

Report of the Examination of  
Fidelity and Guaranty Insurance Underwriters, Inc.  
Brookfield, Wisconsin  
As of December 31, 2019

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April 7, 2021

Honorable Mark V. Afable  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

FIDELITY AND GUARANTY INSURANCE UNDERWRITERS, INC.  
Brookfield, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Fidelity and Guaranty Insurance Underwriters, Inc. (FGIU or the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2019, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the U.S.-domiciled insurance subsidiaries of The Travelers Companies, Inc. The Connecticut Insurance Department acted in the capacity as the lead state for the coordinated examinations. The work performed by the lead state was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

## II. HISTORY AND PLAN OF OPERATION

The company was organized in 1951 as a stock fire and casualty company under the laws of the state of Ohio and commenced business on November 1, 1951. The company re-domesticated to Wisconsin on October 1, 1994. All of the issued and outstanding common stock of the company is owned by St. Paul Fire and Marine Insurance Company (Fire and Marine). The company is an indirect subsidiary of The Travelers Companies, Inc. (TRV), the ultimate parent company. TRV is a publicly traded company (NYSE Ticker Symbol: "TRV"). Below is a brief history of the company since its inception.

USF&G Corporation, a holding company, gained financial control of the company through an exchange of stock in October 1981. The St. Paul Companies, Inc., a Minnesota holding company, acquired USF&G Corporation in April 1998, whereby USF&G Corporation and all its subsidiaries became wholly owned subsidiaries of The St. Paul Companies, Inc. USF&G Corporation was merged into St. Paul Fire and Marine Insurance Company, a Minnesota-domiciled property and casualty insurance company, pursuant to an agreement and plan of merger effective January 1, 1999.

The St. Paul Companies, Inc., parent of Fire and Marine, merged with Travelers Property Casualty Corp. on April 1, 2004, forming The St. Paul Travelers Companies, Inc. On February 26, 2007, The St. Paul Travelers Companies, Inc., was renamed The Travelers Companies, Inc. (TRV), which is a publicly traded holding company and the ultimate parent of the group.

Effective January 1, 2019, a distribution of all of United States Fidelity and Guaranty Company's interests in FGIU, consisting of 100% of the common stock of FGIU, was declared payable on January 1, 2019, to Fire and Marine, making FGIU a direct subsidiary of Fire and Marine.

FGIU is licensed in all states and the District of Columbia; however, in 2019, the company's direct premiums were written exclusively in New Jersey.

The major products marketed by the company include homeowners multiple peril (60%), private passenger auto liability (20%), auto physical damage (9.85%), other liability-occurrence (3.3%), and Inland Marine (2.79%). All other lines are immaterial. The major products are marketed through the TRV Pool's Personal Insurance segment, which distributes the products through approximately 9,400 independent agencies and brokers.

The following table is a summary of the net insurance premiums written by the company in 2019. The growth of the company is discussed in the “Financial Data” section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Fire	\$ 3,882,267	\$ 575,646	\$ 3,882,267	\$ 575,646
Allied lines	2,013,442	593,088	2,013,442	593,088
Farmowners multiple peril		203,721		203,721
Homeowners multiple peril	124,495,724	4,089,634	124,495,724	4,089,634
Commercial multiple peril		3,402,020		3,402,020
Ocean marine	2,839	239,763	2,839	239,763
Inland marine	5,755,547	706,778	5,755,547	706,778
Medical professional liability - occurrence		23		23
Medical professional liability - claims made		(1)		(1)
Earthquake	159,152	105,218	159,152	105,218
Worker's compensation	284,164	3,853,193	284,164	3,853,193
Other liability – occurrence	6,814,292	2,301,708	6,814,292	2,301,708
Other liability – claims made		617,786		617,786
Excess worker's compensation		16,544		16,544
Products liability – occurrence		148,075		148,075
Products liability – claims made		24,960		24,960
Private passenger auto liability	42,449,542	3,279,445	42,449,542	3,279,445
Commercial auto liability		2,124,891		2,124,891
Auto physical damage	20,316,765	2,730,480	20,316,765	2,730,480
Fidelity		54,133		54,133
Surety		2,196		2,196
Burglary and theft	682	12,637	682	12,637
Boiler and machinery		232,036		232,036
Credit		1		1
International		2,668		2,668
Reinsurance – non-proportional assumed property		43,314		43,314
Reinsurance – non-proportional assumed liability		12,653		12,653
Reinsurance – non-proportional assumed financial lines		1,419		1,419
<b>Total All Lines</b>	<b><u>\$ 206,174,416</u></b>	<b><u>\$ 25,374,028</u></b>	<b><u>\$ 206,174,416</u></b>	<b><u>\$ 25,374,028</u></b>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of five members. The directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no specific compensation for serving on the board.

