

Report  
of the  
Examination of  
Southern Fire & Casualty Company  
Sun Prairie, Wisconsin  
As of December 31, 2017

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Tony Evers, Governor*  
*Mark V. Afable, Commissioner*

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May 1, 2019

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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:

SOUTHERN FIRE & CASUALTY COMPANY  
Sun Prairie, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Southern Fire & Casualty Company (SFire, or the company) was conducted in 2013 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the QBE North America Group. The Pennsylvania Department of Insurance acted in the capacity as the lead state for the coordinated examinations. Work performed by the Pennsylvania Department of Insurance 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 with respect to the alternative or additional examination steps performed during the course of the examination.

#### **Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the Pennsylvania Department of Insurance. The company is a part of a large intercompany pooling arrangement. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves at the pool level. The actuary's results were reported to the lead state examiner-in-charge and communicated to the participating states' examiners- in charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

## II. HISTORY AND PLAN OF OPERATION

Southern Fire & Casualty Company was incorporated as the Southern Title Insurance Company, Inc., on June 10, 1953, under the laws of Tennessee and commenced business on September 1, 1953. Until 1955, operations were confined exclusively to the writing of title insurance. Charter amendments adopted in 1955 authorized the issuance of multiple line insurance coverages. On March 31, 1965, Jefferson-Pilot Fire & Casualty Company (now known as Southern Pilot Insurance Company [SPilot]) purchased the company. Concurrent with the change in financial control, the company changed its name to that currently used.

On April 3, 1995, Southern Guaranty Insurance Company (SGty) acquired 100% ownership of the company and its immediate parent, SPilot. At the time, SGty was a wholly owned subsidiary of Winterthur U.S. Holdings, Inc., which was a wholly owned subsidiary of Winterthur Swiss Insurance Company.

On December 15, 1997, Credit Suisse Group merged with the Winterthur Swiss Group. As a result of the merger, SFire became an indirect wholly owned subsidiary of the Credit Suisse Group.

On March 31, 2005, SPilot and SFire redomiciled to Wisconsin. On September 30, 2005, SGty redomiciled to Wisconsin. Also during 2005, SPilot transferred its ownership in SFire by way of a dividend to SGty. Effective December 31, 2005, General Casualty Company of Wisconsin (GC-WI) acquired SGty and its subsidiaries, Southern Guaranty Insurance Company of Georgia (SGty-GA), SPilot, and SFire through a capital contribution from Winterthur U.S. Holdings, Inc. On January 1, 2006, GC-WI became the immediate parent of SGty-GA, SPilot, and SFire through an upward dividend of 100% of their stock by SGty. On May 30, 2007, GC-WI sold SGty-GA to Key Financial Holdings, Inc.

Effective December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company to AXA. AXA is a French corporation managed under the oversight of a Management Board and a Supervisory Board. AXA's headquarters are located in Paris, France.

Effective May 31, 2007, AXA finalized the sale of Winterthur U.S. Holdings, Inc., and its consolidated subsidiaries to QBE Holdings, Inc., a subsidiary of Australian-based QBE Insurance Group Limited (QBE Limited). Winterthur U.S. Holdings, Inc., was renamed QBE Regional Companies (N.A.), Inc. (QBE Regional).

Currently, SFire records paid-up capital of \$2,500,000 consisting of 277,778 shares of common stock with a \$9.00 par value each. The company has 500,000 common shares authorized. All outstanding shares of SFire are owned by General Casualty Company of Wisconsin (GC-WI).

Since 1963, GC-WI has expanded the number of its subsidiaries and effectively heads its own holding company subsystem under QBE Regional, consisting of six subsidiary insurers. Further information concerning the QBE Limited holding company group is included in the report under the section titled "Affiliated Companies."

All members of QBE Regional, as well as all other insurance companies whose parent is QBE Holdings, Inc., are participants in an intercompany pooling arrangement. This arrangement is further described in this report under the section titled "Reinsurance."

QBE Americas, Inc., is the primary employer for its holding company subsystem, with approximately 2,300 employees nationwide at the time of this examination. Subsidiaries of GC-WI have no employees of their own and rely principally on QBE Americas, Inc., and Unigard Insurance Company (UnigardIns) for the staff essential to run day-to-day operations. QBE Management Services Pty Limited manages the companies' investment operations, subject to the supervision of each of the companies' respective boards of directors. All operations of the holding company subsystem are conducted with staff provided by QBE Americas, Inc., UnigardIns and QBE Management Services Pty Limited, in accordance with business practices and internal controls established by QBE Limited. Written agreements with affiliates are further described in this report under the section titled "Affiliated Companies."

In 2017, the company wrote direct premium in the following states:

Virginia	\$420,269	44.4%
North Carolina	343,522	36.3%
Georgia	132,685	14.0%
South Carolina	50,134	5.3%
Total	<u>\$946,610</u>	<u>100.0%</u>

The company is licensed in Alabama, Arkansas, Georgia, Indiana, Mississippi, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia, and Wisconsin.

SFire is one of the 16 companies that comprise the QBE North America Pooled Entities (collectively referred to as "QBENA") at year-end 2017. QBENA includes; GC-WI, General Casualty Insurance Company (GCIC), Hoosier Insurance Company (Hoosier), National Farmers Union Property and Casualty Company (NFU), NAU Country Insurance Company (NAU), North Pointe Insurance Company (North Pointe), Praetorian Insurance Company (Praetorian), QBE Insurance Corporation (QBEIC), QBE Reinsurance Corporation (QBE Re), QBE Specialty Insurance Company (Specialty), Regent Insurance Company (Regent), SPilot, Stonington Insurance Company, Unigardins, and Unigard Indemnity Company (UnigardInd).

QBENA operates as a group of property and casualty, admitted lines insurers, and reinsurers that market a broad range of property and casualty lines, including personal, commercial, agriculture, crop, and specialty products through captive agents, independent agents, major brokers, and program managers.

The following table is a summary of the net insurance premiums written by the company in 2017. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 39,441	\$	\$ 39,441	\$
Allied lines	24,136		24,136	
Homeowners multiple peril	365,027		365,027	
Inland marine	4,427		4,427	
Other liability – occurrence	50,946		50,946	
Private passenger auto liability	254,560		254,560	
Auto physical damage	<u>208,073</u>	—	<u>208,073</u>	—
Total all lines	<u>\$946,610</u>	<u>\$0</u>	<u>\$946,610</u>	<u>\$0</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Effective February 2016, once an individual is appointed an officer, he or she holds such position until his or her replacement, removal from office, termination of employment or such other event as specified in the company's bylaws, whichever first occurs. Some of the members of the company's board of directors are also members of other boards of directors in the holding company group of QBE Holdings, Inc. Executive board members do not receive additional compensation for their service as directors. Outside board members receive compensation inclusive of all board and committee appointments. The compensation of all outside board members includes the same fixed sum and expenses for attendance at meetings of the board of directors. The board chair currently receives \$225,000 per year. The board members receive \$135,000 per year for serving on the board and an additional \$10,000 for the committee they chair.

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

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Russell M. Johnston Fair Haven, NJ	Chief Executive Officer QBE Americas, Inc.	2019
Kris L. Hill Summit, NJ	Chief Financial Officer QBE Americas, Inc.	2019
Laurie Harris New York, NY	None	2019
William Kronenberg III Chester Springs, PA	Principal Fresh Start Development Co LLC	2019
George T. Tate Oyster Bay, NY	None	2019
Marc G. Metcalf San Francisco, CA	Self Employed	2019
John G. Langione Brick, NJ	Chief Risk Officer QBE Americas, Inc.	2019

## Officers of the Company

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

Name	Office	2017 Compensation
Russell Johnston	Chief Executive Officer	\$0
Kris Hill	Chief Financial Officer	0
John Langione	Chief Risk Officer	0
Robert James*	Chief Operating Officer	0
Jeffrey Grange	President – Specialty	0
Mark Cantin	President – Field Operations	0
Shruti Patel	Chief Human Resources Officer	0
Tony Cacchione**	Chief Information Security Officer	0
Daniel Franzetti	Chief Claims Officer	0
Jose Gonzalez	Chief Legal Officer	0
Greg Giardiello	Chief Accounting Officer	0
Sarah Krutov ***	Chief Actuary	0
John Beckman****	Chief Underwriting Officer	0

\* Was replaced by Daniel Franzetti during 2018

\*\* Was replaced by Tony Gonzalez during 2018

\*\*\* Was replaced by Kristen Bessette during 2018

\*\*\*\* Was newly appointed during 2018

No executive compensation expense was allocated to the company by the holding company system for 2017.

