cash equivalents and short-term investments	768,895	-	768,895
Receivables for securities	2,226	-	2,226
Investment income due and accrued	18,356	-	18,356
Uncollected premiums	94,895	35,689	59,206
Amounts recoverable from reinsurers	(758)	-	(758)
Other amounts receivable under reinsurance contracts	31,325	-	31,325
Net deferred tax asset	44,354	22,222	22,132
Receivables from parent, subsidiaries and affiliates	10,611	-	10,611
Totals	<u>\$ 5,243,779</u>	<u>\$ 57,911</u>	<u>\$ 5,185,868</u>

LIABILITIES AND SURPLUS
As of December 31, 2016

Losses	\$ 259,889
Loss adjustment expenses	100,326
Commissions payable	5,765
Other expenses	10,862
Taxes, licenses and fees	(3,045)
Current federal income taxes	112,385
Unearned premiums	233,685
Advance premium	9,762
Ceded reinsurance premiums payable	38,483
Amounts withheld or retained by company for account of others	87,178
Unclaimed property	<u>11,860</u>
Total liabilities	867,150
Common capital stock	1,500,000
Gross paid in and contributed surplus	2,167,549
Unassigned funds (surplus)	<u>651,169</u>
Surplus as regards policyholders	4,318,718
Total liabilities and surplus	<u>\$ 5,185,868</u>

STATEMENT OF INCOME
For the year ended December 31, 2016

Premiums earned	\$ 426,839
Losses incurred	(47,997)
Loss adjustment expenses incurred	25,376
Other underwriting expenses incurred	<u>165,332</u>
Total underwriting deductions	142,711
Net underwriting gain	284,128
Net investment income earned	26,712
Net realized capital gains	<u>3,412</u>
Net investment gain	30,124
Miscellaneous income	<u>4,811</u>
Total other income	4,811
Net income pre-tax	319,063
Federal income taxes incurred	<u>110,644</u>
Net income	<u>\$ 208,419</u>

RECONCILIATION OF SURPLUS

Surplus as regards policyholders, December 31 prior year	\$4,167,747
Net income	208,419
Change in net unrealized capital gains	12,335
Change in net deferred income tax	1,064
Change in nonadmitted assets	12,508
Dividends to stockholders	<u>(83,355)</u>
Change in surplus as regards policyholders for the year	150,971
Surplus as regards policyholders, December 31 current year	<u><u>\$4,318,718</u></u>

EXAMINATION CHANGES

There were no changes to the financial statements resulting from the examination.

COMMENTS ON FINANCIAL STATEMENTS

There were no comments on the financial statements resulting from the examination.

SUBSEQUENT EVENTS

On January 1, 2018, the Company's retention percentage under its reinsurance agreement increased from fifty percent (50%) to fifty-two and one-half percent (52.5%) for bond penalties up to \$476,000. The Company's amount at risk will remain at \$250,000.

SUMMARY OF RECOMMENDATIONS

There were no recommendations resulting from the examination.