Currently, the board of directors consists of the following persons:

<b>Name</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Daniel Stephen Frey Hartford, Connecticut	Executive Vice President & Chief Financial Officer	2022
William Herbert Heyman New York, New York	Vice Chairman	2022
Christine Kucera Kalla St. Paul, Minnesota	Executive Vice President & General Counsel	2022
Nicholas Seminara Hartford, Connecticut	President	2022
Gregory Cheshire Toczydlowski Hartford, Connecticut	Executive Vice President and President, Business Insurance	2022

#### Officers of the Company

The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>
Nicholas Seminara	President
Jay Steven Benet	Vice Chairman
Avrohom Yaakov Kess	Vice Chairman & Chief Legal Officer
Daniel Stephen Frey	EVP & Chief Financial Officer
Bruce Richard Jones	EVP, Enterprise Risk Management & Chief Risk Officer

#### Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

##### **Executive Committee**

Daniel S. Frey  
William H. Heyman  
Nicholas Seminara

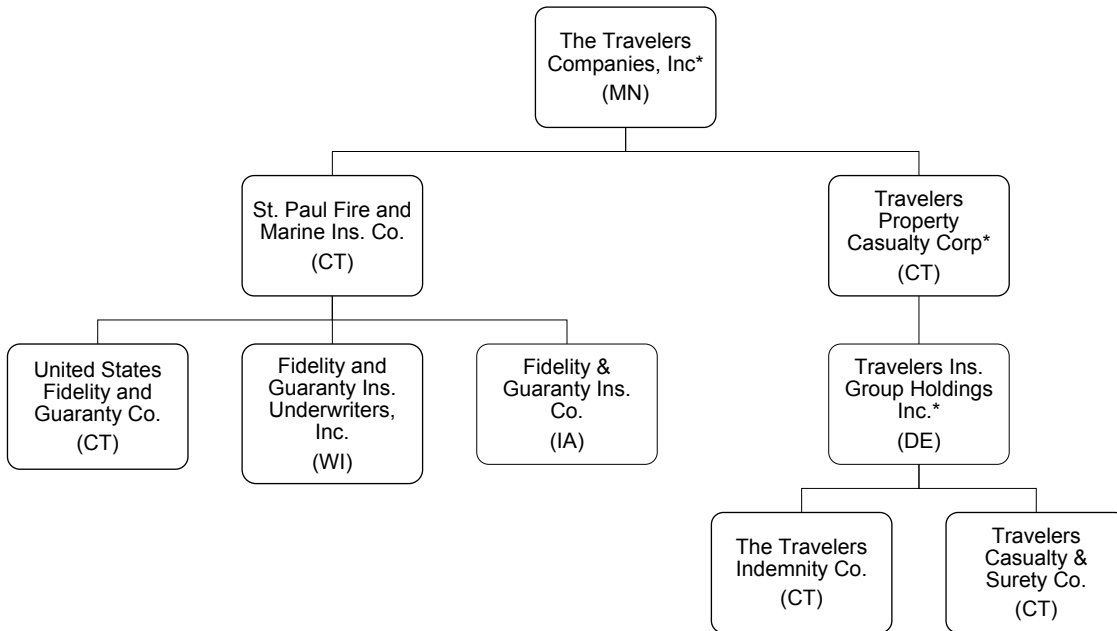
##### **Investment Committee**

Daniel S. Frey  
William H. Heyman  
Nicholas Seminara

#### IV. AFFILIATED COMPANIES

Fidelity and Guaranty Insurance Underwriters, Inc., is a member of a holding company system. The abbreviated organizational chart below depicts the companies among the affiliates that FGIU has relationships with in the group. A brief description of the company's parent, ultimate parent, and affiliates with which the company has agreements or significant transactions follows the organizational chart.

**Organizational Chart  
As of December 31, 2019**



\*Denotes non-insurer affiliate

#### **The Travelers Companies, Inc.**

The Travelers Companies, Inc., a publicly traded holding company incorporated in the state of Minnesota, is the ultimate parent of the Travelers Group (including the Wisconsin-domiciled company). The group has entities in and outside of the United States, including the ultimate parent and 52 insurance companies worldwide. Of the 52 insurance companies, 43 are located in the United States, the remainder are located in the United Kingdom, Canada, Colombia, Ireland, Bermuda, and, through a joint venture, in Brazil.