## 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:

### Audit Committee

Laurie Harris, Chair  
William Kronenberg III  
Marc Metcalf  
George Tate

### Investment Committee

George Tate, Chair  
Kris Hill  
Russell Johnston  
John Langione

### Remuneration Committee

William Kronenberg III, Chair  
Laurie Harris  
Marc Metcalf  
George Tate

### Risk & Capital Committee

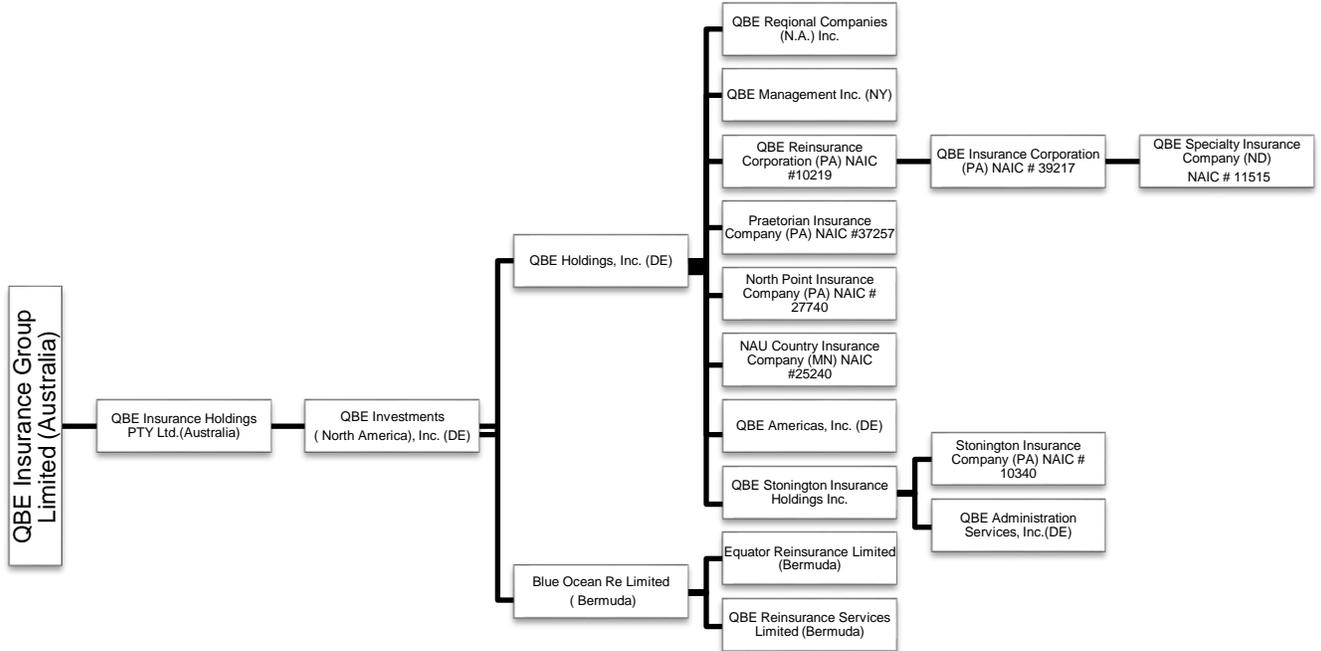
Marc Metcalf, Chair  
Kris Hill  
Russell Johnston  
William Kronenberg III  
John Langione

#### **IV. AFFILIATED COMPANIES**

SFire is a member of a holding company system in which the ultimate parent is QBE Limited. QBE Limited is a publicly traded company incorporated under the laws of Australia. The principal businesses of the holding company system are conducted through its property and casualty insurance and reinsurance subsidiaries. QBE Limited had 122 subsidiaries in its holding company system on December 31, 2017. The abbreviated organizational chart below identifies the succession of control directly related to the company as well as other significant affiliates within the group. A brief description of these affiliates follows the organizational chart shown on the following page.

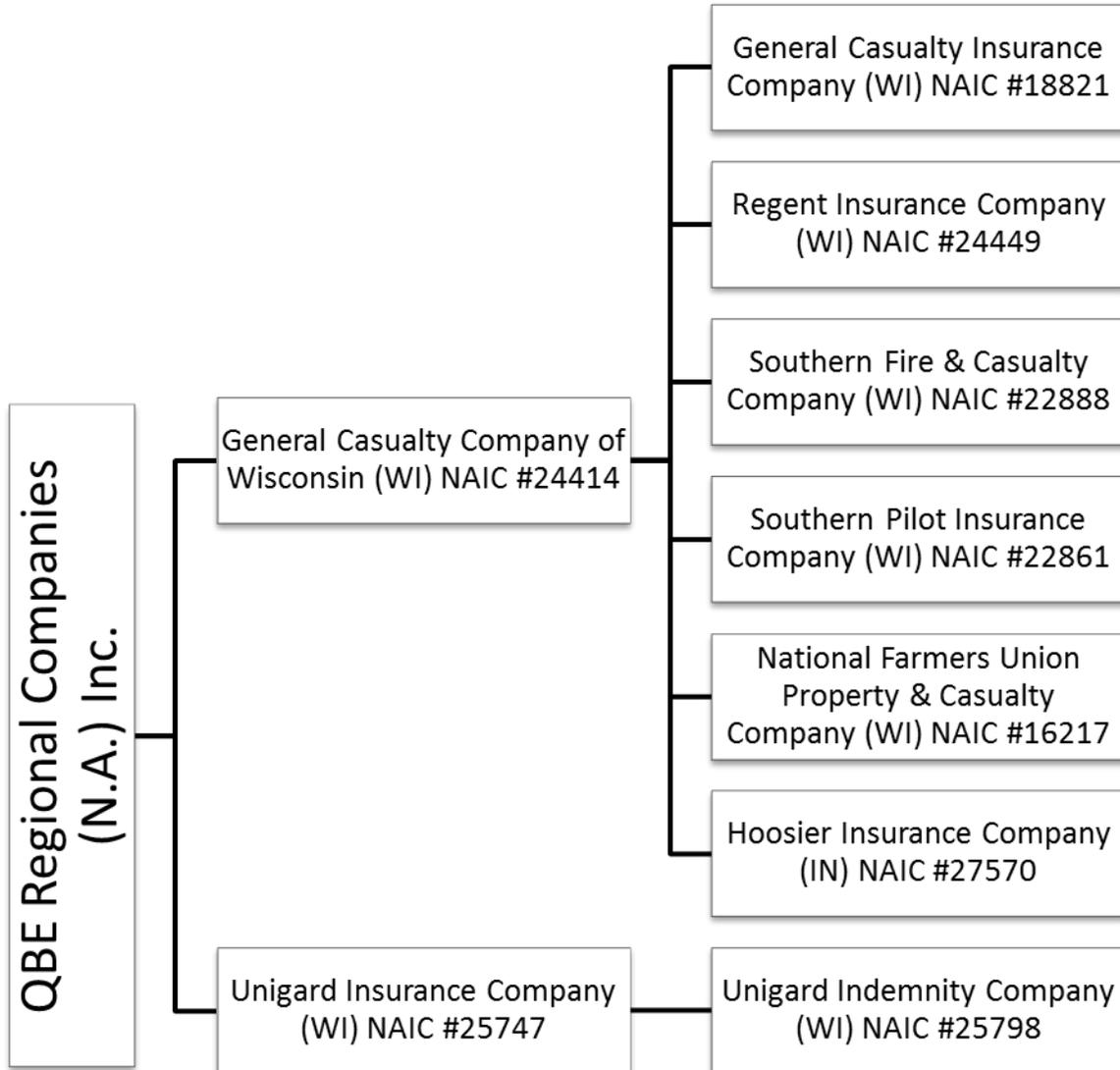
## Organizational Chart

### QBE Holding Company System-Abbreviated As of December 31, 2017



## Organizational Chart

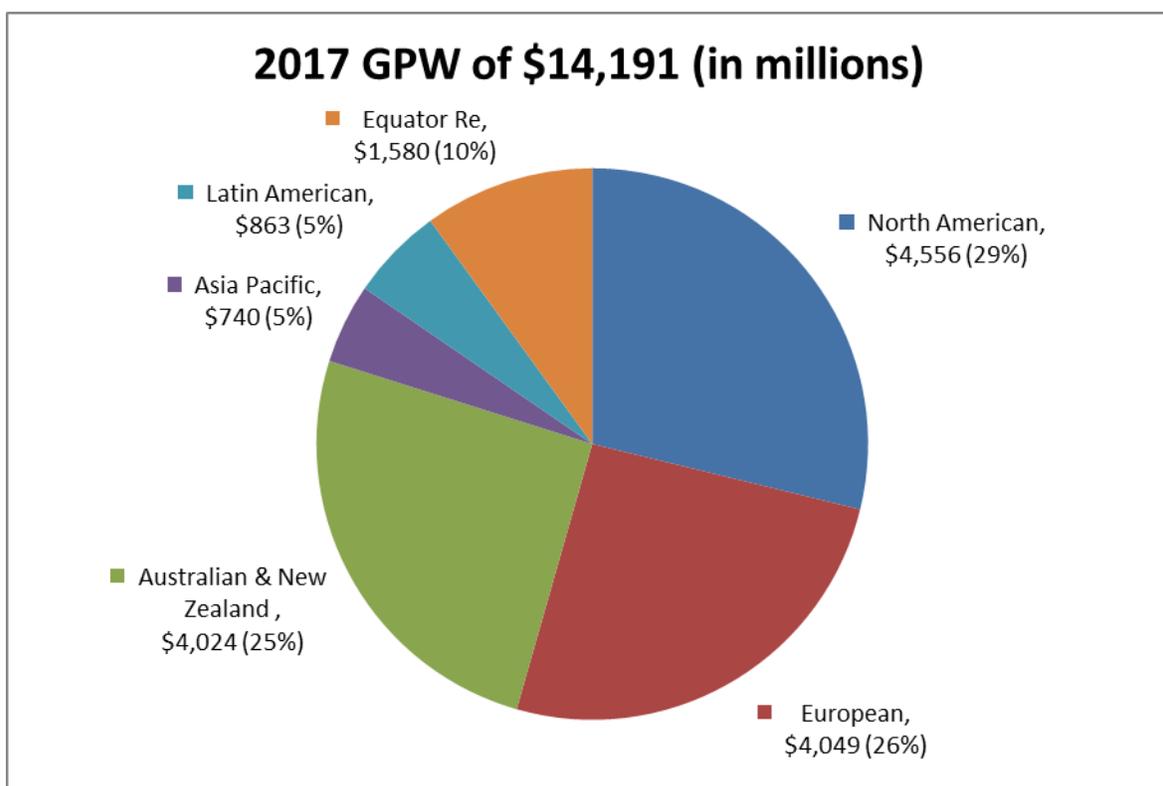
### QBE Regional Companies (N.A) Inc., and subsidiaries



### QBE Insurance Group Limited

QBE Limited was formed in 1886 in Townsville, Australia. Currently, the headquarters of QBE Limited is located in Sydney, Australia. QBE Limited is a publicly held company and is traded on the Australian Stock Exchange. The holding company group has a presence in every key insurance market, with operations in over 36 countries.

QBE Limited's organizational chart refers to six insurance segments: Australian & New Zealand, Asia Pacific, European, North American, Latin American, and Equator Re. The following chart is a geographical split of QBE Limited's 2017 gross premium written (GPW).



The holding company group also has a segment devoted to the investment management of the insurers. The following is a summary of the operations of each segment:

**Australian & New Zealand**

This segment conducts general insurance operations throughout Australia and New Zealand providing all major lines of insurance coverage for personal and commercial risks.

**Asia Pacific**

This segment conducts general insurance operations in the Asia Pacific region, including 15 countries, providing coverage for personal, commercial and specialty risks, which includes professional and general liability, marine, corporate property, and trade credit.

**European**

This segment consists of the Lloyd's of London (Lloyd's) division and QBE Insurance Europe. The Lloyd's division is the largest manager of capacity, and the second-largest provider of capital, providing general insurance and reinsurance business. QBE Insurance Europe consists of general insurance operations in the UK, Ireland, and other countries in mainland Europe. It also includes reinsurance business in Ireland.

**North American**

This segment conducts general insurance and reinsurance operations in the United States through four specialist business units: Financial Partner Services, Property & Casualty, Crop, and Reinsurance. Headquarters are located in New York. QBE Limited first established a presence in the Americas in 1991.

**Latin American**

This segment conducts general insurance in seven countries throughout North, Central, and South America focused mainly on commercial classes of business.

**Equator Re**

This company is QBE Limited's captive reinsurer based in Bermuda. Equator Reinsurances Limited provides reinsurance protection to the majority of the operating entities within the holding company group.

**Investments**

This segment provides for management of QBE Limited's investment portfolio. Over 99% of the holding company group's investments are managed in-house.

As of December 31, 2017, the audited financial statements of QBE Limited reported (in U.S dollars) assets of \$43.9 billion, liabilities of \$35.0 billion, and shareholders' equity of \$8.9 billion. Operations for 2017 produced a comprehensive net loss of \$1,371 million.

**QBE Insurance Holdings Pty Ltd. (Australia)**

QBE Insurance Holdings Pty Ltd. (Australia) (QBE Insurance Holdings) is a non-operating holding company for QBE's Australian and New Zealand, Asia Pacific, Latin American, North American, and European operations, as well as Equator Reinsurances Limited and QBE Strategic Capital Company Pty Limited (worldwide regulated insurance entities). As of December 31, 2017, the audited financial statements of QBE Insurance Holdings reported assets of \$11,559 million, liabilities of \$776 million, and net assets of \$10,783 million. Operations for 2017 produced a net gain of \$491 million.

**QBE Investments (North America), Inc.**

QBE Investments (North America), Inc., (QBE Investments) is an intermediate holding company for the North American segment. As of December 31, 2017, the financial report of QBE Investments, provided assets of \$6,793.2 million, liabilities of \$500.2 million, and shareholders' equity of \$6,293.1 million. Operations for 2017 produced a net loss of \$108 million and net investment income \$114.3 million.

**QBE Holdings, Inc.**

QBE Holdings, Inc., is an intermediate holding company for the North American segment. As of December 31, 2017, the financial report of QBE Holdings, Inc., provided assets of \$5,099.3 million, liabilities of \$452.5 million, and shareholders' equity of \$4,646.8 million. Operations for 2017 produced a net loss of \$941.7 million and net investment loss \$61.1 million.

**QBE Americas, Inc.**

QBE Americas, Inc., was incorporated in Delaware on September 11, 2009, to become an insurance services company. QBE Americas, Inc., employs substantially all the Americas employees, owns and maintains business assets, and pays all operating expenses (direct expenses charged and shared expenses will be allocated to appropriate business units). As of December 31, 2017, the audited financial statements of QBE Americas, Inc., reported assets of \$236.2 million, liabilities of \$163.5 million, and shareholders' equity of \$72.7 million. Operations for 2017 produced a net loss of \$13.4 million on revenues of \$596 million and net investment income \$1.4 million.

**QBE Reinsurance Corporation**

QBE Re's principal business is underwriting property and casualty reinsurance business, which is primarily obtained through reinsurance intermediaries. As of December 31, 2017, the combined audited financial statements of QBE North America reported QBE Re having assets of \$1 billion, liabilities of \$258.4 million, and capital and surplus of \$773.0 million. Operations for 2017 produced a net loss of \$3.3 million on premiums of \$180.3 million, and net investment income of \$5.0 million.

**QBE Insurance Corporation**

QBEIC writes primarily property and casualty lines and group accident and health lines of direct insurance business through program managers. As of December 31, 2017, the combined audited financial statements of QBE North America reported QBEIC having assets of \$2.1 billion, liabilities of \$1.4 billion, and capital and surplus of \$678 million. Operations for 2017 produced a net loss of \$23.7 million on premiums of \$907.6 million and net investment income of \$31.7 million.