Within the Travelers Group is the Travelers Combined Pool which consists of 35 property-casualty insurance companies of the Travelers Reinsurance Pool (Reinsurance Pool)<sup>1</sup>, as well as seven additional property-casualty companies (non-Pool entities) that cede 100% of their business to the Reinsurance Pool. Both nationally and internationally, the Travelers Group operations are organized into three business segments: Business Insurance, Personal Insurance, and Bond & Specialty Insurance.

The Business Insurance segment offers a broad array of property and casualty insurance and insurance-related services to its clients primarily in the United States. It also includes the Company's Strategic Resolution Group (which manages the Combined Pool's asbestos and environmental liabilities) and the assumed reinsurance and certain other runoff operations, which are collectively referred to as Business Insurance Other.

The Personal Insurance segment writes a broad range of property and casualty insurance covering individuals' personal risks. The primary products of automobile and homeowners insurance are complemented by a broad suite of related coverages.

The Bond & Specialty Insurance segment provides surety, crime, management and professional liability coverages, and related risk management services to a wide range of primarily domestic customers, utilizing various degrees of financially based underwriting approaches.

The consolidated financial statements of TRV as of December 31, 2019, reported assets of \$110.1 billion, liabilities of \$84.2 billion, and shareholders' equity of \$25.9 billion. Operations for 2019 produced net income of \$2.6 billion.

The Travelers Combined Pool's audited financial statements (statutory basis) reported assets of \$76.8 billion, liabilities of \$56.2 billion, and surplus as regards policyholders of \$20.6 billion as of December 31, 2019. Operations for 2019 produced net income of \$2.8 billion.

### **St. Paul Fire and Marine Insurance Company**

St. Paul Fire and Marine Insurance Company (Fire and Marine) is a property and casualty insurance company domiciled in Connecticut. The majority of Fire and Marine's direct business (approximately 75%) is Other Liability – Occurrence, Commercial Auto Liability, and Products Liability – Occurrence. Effective January 1, 2019, Fire and Marine became the direct parent of FGIU.

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<sup>1</sup> The Travelers Reinsurance Pool is discussed in detail in Section V – Reinsurance.

Fire and Marine's statutory financial statements reported assets of \$20.1 billion, liabilities of \$14.2 billion, and surplus as regards to policyholders of \$5.9 billion, as of December 31, 2019. Operations for 2019 produced net income of \$822.3 million.

### **The Travelers Indemnity Company**

The Travelers Indemnity Company (TIC) is a property and casualty insurance company domiciled in Connecticut. It is a direct subsidiary of the Travelers Insurance Group Holdings, Inc., a 100% owned subsidiary of Travelers Property Casualty Corporation, which encompasses ownership of various insurance- and noninsurance-related investment, finance, and real estate companies or trusts. The majority of TIC's direct business written includes worker's compensation, other liability – occurrence, and commercial multiple peril. TIC is the leader and administrator of the Travelers reinsurance pool and manager of the Travelers Money Market Liquidity Pool (TRV MMLP). The company also administers all external reinsurance.

TIC's statutory financial statements reported assets of \$22.5 billion, liabilities of \$15.8 billion, and surplus as regards to policyholders of \$6.7 billion, as of December 31, 2019. Operations for 2019 produced net income of \$825.1 million.

### **United States Fidelity and Guaranty Company**

United States Fidelity and Guaranty Company (USFG) is a property and casualty insurance company domiciled in Connecticut. The majority of USFG's direct business written includes worker's compensation, other liability – occurrence, and inland marine. Effective January 1, 2019, USFG distributed all of its interest (100% of common stock) in FGIU to Fire and Marine, making Fire and Marine the direct parent of FGIU.

USFG's statutory financial statements reported admitted assets of \$3.3 billion, liabilities of \$2.4 billion, and surplus as regards to policyholders of \$882.6 million, as of December 31, 2019. Operations for 2019 produced net income of \$105.4 million.

### **Agreements with Affiliates**

Fidelity and Guaranty Insurance Underwriters, Inc., operates under the following major affiliate agreement relationships.

## **Travelers Money Market Liquidity Pool**

TRV maintains a private short-term investment pool, known as the Travelers Money Market Liquidity Pool, in which the affiliated companies may participate through signing in the “Pooling Agreement for Travelers Money Market Liquidity” or TRV MMLP Agreement. This pool is managed by TIC.<sup>2</sup>

Each company may convert its position in the pool into cash at any time and may use its position in the pool to settle transactions with other affiliated participants in the pool. The position of each company in the pool is calculated and adjusted daily in proportion to the book value of the assets invested in the pool. Each participating insurance company carries its share of the pool as a one-line short-term investment in Schedule DA of the Annual Statements. At December 31, 2020 and 2019, the TRV MMLP had a statutory book value of \$5.5 billion and \$4.9 billion, respectively.