### **QBE Specialty Insurance Company**

Specialty primarily writes property and casualty insurance business through program managers and is eligible to write excess and surplus lines in all 50 states and the District of Columbia. As of December 31, 2017, the combined audited financial statements of QBE North America reported Specialty having assets of \$363.4 million, liabilities of \$246.4 million, and capital and surplus of \$117.0 million. Operations for 2017 produced a net loss of \$5.1 million on premiums of \$149.2 million and net investment income of \$4.1 million.

### **QBE Regional Companies (N.A.), Inc.**

QBE Regional is the holding company for GC-WI, UnigardIns, and subsidiaries. As of December 31, 2017, the financial report of QBE Regional provided assets of \$771 million, liabilities of \$1.25 million, and shareholders' equity \$769.7million. Operations for 2017 produced a net loss of \$205.5 million.

### **General Casualty Company of Wisconsin**

GC-WI provides personal and commercial property and casualty insurance coverages primarily to midwestern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported GC-WI having assets of \$797 million, liabilities of \$ 546 million, and capital and surplus of \$ 251 million. Operations for 2017 produced a net loss of \$11 million on premiums of \$373.0 million and net investment income of \$8.4 million.

### **General Casualty Insurance Company**

GCIC provides personal and commercial property and casualty insurance coverages primarily to midwestern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported GCIC having assets of \$9.5 million, liabilities of \$ 1.9 million, and capital and surplus of \$ 7.6 million. Operations for 2017 produced net income of \$0.04 million and net investment income of \$0.04 million.

### **Regent Insurance Company**

Regent provides personal and commercial property and casualty insurance coverages primarily to midwestern areas of the U.S. As of December 31, 2017, the combined

audited financial statements of QBE North America reported Regent having assets of \$40.9 million, liabilities of \$8.7 million, and capital and surplus of \$32.2 million. Operations for 2017 produced net income of \$0.4 million and net investment income of \$0.4 million.

#### **Hoosier Insurance Company**

Hoosier provides personal and commercial property and casualty insurance coverages in the State of Indiana. As of December 31, 2017, the combined audited financial statements of QBE North America reported Hoosier having assets of \$7.8 million, liabilities of \$0.6 million, and capital and surplus of \$7.3 million. Operations for 2017 produced a net loss of \$0.1 million, and net investment income of \$0.1 million.

#### **Southern Pilot Insurance Company**

SPilot provides personal and commercial property and casualty insurance coverages to southeastern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported SPilot having assets of \$7.0 million, liabilities of \$0.1 million, and capital and surplus of \$6.9 million. Operations for 2017 produced net income of \$0.04 million and net investment income of \$0.05 million.

#### **National Farmers Union Property and Casualty Company**

NFU provides personal and commercial property and casualty insurance coverages to midwestern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported NFU having assets of \$134.1 million, liabilities of \$92.0 million, and capital and surplus of \$42.1 million. Operations for 2017 produced a net loss of \$2.3 million on premiums of \$62.2 million and net investment loss of \$1.2 million.

#### **Unigard Insurance Company**

UnigardIns provides personal and commercial property and casualty insurance coverages to western areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported UnigardIns having assets of \$394.6 million, liabilities of \$298.1 million, and capital and surplus of \$96.5 million. Operations for 2017 produced a net loss of \$5.3 million on premiums of \$186 million and net investment income of \$4.8 million.

### **Unigard Indemnity Company**

UnigardInd provides personal and commercial property and casualty insurance coverages to western areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported UnigardInd having assets of \$7.6 million, liabilities of \$0.1 million, and capital and surplus of \$7.5 million. Operations for 2017 produced net income of \$0.07 million and net investment income of \$0.07 million.

### **Praetorian Insurance Company**

Praetorian concentrates on writing specialty property and casualty coverage not generally emphasized by standard insurance carriers. As of December 31, 2017, the combined audited financial statements of QBE North America reported Praetorian having assets of \$453.9 million, liabilities of \$242.1 million, and capital and surplus of \$211.8 million. Operations for 2017 produced a net loss of \$10.1 million on premiums of \$149.2 million and net investment income of \$6.1 million.

### **North Pointe Insurance Company**

North Pointe provides commercial property and casualty insurance coverages to northeastern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported North Pointe having assets of \$20.5 million, liabilities of \$9.2 million, and capital and surplus of \$11.2 million. Operations for 2017 produced net income of \$0.2 million and net investment income of \$0.2 million.

### **QBE Stonington Insurance Holdings, Inc.**

QBE Stonington Insurance Holdings, Inc., (QBE Stonington) is holding company whose assets consist of its wholly owned subsidiaries: Stonington Insurance Company and QBE Administrative Services. As of December 31, 2017, the financial report of QBE Stonington reported assets of \$37.9 million, liabilities of \$1.2 million, and capital and net assets of \$36.7 million. Operations for 2017 produced net income of \$225 and net investment income of \$2.2 million.

### **Stonington Insurance Company**

Stonington provides commercial property and casualty insurance coverages to southwestern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported Stonington having assets of \$15.7 million, liabilities of \$1.4 million, and capital and surplus of \$14.3 million. Operations for 2017 produced net income of \$0.1 million and net investment loss of \$0.1 million.

### **QBE Administration Services, Inc.**

QBE Administration Services, Inc., (QBEASI) is a legal entity registered under the law of State Delaware. QBEASI was formed on October 30, 2006. As of December 31, 2017 the financial report of QBESI reported assets of \$0.6 million, liabilities of \$0.2 million, and shareholders' equity of \$0.4 million. Operations for 2017 produced a net loss of \$0.2 million.

### **NAU Country Insurance Company**

NAU provides property and casualty insurance coverages with specialization in crop insurance. As of December 31, 2017, the combined audited financial statements of QBE North America reported NAU having assets of \$966.9 million, liabilities of \$684.3 million, and capital and surplus of \$282.6 million. Operations for 2017 produced a net loss of \$15.4 million on premiums of \$478.6 million and net investment income of \$12.7 million.

### **QBE Management Inc. (NY)**

QBE Management Inc., (NY) (QBE Management) is a management services company. As of December 31, 2017, the unaudited financial statements of QBE Management reported assets of \$3.9 million, liabilities of \$4.0 million, and net liabilities of \$100 thousand. Operations for 2017 produced a net loss of \$383 thousand.

### **Blue Ocean Re Limited**

QBE Blue Ocean Re Limited (Blue Ocean Re) was established in response to the introduction of the base erosion anti-abuse tax (BEAT) as a part of the US Tax Reform Act in December 2017. The company replaced Equator Re as the captive reinsurer for the QBE North American operations. Blue Ocean Re is a wholly owned subsidiary of QBE Investments. The company commenced operations at the beginning of 2018.

### **Equator Reinsurances Limited**

Equator Reinsurances Limited (Equator Re) is a captive reinsurer based in Bermuda, providing reinsurance protection to the majority of the operating entities in the holding company group. As of December 31, 2017, the audited financial statements of Equator Re reported (in U.S. dollars) assets of \$10,034 million, liabilities of \$9,096 million, and shareholders' equity of \$937.6 million. Operations for 2017 produced a net loss of \$457.5 million on premiums of \$2,227.6 million and net investment income of \$162.5 million.

### **QBE Reinsurance Services Limited (Bermuda)**

QBE Reinsurance Services (Bermuda) Limited (QBE Rein Services), incorporated in 2018, is a service entity that centralizes Bermuda's Equator Re division expenses and then recharges them to the other entities within Equator Re division. As of December 31, 2018, the unaudited financial statements of QBE Rein Services reported assets of \$8,964 thousand, liabilities of \$8,969 thousand, and net liabilities of \$5 thousand. Operations for 2018 produced a net loss of \$5 thousand.

### **Agreements with Affiliates**

Affiliated reinsurance and trust agreements are discussed in the section of the report titled "Reinsurance."

### **Global Investment Services Master Agreement**

Effective January 1, 2017, various companies within the QBE Insurance Group, including QBENA, other U. S. affiliates and non-US affiliate counterparties, and QBE Group Services, Pty Limited entered into the Global Investment Services Master Agreement. The objectives of this agreement are to achieve: 1) a consistent set of terms that apply globally within the QBE Insurance, 2) a single document that applies globally and covers both investment management and advisory arrangements, and 3) a document that is easy to administer and maintain. The Global Investment Services Master Agreement replaces the individual management agreement.