The TRV MMLP Agreement became effective on August 20, 2002, under Travelers Property Casualty Corp. (Parent). The original name of the agreement was “Pooling Agreement for Travelers Money Market Liquidity.” FGIU and several companies joined the pool effective January 1, 2005, by signing an addendum, and at the same time, the agreement was renamed to “Pooling Agreement for St. Paul Travelers Money Market Liquidity.” Effective February 26, 2007, the agreement was renamed back to “Pooling Agreement for Travelers Money Market Liquidity.”

Under this agreement, additional companies may become parties to the agreement by signing an “Addendum Signature” page without the need for an amendment to the agreement or acknowledgment by the existing parties. Any party other than the Pool Manager may terminate its participation on demand without penalty or other assessment by giving written notice to the Pool Manager during any business day. Any party shall be terminated from the agreement if that party shall cease to be a subsidiary of TRV. The Pool Manager may terminate from the agreement by giving 180 days’ advance written notice to TRV.

The Pool Manager shall administer the pool so that the investment in the pool and the pool assets are admitted assets for the companies which are insurance companies including subsidiaries or

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<sup>2</sup> The Travelers Indemnity Company was appointed by Travelers Property Casualty Corp. (Parent) as Pool Manager effective January 1, 2005.

affiliates of insurance companies. Likewise, the Pool Manager shall maintain records accurately reflecting all transactions of the pool.

### **Travelers Reinsurance Pool**

Effective January 1, 2007, FGIU became a party to an intercompany pooling arrangement under the TRV Pool, by signing in “Travelers Reinsurance Pool Amended and Restated Quota Share Reinsurance Agreement” (TRV Pool). The Travelers Indemnity Company is the lead company of the TRV Pool. Under the terms of the arrangement, the property-casualty underwriting risks for substantially all lines of business of the intercompany pool participants are reinsured with TIC. The pool of net underwriting risks remaining after reinsurance is transacted with third parties by TIC is then retroceded to the pool participants based on pool participation percentages. The provision for reinsurance and the write-off of uncollectible reinsurance are reported in the statutory financial statements of TIC and are not allocated to the other pool participants.

FGIU’s participation in the TRV Pool is 0.10%. The three highest participants of the pool as of December 31, 2019, in terms of allocation, were as follows:

St. Paul Fire and Marine Insurance company	24.79%
The Travelers Indemnity Company	23.29%
Travelers Casualty and Surety Company	20.36%

All of the companies in the TRV Pool are party to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and have contractual rights of direct recovery from the non-affiliated reinsurers under the terms of such reinsurance agreements. The allocation of external reinsurance ceded premiums and losses between TIC on behalf of itself and the members of the TRV Pool and non-Pool member insurers are covered in a separate “Reinsurance Allocation Agreement.”

As of December 31, 2019, FGIU had \$993,051 of receivables from TIC as a result of the intercompany reinsurance transactions, which settled in January 2020.

### **Travelers Expense Allocation**

FGIU became a party to the TRV “Expense Allocation Agreement” effective December 15, 2012. Under this agreement, TIC shall provide to the TRV Companies certain services required by the TRV Companies in the ordinary course of business. Such services may include, but are not limited to,

financial management, operational management, accounting, treasury, property management, payroll, internal audit, human resource management, tax, transportation, risk management, legal, investment management and advisory, government relations, records management and data processing, the acquisition of equipment, software and office space, benefits administration and support, claim handling and administration, billing and collection, business processing, agency administration, and intellectual property rights.

TIC allocates to participating companies the expense relating the services it provided directly or pursuant to the Service Agreement. The allocation is based on salaries, census, and premiums, losses, or other appropriate measures and shall be done in a manner consistent with applicable statutory provisions and related guidance consistently applied. It is the intention of the parties that TIC neither realize profit nor incur a loss as a result of providing or obtaining services for the TRV Companies.

TIC furnishes the companies with a monthly statement for services provided. Each company reimburses TIC for the amount due within 30 days of its receipt of the monthly statement. Payment is made by inter-company credits and debits settled monthly in arrears. TIC maintains a detailed record of all costs for services provided to each company.