### **Multinational Cooperation Agreement**

Effective January 1, 2017 QBENA (excluding NAU), the non-US affiliated entities of QBE Insurance (Australia) Limited, as well as the New Zealand Branch, QBE Underwriting Limited, QBE Insurance (Europe) Limited (including the Danish, French, German, Italian, Spanish and Swedish branches), QBE Services, Inc., QBE Hong Kong & Shanghai Insurance Limited, QBE Insurance (Singapore) Pte Ltd, QBE de Mexico Compania de Seguros, S.A. de C.V., QBE Seguros S.A., QBE Seguros La Buenos Aires S.A., and affiliated reinsurer Equator Reinsurances Limited entered into this agreement. Under this agreement, the QBE “Producing Offices” provide business referrals to the “Insurer” or “Servicing Offices”, and the Servicing Office issues and service the local policies in line with the requirements providing by the business referral, and the stipulations and guidelines prescribed by this agreement.

### **Multinational Client Centre Agreement for the Provision of Services**

Effective January 1, 2017, the QBENA entities (excluding NAU), QBE Group Services Pty LTD (QGS), QBE Americas, Inc., QBE Management Services Pty Limited, QBE Management Services (UK) Limited, and listed QBE North America entities, entered into this agreement. The agreement covers the provision of administrative services by the service providers to the producing offices in serving clients.

### **Variation Agreements**

Effective August 1, 2018, the QBENA entities (excluding NAU), entered into separate variation agreements. Under these agreements, Blue Ocean Re replaced Equator Re as the reinsurer under the Multinational Cooperation Agreement.

### **Intercompany Cost Allocation and Management Services Agreement**

Effective with the latest amendment on December 30, 2017, the company entered into this service agreement with QBE Americas, Inc., QBE Holdings, Inc., QBE Atlantic LLC, QBE Investments, and subsidiaries. In accordance with this agreement, QBE Americas and UnigardIns provide actuarial, finance, accounting, legal, marketing, human resources, investment advice, internal audit, risk management, reinsurance, underwriting, claims, senior management and staff, information systems, group insurances, and policy services for the actual cost of the

services performed. Within 30 days of the end of each month, the provider of service is to bill the receiver, with settlement due within 15 days of receipt. The agreement may be terminated with 90-days' written notice.

### **Services Agreement**

Effective with the latest amendment on September 30, 2015, QBE FIRST Insurance Agency, Inc., (QBE FIRST) and the QBE Regional entities entered into this services agreement. The purpose of the agreement is to allow QBE FIRST to provide the QBE Regional companies with specific policy and claims services for certain personal lines (as outlined in Schedule A of the agreement). The QBE Regional companies each pay QBE FIRST a service commission of 3% of the net personal lines renewal premium, which is due within 30 days of the receipt of the month-end report. The agreement may be terminated by either party with 90-days' written notice. Amendment Number One, effective September 30, 2015, replaced QBE FIRST Insurance Agency, Inc., with Westwood Insurance Agency (to reflect the entity performing the services).

### **Agency Agreement**

Effective with the latest amendment on September 30, 2015, QBE FIRST, the QBE Regional companies, and QBEIC entered into this agency agreement. The purpose of the agreement is to allow QBE FIRST to operate as an agent for the QBE Regional companies in the jurisdictions where QBE FIRST is properly licensed with respect to the personal auto, personal property, and personal umbrella lines of business. The QBE Regional companies each pay QBE FIRST a commission of 10% to 15%, depending on the type of business, which is due within 30 days of the receipt of the month-end report. The agreement may be terminated by mutual written agreement of both parties in accordance with the terms and conditions to which they have agreed. Amendment Number One, effective September 30, 2015, replaced QBE FIRST Insurance Agency, Inc., with Westwood Insurance Agency (to reflect the entity performing the services).

### **Tax Sharing Agreement**

Effective with the latest amendment on April 1, 2017, QBE Investments., and listed subsidiaries entered into a tax sharing agreement. The agreement has since been amended to

include acquired subsidiaries or to terminate former subsidiaries. In accordance with this agreement, the group allocates tax among its members specifically on the basis of the tax a member would be liable for if it had filed a separate federal income tax return. Net operating loss and capital carryovers of the members shall be taken into account only to the extent such items were generated in a consolidated return year to which this agreement or a previous tax sharing agreement applied and the member has not previously been and is not otherwise compensated for the use of such tax benefit items.

Estimated tax payments are to be paid to the parent on a quarterly basis with final settlement within 30 days of the filing of the consolidated return. If any adjustments are necessary, the amount differing from the amount previously determined shall be paid within 10 business days after parent receipt of a refund or at least 5 days before the due date for payment of additional tax liability. This agreement applies to all taxable years beginning with the effective date unless it is amended or terminated in writing by mutual agreement of all parties to the agreement.

## V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained the proper insolvency provisions.

### **Second 2017 Revision of the 1976 QBE North America Pooling Agreement**

Effective January 1, 1976, GC-WI, Regent and GCIC entered into an intercompany pooling arrangement whereby the entire net business in force and produced as of that date was ceded to GC-WI and then redistributed between the participants on a pro rata basis. The second 2017 revision of the 1976 QBE North America Pooling Agreement was designed to reaffirm the basic provisions of the 1976 agreement, as previously amended, and to remove Blue Ridge Indemnity Company (BlueInd) from the Agreement and assign all of the rights, duties, and liabilities of BlueInd under the Agreement to GC-WI effective April 1, 2017.

Pool participants have entered into certain quota share and/or loss portfolio agreements in which sessions are made prior to participation in the pooling arrangement. These reinsurance agreements are discussed below, as applicable to the company. Aside from these sessions, participants cede 100% of net written premiums, net losses, and net loss adjustment expenses to QBEIC. QBEIC, as the pool reinsurer, assumes on a severally liable basis and cedes to pool participants on a jointly and severally liable pro rata basis as follows effective April 1, 2017:

<b>Company Name</b>	<b>Percentage</b>
QBE Insurance Corporation	36.5%
NAU Country Insurance Company	19.25
General Casualty Company of Wisconsin	15.00
Unigard Insurance Company	7.50
QBE Reinsurance Corporation	7.25
Praetorian Insurance Company	6.00
QBE Specialty Insurance Company	6.00
National Farmers Union Property and Casualty Company	2.50
General Casualty Insurance Company	0.00
Hoosier Insurance Company	0.00
North Pointe Insurance Company	0.00
Regent Insurance Company	0.00
Southern Fire & Casualty Company	0.00
Southern Pilot Insurance Company	0.00
Stonington Insurance Company	0.00
Unigard Indemnity Company	0.00

Monthly accounting of all activity and information relative to policies affected by the agreement is to be provided within 30 days after the close of each month. Settlements of any balances due shall be completed within 45 days after the close of each quarter. Each participant shall have the opportunity to review and approve any and all reinsurance transactions which in any way may affect the agreement. The agreement may be terminated by any participant at the end of any treaty year by providing at least one-year prior written notice to the remaining parties to the agreement.

### **Affiliated Ceding Contracts**

#### **Blue Ocean Second Amended and Restated Loss Portfolio Transfer and Quota Share Reinsurance Agreement**

Effective January 1, 2015, current or future associate, subsidiary, and affiliated companies of QBENA entered into a quota share agreement with the affiliate, Equator Re. Equator Re reinsures 40% of QBENA companies' net liability with respect to all direct and assumed business underwritten except that which is specifically excluded. The agreement was amended effective October 1, 2015, to terminate reinsurance under the agreement on business classified as mortgage and lender services on a cut-off basis, as respects all QBENA. Effective January 1, 2016, the agreement was amended the second time to change the terms of the agreement from a calendar-year basis to a loss-occurring basis under policies in-force as of January 1, 2016 (with effective dates of January 1, 2015, and later) and policies written or renewed with effective dates thereafter. Furthermore, the agreement was amended to terminate SGty effective January 1, 2017, and again amended effective April 1, 2017, to terminate BlueInd.

In addition to the quota share agreement, the loss portfolio agreement was entered into January 1, 2016, whereby Equator Re reinsures 31% of the ultimate net liability and extra-contractual obligations and loss in excess of policy limits incurred and recorded to the cedents' (GC-WI, GCIC, Regent, BlueInd, SGty, SPilot, SFire, NFU, UnigardIns, UnigardInd, Specialty, QBE Re, QBEIC, Praetorian, North Pointe, Stonington, Hoosier, and NAU's) financial statements as of December 31, 2015, except that which is specifically excluded under the loss portfolio

transfer agreement. The agreement was amended to terminate SGty effective January 1, 2017, and again amended effective April 1, 2017, to terminate BlueInd.

Effective December 31, 2017, GC-WI, North Pointe, Praetorian, QBEIC, QBE Specialty, and Stonington (the cedents) and Equator Re agreed to amend, restate, and consolidate such that increase the aforementioned 40% quota share agreement and the aforementioned 31% loss portfolio transfer agreement to 100% quota share of covered losses, whenever occurring, under policies issued or assumed by the cedents that are included in certain discontinued programs.

Effective January 1, 2018, the cedents and Equator Re and Blue Ocean Re entered into the second amended and restated loss portfolio and quota share reinsurance agreement. All parties agreed that Equator Re assumes 100% quota share of covered losses occurring on or before December 31, 2017, and Blue Ocean assumes 100% quota share of covered losses occurring on or after January 1, 2018. Covered losses include ultimate net loss, third-party administrator expenses, extra-contractual obligations, loss in excess of policy limits, premium payable under the inuring reinsurance agreements applicable to discontinued programs, and assessments related to the Michigan Catastrophic Claims Association (MCCA) and any similar assessments. On the effective date, an initial reinsurance premium should be transferred from the Equator Re trust account to the Blue Ocean Re trust account. This amount equals to the unearned premium from reinsured policies as of January 1, 2018. Additional reinsurance premium is equal to: 60% of premium written from policies as regards the Community Association Underwriters of America, Inc., program, or 67.712% of premium written from policies as regards all other discontinued programs, or 100% of amount paid by third-party reinsurers, received from the MCCA, salvage, litigation or arbitration recoveries. A ceding commission of 100% of net program expenses incurred is allowed to be deducted from the reinsurance premium. The agreement shall continue in force until such time as the Reinsurers' liability with respect to covered losses terminates, which will be the earlier of: (i) the date the cedents' liability with respect to the discontinued programs is terminated and all amounts due to the cedents under this

agreement with respect to the discontinued programs is paid or (ii) the date on which this agreement is terminated by the mutual written consent of the parties.

### **Excess of Loss and Catastrophe Reinsurance Portfolio**

The company's ceded reinsurance portfolio for catastrophic and excess of loss coverages is assigned and placed by QBE North America located in New York City, with the company's approval. QBE North America uses the "group aggregate methodology" in the development of their ceded reinsurance portfolio. The catastrophic and excess of loss coverages encompass all insurance subsidiaries of QBE North America. In determining adequate coverage, various loss scenarios are considered with the intent to protect the participants from a 100/250 year catastrophic event. The "group aggregate methodology" results in more buying power, due to the centralization of reinsurance procurement. Exhibit A summarizes the company's ceded reinsurance portfolio for catastrophic and excess of loss coverages.

### **Blue Ocean Re Trade Credit Quota Share Agreement**

In addition to the trade credit excess of loss reinsurance agreement described in the Exhibit A, effective January 1, 2018, subsidiaries and associated companies of QBE Limited entered into a quota share agreement with the affiliate, Blue Ocean Re. Blue Ocean Re reinsures 40% of the cedents' net loss with respect to business written and classified as credit risk, political risk, and surety except that which is specifically excluded. The cedents receive a ceding commission based on a sliding scale, according to which provisional ceding commission is 36% (and shall be payable at a loss ratio of 61%), the maximum ceding commission is 50% and minimum ceding commission is 28% of gross net premium income. A quarterly accounting of all activity pursuant to the agreement is to be provided within 45 days after the close of each quarter. Settlements of any amounts due shall be completed within 15 days after the receipt of accounting activity.

### **Equator Re Novation Agreement**

Effective January 1, 2018, all companies affiliated with QBENA entered into a novation agreement with an affiliate, Equator Re and an affiliate, Blue Ocean Re. Blue Ocean Re assumes all existing and future rights, liabilities, duties, and obligations of Equator Re under the

reinsurance agreements between QBENA and Equator Re with the same effect as if Blue Ocean Re had originally entered into the reinsurance agreements with QBENA.

For that reason, Blue Ocean Re is the reinsurer of any following affiliated ceding reinsurance agreements described in the “Reinsurance” section to replace Equator Re, effective January 1, 2018.

### **Reinsurance Trust Agreement**

Pursuant to s. Ins 52.05, Wis. Adm. Code, effective March 29, 2012, GC-WI, GCIC, Regent, SPilot, SFire, UnigardIns, UnigardInd, Hoosier, and NFU have entered into three reinsurance trust agreements with Equator Re and Citibank, N.A. (the Trustee). After the creation of Blue Ocean Re, GC-WI, GCIC, Regent, SPilot, SFire, UnigardIns, UnigardInd, Hoosier, and NFU (the beneficiaries) entered into three reinsurance trust agreements with Blue Ocean and the same Trustee, effective May 17, 2018.

Blue Ocean Re secures payments of amounts due to the company under any reinsurance agreements entered into by the beneficiaries and Blue Ocean Re by transferring assets to the Trustee for deposit into the trust accounts for the sole benefit of the beneficiaries. The agreements may be terminated by the beneficiaries by at least 45 days’ and not more than 60 days’ written notice to Blue Ocean Re and the Trustee, and may be terminated by Blue Ocean Re by at least 45 days’ and not more than 60 days’ written notice to the beneficiaries and the Trustee. Blue Ocean Re is responsible for reimbursing the Trustee for its fees and expenses under the reinsurance trust agreements.

### **Nonaffiliated Ceding Contracts**

- |            |  |
|------------|--|
| 1. Type:   | Quota Share  |
| Reinsured: | QBE Insurance Corporation including all owned or affiliated companies comprising “QBENA”   |
| Reinsurer: | The Hartford Steam Boiler Inspection and Insurance Company (Hartford Ins)  |
| Scope:     | Cyber Risk   |
| Coverage:  | 100% of the liability for losses covered under a cyber risk coverage form attaching to its policies, subject to certain exclusions |

- Limit: \$100,000 annual aggregate per policy for computer attack;  
\$100,000 annual aggregate per policy for network security liability
- Premium: For the risks submitted for special acceptance, the cedents shall pay Hartford Ins a reinsurance premium as set forth in the written quotation.  
  
For all other covered policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the cyber risk guidelines.
- Ceding Commission: 35% of reinsurance premium ceded; no ceding commission for QBE AmRisc Program policies
- Effective date: February 1, 2015
- Termination: Unlimited duration but may be terminated with 30-days' written notice by either party.
2. Type: Quota Share
- Reinsured: QBE Insurance Corporation, including all owned or affiliated companies comprising "QBENA"
- Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company
- Scope: Data Compromise
- Coverage: 100% of the liability for losses covered under a data compromise coverage form attaching to its policies, subject to certain exclusions
- Limit: \$1 million annual aggregate per policy for response expenses;  
\$1 million annual aggregate per policy for defense and liability
- Premium: For the risks require referral to Hartford Ins or may be submitted for special acceptance, the cedents shall pay Hartford Ins a reinsurance premium as set forth in the written quotation.  
  