Subsidiaries and affiliates of TIC may become parties to the agreement by executing an addendum to the agreement which shall indicate the effective date as of which such affiliate shall have become a party to the agreement, subject to regulatory approval.

#### **Travelers Consolidated Tax Allocation**

FGIU became a party to TRV "Consolidated Tax Allocation Agreement" effective April 1, 2004, under the name "The St. Paul Travelers Companies, Inc. Tax Allocation Agreement." The agreement was amended on February 26, 2007, to rename it to "The Travelers Companies, Inc. Tax Allocation Agreement." Such Agreement was amended and restated effective September 1, 2017.

The Agreement sets forth the manner in which total consolidated federal income tax is allocated among companies, such FGIU, included in the consolidated return. Member companies included in the TRV consolidated return are allocated taxes annually based upon their separate taxable income. Companies with a current federal income tax receivable from TRV will receive settlement to the extent that such receivable are for tax benefits that have been utilized in the consolidated federal income

tax return. Member companies are reimbursed by TRV in the event the IRS levies upon a member's assets for unpaid taxes in excess of the amount specifically allocated to a member.

### **Intercompany Netting Agreement**

Effective April 1, 2004, FGIU became a party to an "Intercompany Netting Agreement" between TIC and The St. Paul Travelers Companies, Inc., and its subsidiaries. Each party agreed that monetary obligations resulting from transactions with the other party be netted, for purposes of settling such obligations.

On a daily basis and not later than the close of each calendar month, TIC determines the net amount of outstanding eligible obligations between parties, and that only the netted obligation shall remain at the end of each calendar month.

A party, other than TIC, may withdraw from this agreement by written notice to TIC, but such withdrawal shall not terminate this agreement as to the other parties. TIC may withdraw from this agreement by written notice to all other parties and shall terminate this agreement upon such withdrawal.

## V. REINSURANCE

FGIU participates in the Travelers Reinsurance Pool, an intercompany pooling arrangement. The lead company of the TRV Pool is The Travelers Indemnity Company. Under the terms of the arrangement, the property-casualty underwriting risks for substantially all lines of business of the intercompany pool participants are reinsured with TIC. The Pool's net underwriting risks, after reinsurance is transacted with third parties by TIC, are then retroceded to the pool participants based on pool participation percentages<sup>3</sup>. The provision for reinsurance and the write-off of uncollectible reinsurance are reported in the statutory financial statements of TIC and are not allocated to the other pool participants.

The TRV Pool has two components, quota share reinsurance and reinsurance allocation. Below is the brief history.

### **Quota Share Reinsurance**

FGIU became a "joining company" and became a party to the TRV Pool Amended and Restated Quota Share Reinsurance Agreement effective January 1, 2007. As of December 31, 2019, there were 35 companies participating in the TRV Pool. FGIU's participation in the pool is 0.10%.

TIC is the lead company of the pool and provides quarterly statements to the participating companies showing premiums, expenses, losses, and loss expense paid and salvage and subrogation received during said accounting period, and unearned premiums, loss outstanding, loss expenses outstanding, other underwriting expenses, etc. Accounts between and among TIC and the participating companies are settled on a daily basis through the Intercompany Money Market Pool or cash. Any items open at the end of the month are settled in the following month.

Each party to the pooling agreement has the right to offset any balance or balances, whether on account of premiums or on account of losses or otherwise, due from such party to the other party in connection with the reinsurance pool.

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<sup>3</sup> Each participant of the pool reinsures TIC's gross liabilities, net of any Third Party reinsurance contracts for all Non-Bond Business written, according to its respective quota share percentage.

A written notice shall be provided to each of the parties and TIC no less than 12 months prior to the removal by commutation of any party or termination and commutation of the pooling agreement by all of the parties.

The pooling agreement contains the proper insolvency clause.

### **Reinsurance Allocation**

The Reinsurance Allocation Agreement was approved on May 3, 2006. The agreement was not a reinsurance agreement, but rather an allocation agreement that documents the current methodology by which external reinsurance ceded premiums and losses are allocated between TIC on behalf of itself and the members of the TRV Pool (Pooled Entities) and the non-member insurers (Non-Pooled Entities).