For all other covered policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the data compromise guidelines.
- Effective date: February 1, 2015
- Termination: Unlimited duration but may be terminated with 30-days' written notice by either party.
3. Type: Quota Share
- Reinsured: QBE Insurance Corporation including all owned or affiliated companies under common control
- Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company

Scope:	Employment Practices Liability (EPL)
Coverage:	100% of liability for losses (including defense costs) under an EPL coverage from attached to new and renewal policies written through the QBENA Small Business Unit and 80% of liability for losses (including defense costs) under an EPL coverage from all other attached to new and renewal policies, subject to certain exclusions
Limit:	<p>As concerns policies written through the QBENA Small Business Unit, Hartford Ins' liability for loss shall not exceed \$1 million, subject to \$1 million annual aggregate limit in the policy.</p> <p>As concerns all other covered policies, Hartford Ins' liability for each wrongful employment act shall not exceed \$1 million, subject to \$1 million annual aggregate limit in the policy.</p>
Premium:	<p>For the risks require referral to Hartford Ins or may be submitted for special acceptance, the cedents shall pay Hartford Ins an 80% quota share of reinsurance premium (shall pay Hartford Ins an agreed reinsurance premium as respects policies written through the QBENA Small Business Unit) as set forth in the written quotation, unless otherwise mutually agreed in writing.</p> <p>For all other covered policies, the cedents shall pay Hartford ins an 80% quota share of the EPL insurance premium (shall pay Hartford Ins a reinsurance premium as respects policies written through the QBENA Small Business Unit) calculated in accordance with the rates contained in the EPL guidelines.</p> <p>The cedents shall also pay Hartford Ins an additional 22% of the cedents' share of the EPL insurance premium as an administrative cost allowance (no additional administrative cost allowance as respects policies written through the QBENA Small Business Unit).</p>
Ceding Commission:	35% of reinsurance premium of each policy written through the QBENA Small Business Unit; no ceding commission for all other covered policies
Effective date:	February 1, 2012
Termination:	Unlimited duration but may be terminated with 30-days' written notice by either party
4. Type:	Quota Share
Reinsured:	QBE Insurance Corporation including all owned or affiliated companies comprising "QBENA" (cedents)
Reinsurer:	The Hartford Steam Boiler Inspection and Insurance Company
Scope:	Equipment Breakdown
Coverage:	100% of equipment breakdown liability with respect to accidents and electronic circuitry impairments, as well as with respect to

accidents occurring under all risk excess program policies, subject to certain exclusions

Limit: \$100 million for any one accident and/or any one electronic circuitry impairment, any one policy

Premium: For the risks require referral to Hartford Ins or may be submitted for special acceptance, the cedents shall pay Hartford Ins a reinsurance premium as set forth in the written quotation.

For all other covered policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the equipment breakdown underwriting guidelines.

Ceding Commission:

Business Segment	Ceding Commission
Policies issued for corporate business unit covering referral risks	35%
Policies covering referral risks other than policies issued for corporate business unit	In the written reinsurance quotation
Policies written by UnigardIns or for the all risk excess property program, other than policies covering referral risks	None
National Farmers Union Builders' risk policies and National Farmers Union policies including an AAIS equipment breakdown coverage part	30%
All other covered policies	35%

Profit sharing Commission:

50% of the profit sharing calculation (profit sharing commission does not apply to policies written for the all risk excess property program), which is the plan losses less the sum of incurred losses and loss carryforward based on a 12-month period for each business segment. Plan losses are calculated by multiplying the plan loss ratio for each business segment by premiums earned. The loss ratio for policies written for program business unit other than all risk program is 47%; for corporate business unit is 42%; for commercial business unit, for referral risk policies and farm policies is 43%, for referral risk policies other than farm referral risk policies is 30%, and for farm policies is 47% . Loss carryforward is the carried forward loss resulting from the preceding profit sharing calculation until fully amortized.

Effective date: January 1, 2015

Termination: Unlimited duration but may be terminated with 30 days' written notice by either party

5. Type: Quota Share

Reinsured: QBE Insurance Corporation including all owned or affiliated companies comprising QBENA

Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company

Scope: Home systems protection and Homeowners equipment breakdown

Coverage and limit:

Class of Business	Coverage*	Limit
Home systems protection liability under policies as respects home system breakdown	100%	\$100,000 for any one home system breakdown, any one policy
Homeowners equipment breakdown liability under policies as respects accidents	100%	50,000 for any one accident, any one policy
Service line coverage liability under policies as respects service line failures occurring on or after August 31, 2017	100%	10,000 for any one service line failure, any one policy

\*Coverages subject to certain exclusion

Premium: For the risks require referral to Hartford Ins or may be submitted for special acceptance, the cedents shall pay Hartford Ins a reinsurance premium as set forth in the written quotation.

For all other policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the home systems protection/equipment breakdown and service line guidelines, or the pro-rata portion for in-term transactions or odd-term policies.

Ceding Commission: 35% of reinsurance premium ceded; no ceding commission for the MDU renters program policies

Profit sharing Commission: 50% of the profit sharing calculation, which is the plan losses less the sum of incurred losses and loss carryforward based on a 12-month period for each business segment. Plan losses are calculated by multiplying the plan loss ratio by premiums earned. The loss ratio is 45%. Loss carryforward is the carried forward loss resulting from the preceding profit sharing calculation.

Effective date: February 1, 2015

Termination: Unlimited duration but may be terminated with 30-days' written notice by either party

6. Type: Quota Share

Reinsured: QBE Insurance Corporation including all owned or affiliated companies comprising "QBENA"

Reinsurer:	The Hartford Steam Boiler Inspection and Insurance Company (Hartford Ins)
Scope:	Cyber Suite
Coverage:	100% of the liability for losses covered under a cyber suite coverage form attaching to its policies, subject to certain exclusions.
Limit:	a) The reinsurers liability for cyber coverage shall not exceed \$1,000,000 annual aggregate policy. b) The reinsurers liability for identity recovery shall not exceed \$25,000 annual aggregate as respects each Identity Recovery Insured.
Premium:	For policies, other than policies covering referral risks, the company shall pay to the reinsurer a reinsurance premium calculated in accordance with the rates contained in the cyber suite guidelines.  In the event referral risks and/or special acceptances are covered hereunder, the company shall pay to the reinsurer the agreed reinsurance premium as set forth in the written quotation issued by the reinsurer and accepted by the company.  For all other covered policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the cyber risk guidelines.
Effective date:	October 1, 2017
Termination:	Unlimited duration but may be terminated with 30-days' written notice by either party.
7. Type:	Quota Share
Reinsured:	QBE Insurance Corporation including all owned or affiliated companies comprising "QBENA"
Reinsurer:	The Hartford Steam Boiler Inspection and Insurance Company (Hartford Ins)
Scope:	Multinational Equipment Breakdown
Coverage:	100% of equipment breakdown of the company's business classified as "multinational", as respects accidents and electronic circuitry impairments occurring under new and renewal policies, as defined herein, becoming effective on or after the effective date of this agreement
Limit:	The reinsurers liability shall not exceed \$100,000,000 for any one accident and/or any one electronic circuitry impairment, any one policy.

Premium: The company shall pay to the reinsurer 100% of the company's gross equipment breakdown premium written, within the limits of this agreement, during this period is in effect on the business covered hereunder.

In the event special acceptances are covered hereunder, the company shall pay to the reinsurer the agreed reinsurance premium as set forth in the written quotation issued by the reinsurer and accepted by the company.

Effective date: October 1, 2017

Termination: Unlimited duration but may be terminated with 30-days' written notice by either party

Exhibit A  
 QBE North America  
 2018 Excess of Loss and Catastrophe Reinsurance Portfolio

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<b>Casualty Clash Excess of Loss</b> Coverages for policies classified as casualty business with certain exceptions	Blue Ocean Re	\$2,500,000	\$7,500,000 xs \$2,500,000  10-year Sunset Clause	\$7,500,000 one occurrence	In the event all or any portion of the reinsurance coverage provided by this contract is exhausted by loss, the amount so exhausted shall be reinstated immediately from the time the occurrence commences hereon	\$1,000,000	Effective: 1/1/2018 Terminate: 12/31/2018
<b>Commercial Inland Marine Per Risk Excess of Loss</b> Coverages for policies classified as commercial inland marine	Blue Ocean Re	5,000,000	\$5,000,000 xs \$5,000,000	5,000,000 one occurrence 15,000,000 aggregate	2 full	1.5% of net premium written  204,000 minimum 255,000 deposit premium	Effective: 1/1/2018 Terminate: 1/1/2019
<b>Healthcare Excess of Loss</b> Covered for policies classified as healthcare	Blue Ocean Re	3,000,000	\$3,000,000 xs \$3,000,000	3,000,000 one occurrence  9,000,000 one occurrence	In the event all or any portion of the reinsurance under this contract is exhausted by loss, the amount so exhausted shall be reinstated from the time of the occurrence of such loss	6.66% of net written premium  350,060 minimum 411,835 deposit premium	Effective: 3/1/2017 Terminate: 12/31/2018
<b>Large Risk &amp; Catastrophe Aggregate Excess of Loss</b> Coverages for policies classified as credit risk, political risk and surety risk (inure to the benefit of trade credit and surety excess of loss and 40% quota share reinsurance agreements)	Blue Ocean Re	17,500,000 aggregate	30,000,000 xs 17,500,000 aggregate	3,000,000 one occurrence, subject to 2,500,000 franchise deductible  30,000,000 aggregate	No	4,000,000	Effective: 1/1/2018 Terminate: 12/31/2018