The Reinsurance Allocation Agreement was amended effective January 1, 2013. The allocation among and between the Pooled Entities was not affected, which is based upon the quota share percentages contained in the TRV Pool agreement. The agreement was amended to resolve allocations of ceded premiums and ceded losses by and between Pooled Entities and Non-Pooled Entities, as follows:

1. Ceded premium deposits will be allocated based on the expected loss as determined through actuarial modeling and analysis by the TIC's Reinsurance Department. Each Non-Pooled Entity will be allocated ceded premium based on a ratio of the Non-Pooled Entity's expected treaty loss to TIC's total expected treaty loss, multiplied by the total deposit premium. Adjustments of the deposit premium, with the exception of reinstatement premium, will be allocated in the same manner.
2. Ceded loss (including ceded loss adjustment expenses) and reinstatement premiums will be allocated based on actual treaty loss sustained. Each Non-Pooled Entity will be allocated ceded loss and reinstatement premium based on a ratio of Non-Pooled Entity's treaty loss to TIC's total treaty loss, multiplied by the available event limit, per occurrence limit, terrorism sublimit, and/or aggregate limit, as applicable to TIC's reinsurance treaty.

The agreement is administered by TIC and settled in accordance with the Expense Allocation Agreement<sup>4</sup> and the TRV Reinsurance Pool Amended and Restated Quota Share Reinsurance Agreement, as applicable. Resulting amounts owed to or due from the respective participants shall be reimbursed within 30 days of receipt of a monthly statement by inter-company credits and debits settled monthly in arrears.

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<sup>4</sup> Expense Allocation Agreement is discussed separately under "Agreements with Affiliates" in Section IV – Affiliated Companies of the examination report.



The agreement had a term of 12 months, beginning January 1, 2013, and is being renewed automatically from year to year. The agreement shall terminate with respect to a party, if that party ceases to be a majority-owned subsidiary of TRV. TIC has no automatic right to terminate the agreement, regardless if a Pooled Entity or Non-Pooled Entity is placed in receivership pursuant to Chapter 704c of the Connecticut General Statutes.

The agreement has a proper indemnification clause.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2019, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Assets**  
**As of December 31, 2019**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$129,708,260	\$	\$129,708,260
Cash, cash equivalents, and short-term investments	3,820,412		3,820,412
Investment income due and accrued	1,230,763		1,230,763
Uncollected premiums and agents' balances in course of collection	1,672,185	174,801	1,497,384
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	5,285,928	30,708	5,255,220
Accrued retrospective premiums and contracts subject to redetermination	90,629	8,480	82,149
Reinsurance:			
Amounts recoverable from reinsurers	11,179,332		11,179,332
Net deferred tax asset	955,134	79,476	875,658
Guaranty funds receivable or on deposit	17,100		17,100
Receivable from parent, subsidiaries, and affiliates	993,051		993,051
Write-ins for other than invested assets:			
Equities and deposits in pools and associations	121,475		121,475
Amounts receivable under high deductible policies	71,804	7,207	64,597
Other assets	60,760		60,760
Summary of remaining write-ins for Line 25 from overflow page	<u>43,652</u>	<u>          </u>	<u>43,652</u>
<b>Total Assets</b>	<b><u>\$155,250,484</u></b>	<b><u>\$300,672</u></b>	<b><u>\$154,949,812</u></b>

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2019**

Losses		\$ 32,338,028
Reinsurance payable on paid loss and loss adjustment expenses		1,437,006
Loss adjustment expenses		7,361,459
Commissions payable, contingent commissions, and other similar charges		790,559
Other expenses (excluding taxes, licenses, and fees)		629,002
Taxes, licenses, and fees (excluding federal and foreign income taxes)		299,914
Current federal and foreign income taxes		60,154
Unearned premiums		11,682,109
Dividends declared and unpaid:		
Policyholders		59,459
Ceded reinsurance premiums payable (net of ceding commissions)		10,709,798
Amounts withheld or retained by company for account of others		39,739
Write-ins for liabilities:		
Retroactive reinsurance reserve assumed		1,180
Retroactive reinsurance reserve ceded		(43,686)
<b>Total Liabilities</b>		<b>65,364,720</b>
Write-ins for special surplus funds:		
Special surplus from retroactive reinsurance	\$ 48,619	
Common capital stock	13,434,900	
Write-ins for other than special surplus funds:		
Gross paid in and contributed surplus	72,016,120	
Unassigned funds (surplus)	<u>4,085,453</u>	
<b>Surplus as Regards Policyholders</b>		<u><b>89,585,092</b></u>
<b>Total Liabilities and Surplus</b>		<u><b>\$154,949,812</b></u>

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Summary of Operations**  
**For the Year 2019**

<b>Underwriting Income</b>		
Premiums earned		\$24,633,010
Deductions:		
Losses incurred	\$14,332,083	
Loss adjustment expenses incurred	2,579,696	
Other underwriting expenses incurred	7,181,435	
Write-ins for underwriting deductions:		
Total underwriting deductions		<u>24,093,214</u>
Net underwriting gain (loss)		539,796
<b>Investment Income</b>		
Net investment income earned	3,697,207	
Net realized capital gains (losses)	<u>30,325</u>	
Net investment gain (loss)		3,727,531
<b>Other Income</b>		
Net gain (loss) from agents' or premium balances charged off	(55,222)	
Finance and service charges not included in premiums	91,178	
Write-ins for miscellaneous income:		
Fines and penalties of regulatory authorities	(598)	
Retroactive reinsurance gain/loss	(5,442)	
Profit and loss, miscellaneous	<u>(170,207)</u>	
Total other income		<u>(140,291)</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		4,127,036
Dividends to policyholders		<u>41,418</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		4,085,618
Federal and foreign income taxes incurred		<u>599,373</u>
Net Income (Loss)		<u>\$ 3,486,245</u>

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Cash Flow**  
**For the Year 2019**

Premiums collected net of reinsurance		\$24,843,227
Net investment income		4,091,982
Miscellaneous income		<u>(140,291)</u>
Total		28,794,918
Benefit- and loss-related payments	\$13,442,853	
Commissions, expenses paid, and aggregate write-ins for deductions	9,578,804	
Dividends paid to policyholders	43,334	
Federal and foreign income taxes paid (recovered)	<u>501,879</u>	
Total deductions		<u>23,566,870</u>
Net cash from operations		5,228,048
Proceeds from investments sold, matured, or repaid:		
Bonds	\$11,155,018	
Total investment proceeds		11,155,018
Cost of investments acquired (long- term only):		
Bonds	17,522,294	
Miscellaneous applications	<u>4,350,994</u>	
Total investments acquired	<u>21,873,289</u>	
Net cash from investments		(10,718,270)
Cash from financing and miscellaneous sources:		
Dividends to stockholders	3,100,000	
Other cash provided (applied)	<u>184,641</u>	
Net cash from financing and miscellaneous sources		<u>(2,915,359)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		
		(8,405,582)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>12,225,993</u>
End of Year		<u>\$ 3,820,412</u>

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Compulsory and Security Surplus Calculation**  
**December 31, 2019**

Assets		\$154,949,812
Less liabilities		<u>65,364,720</u>
Adjusted surplus		89,585,092
Annual premium:		
Lines other than accident and health	\$ 25,332,610	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>5,066,522</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 84,518,570</u>
Adjusted surplus (from above)		\$89,585,092
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>7,093,130</u>
Security Surplus Excess (Deficit)		<u>\$ 82,491,962</u>

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2019**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Surplus, beginning of year	\$88,920,970	\$88,994,486	\$89,995,520	\$86,204,853	\$100,855,739
Net income	3,486,245	3,100,699	3,616,000	4,387,608	5,311,255
Change in net unrealized capital gains/losses	189,990	199,799	2,002	(14,297)	
Change in net unrealized foreign exchange capital gains/losses	64	(43)			
Change in net deferred income tax	91,350	112,105	(601,311)	2,985	(81,081)
Change in nonadmitted assets	(3,528)	(86,076)	282,275	14,370	18,941
Dividends to stockholders	<u>(3,100,000)</u>	<u>(3,400,000)</u>	<u>(4,300,000)</u>	<u>(600,000)</u>	<u>(19,900,000)</u>
Surplus, End of Year	<u>\$89,585,092</u>	<u>\$88,920,970</u>	<u>\$88,994,486</u>	<u>\$89,995,520</u>	<u>\$86,204,853</u>



**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Insurance Regulatory Information System**  
**For the Five-Year Period Ending December 31, 2019**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

<b>Ratio</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
#1 Gross Premium to Surplus	258%	287%	287%	295%	334%
#2 Net Premium to Surplus	28	27	26	24	24
#3 Change in Net Premiums Written	5	5	5	5	3
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	83	83	78	72	69
#6 Investment Yield	2.8	2.7	3.1	3.3	3.4
#7 Gross Change in Surplus	1	0	(1)	4	(15)*
#8 Change in Adjusted Surplus	1	0	(1)	4	(15)*
#9 Liabilities to Liquid Assets	45	46	44	45	47
#10 Agents' Balances to Surplus	2	2	1	1	1
#11 One-Year Reserve Development to Surplus	0	0	(1)	(1)	(1)
#12 Two-Year Reserve Development to Surplus	0	(1)	(1)	(1)	(2)
#13 Estimated Current Reserve Deficiency to Surplus	1	0	0	1	0

Ratio No. 7 and No. 8 measure the change in company's profitability and underwriting practices compared to the prior year. The exceptional results in 2015 were due to \$19 million in dividends paid to stockholders on that year.

**Growth of Fidelity and Guaranty Insurance Underwriters, Inc.**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus as Regards Policyholders</b>	<b>Net Income</b>
2019	\$154,949,812	\$65,364,720	\$89,585,092	\$3,486,245
2018	156,887,256	67,966,286	88,920,970	3,100,699
2017	151,267,148	62,272,663	88,994,486	3,616,000
2016	153,260,550	63,265,030	89,995,520	4,387,608
2015	149,756,617	63,551,764	86,204,853	5,311,255
2014	165,821,338	64,965,599	100,855,739	5,974,357

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Premium Earned</b>	<b>Loss and LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
2019	\$231,548,444	\$25,374,028	\$24,633,010	68.7%	28.9%	97.6%
2018	254,997,460	24,061,088	23,542,781	69.4	29.4	98.8
2017	255,540,026	22,832,157	22,377,405	69.5	30.0	99.5
2016	265,913,947	21,771,198	21,342,113	63.4	30.9	94.3
2015	288,203,078	20,779,431	20,456,828	58.7	31.5	90.2
2014	338,086,309	20,188,457	19,979,435	60.5	31.5.0	90.5

The company consistently posted net income over the five-year period, due largely to stability in underwriting results (as reflected in the Loss/LAE, Expense, and Combined ratios). Over the same period, policyholder's surplus decreased by 11% (due largely to the payment of stockholder dividends).

**Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2019, is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Money Market Liquidity Pool—It is recommended that a detailed schedule of investments by CUSIP that make up the entire MMLP be provided to this office by March 31st of each year.

Action—Compliance.

2. Report on Executive Compensation—It is recommended that FGIU include in the Wisconsin Report on Executive Compensation all gross direct and indirect remuneration paid and accrued during the report year including wages, salaries, bonuses, retirement benefits, deferred compensation, commissions, directors fees, retainers, stock grants, gains from the exercise of stock option, and all other forms of personal compensation (including employer-paid health, life and any other premiums), for individuals required to be included in the Wisconsin Executive Compensation report according to the instructions on the form and in accordance with s. 611.63 (4), Wis. Stat.

Action—Compliance.

3. Committees of the Board—It is recommended that the number of members of the Executive Committee shall be at least three directors pursuant to s. 611.56, Wis. Stat.

Action—Compliance.

### **Summary of Current Examination Results**

There were no adverse findings noted as a result of this exam.

## VIII. CONCLUSION

FGIU is a Wisconsin-domiciled company and a member of the holding company system under Travelers Companies, Inc., as the ultimate parent, domiciled in Minnesota. TRV operates a reinsurance pool under The Travelers Indemnity Company, the reinsurer and administrator of the pool. The three highest participants of the pool are St. Paul Fire and Marine Insurance Company (24.79%), Travelers Casualty and Surety Company (20.36%), and TIC (23.29%). All three companies are domiciled in Connecticut. FGIU's participation in the pool is 0.10%. In order to provide liquidity to the pool's operations, the group maintains a private short-term investment pool, The Travelers Money Market Liquidity Pool, which is managed and administered by TIC. Members may convert their position in the pool to cash and use it to settle obligations. Obligations among members are settled through offset on a daily basis, such that only the netted amount remains at the end of each month.

Most of the operations of the group are managed and administered by TIC through the intercompany pooling arrangements and other service agreements previously discussed. It is the intention of the group that TIC neither realize profits, nor incur losses, in providing or obtaining services for the group. Costs and expenses are proportionately allocated amongst the members.

FGIU reported assets of \$154.9 million, liabilities of \$65 million, and surplus as regards to policyholders of \$89.5 million as of December 31, 2019.

The current examination was conducted in coordination with Connecticut as the lead state. Wisconsin placed reliance on the lead state's work as deemed applicable. As of the date of this report, the lead state was in the process of finalizing the examination report.

The Wisconsin examination was specific to FGIU only, and resulted in no recommendations. In addition, there were no adjustments to surplus or reclassifications of account balances as a result of this examination. The company is in compliance with all of the recommendations made on the previous examination.

## **IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There were no adverse findings as a result of this exam.

## X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
David Jensen, CFE	IT Specialist
Albert Karl, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Abdel-Aziz T. Kondoh  
Examiner-in-Charge