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<b>Management and Professional Liability</b> <b>Excess of Loss</b> Coverages for policies classified as management or professional liability	Blue Ocean Re	2,500,000 one occurrence	2,500,000 xs	2,500,000 one occurrence	9 full	0.9967% of gross net earned premium income	Effective: 1/1/2018 Terminate: 1/1/2019
		7,500,000 annual aggregate deductible	2,500,000	25,000,000 aggregate		2,885,286 minimum	
						3,606,000 deposit premium	
		5,000,000 one occurrence	5,000,000 xs	5,000,000 one occurrence	5 full	1.4690% of gross net earned premium income	
		5,000,000 annual aggregate deductible	5,000,000	30,000,000 aggregate		4,252,519 minimum	
						5,316,000 deposit premium	
		10,000,000 one occurrence	10,000,000 xs	10,000,000 one occurrence	2 full	0.7345% of gross net earned premium income	
			10,000,000	60,000,000 aggregate		2,126,259 minimum	
						2,658,000 deposit premium	
		30,000,000 one occurrence	30,000,000 xs	30,000,000 one occurrence	1 full	0.3986% of gross net earned premium income	
			20,000,000	60,000,000 aggregate		1,153,883 minimum	
						1,442,000 deposit premium	

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<b>Property Catastrophe Excess of Loss</b> Coverages for policies classified as property business with certain exceptions	Blue Ocean Re	200,000,000	200,000,000 xs 200,000,000	200,000,000 one occurrence	In the event that all or any portion of the reinsurance is exhausted by loss, the amount so exhausted will be reinstated from the time of occurrence of such loss for up to one full reinstatement of the limit	Adjusted based on the change in the layer expected loss as derived from modeling using RMS Risk Link v17 for all covered modeled perils and territories from 7/1/2017 to the similarly modeled results as of 7/1/2018 25,200,000 minimum 31,500,000 deposit premium	Effective: 1/1/2018 Terminate: 1/1/2019
		400,000,000	200,000,000 xs 400,000,000	200,000,000 one occurrence		Adjusted based on the change in the layer expected loss as derived from modeling using RMS Risk Link v17 for all covered modeled perils and territories from 7/1/2017 to the similarly modeled results as of 7/1/2018  16,080,000 minimum 20,100,000 deposit premium	
<b>Property Per Risk Excess of Loss</b> Coverages for policies classified as property business with certain exceptions	Blue Ocean Re	10,000,000	10,000,000 xs 10,000,000	10,000,000 one occurrence 40,000,000 aggregate	3 full	0.43% of net premium written  4,114,145 minimum 5,143,000 deposit premium	Effective: 1/1/2018 Terminate: 1/1/2019
		20,000,000	30,000,000 xs 20,000,000	30,000,000 one occurrence 120,000,000 aggregate	3 full	0.56% of net premium written  5,357,956 minimum 6,697,000 deposit premium	

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<b>Overlying Property Per Risk Excess of Loss</b> Coverages for policies classified as property business with certain exceptions	Blue Ocean Re	600,000,000	400,000,000 0 xs 600,000,000 0	400,000,000 one occurrence  800,000,000 aggregate	1 full	Adjusted based on the change in the layer expected loss as derived from modeling using RMS Risk Link v17 for all covered modeled perils and territories from 7/1/2017 to the similarly modeled results as of 7/1/2018 (no adjustment if the change in the layer expected loss is 2.5% or less)  27,000,000 minimum  27,000,000 deposit premium	Effective: 1/1/2018 Terminate: 1/1/2019
		1,000,000,000 0	200,000,000 0 xs 1,000,000,000 00	200,000,000 one occurrence  \$400,000,000 aggregate	1 full	Adjusted based on the change in the layer expected loss as derived from modeling using RMS Risk Link v17 for all covered modeled perils and territories from 7/1/2017 to the similarly modeled results as of 7/1/2018 (no adjustment if the change in the layer expected loss is 2.5% or less)  9,500,000 minimum  9,500,000 deposit premium	
		1,200,000,000 0	225,000,000 0 xs 1,200,000,000 00	225,000,000 one occurrence (limit of liability will adjust based upon the 1 in 200-year OEP PML for North America all regions, all perils)  \$450,000,000 aggregate	1 full	7,987,500 flat premium  Adjust equals to the change in the loss occurrence limit multiplied by 3.55%, in the event of the limit of liability is adjusted	

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<b>First Umbrella Excess of Loss</b> Coverages for excess liability classified as umbrella, excess, following form excess and high-limit primary business with certain exceptions	Blue Ocean Re	4,000,000	6,000,000 xs 4,000,000	6,000,000 one policy, one occurrence  30,000,000 aggregate	4 full	9.66% of net premium earned  4,445,222 minimum  5,557,000 deposit premium	Effective: 1/1/2018 Terminate: 12/31/2018
<b>Second Umbrella Excess of Loss</b> Coverages for excess liability classified as umbrella, excess, following form excess and high-limit primary business with certain exceptions	Blue Ocean Re	10,000,000	15,000,000 xs 10,000,000	15,000,000 one policy, one occurrence, plus its proportionate share of any applicable loss adjustment expense.  30,000,000 aggregate	In the event that all or any portion of the reinsurance under this contract is exhausted by loss, the amount so exhausted shall be reinstated from the time of occurrence of such loss.	14.7% of net premium written  1,940,493 minimum  2,426,000 deposit premium	Effective: 1/1/2018 Terminate: 12/31/2018
<b>Trade Credit and Surety Excess of Loss</b> Coverages for business classified as credit risk, political risk, and surety risk	Blue Ocean Re	5,000,000	5,000,000 xs 5,000,000	5,000,000 ultimate net each loss  25,000,000 aggregate	4 full	2.075% of gross net premium income  3,735,000 minimum  4,669,000 deposit premium	Effective: 1/1/2018 Terminate: 12/31/2018
		10,000,000	10,000,000 xs 10,000,000	10,000,000 ultimate net each loss  50,000,000 aggregate	4 full	2.525% of gross net premium income  4,545,000 minimum  5,681,000 deposit premium	
		20,000,000	30,000,000 xs 20,000,000	30,000,000 ultimate net each loss  60,000,000 aggregate	1 full	4.075% of gross net premium income  7,335,000 minimum  9,169,000 deposit premium	
		50,000,000	250,000,000 xs 50,000,000	250,000,000 ultimate net each loss  500,000,000 aggregate	1 full	2.975% of gross net premium income  5,355,000 minimum  6,694,000 deposit premium	

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<p><b>Whole Account Risk and Occurrence</b>  <b>Excess of Loss</b>            Coverages for all business covered by the 2018 Blue Ocean Re underlying contracts including property, workers compensation, casualty clash, and umbrella</p>	Blue Ocean Re	50,000,000	50,000,000 xs 50,000,000	50,000,000 one occurrence  100,000,000 aggregate	In the event of loss or losses occurring under this agreement, it is agreed to automatically reinstate to its full amount as set out in limit	0.081% of premium income  1,385,812 minimum  1,732,265 deposit premium	Effective: 1/1/2018 Term: 12 months
<p><b>Overlying Whole Account Risk and Occurrence</b>  <b>Excess of Loss</b>            Coverages for all business covered by the 2018 Blue Ocean Re underlying contracts including property, workers compensation, casualty clash, and umbrella</p>	Blue Ocean Re	100,000,000	200,000,000 0 xs 100,000,000 0	200,000,000 one occurrence  400,000,000 aggregate	In the event of loss or losses occurring under this agreement, it is agreed to automatically reinstate to its full amount as set out in limit	0.144% of premium income  2,463,666 minimum  3,079,582 deposit premium	Effective: 1/1/2018 Term: 12 months

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<p><b>Workers' Compensation Excess of Loss</b> Coverages for excess liability for policies classified as workers' compensation with certain exceptions</p>	Blue Ocean Re	5,000,000	<p>10,000,000 xs 5,000,000</p> <p>5,000,000 xs 5,000,000 for employers liability business</p> <p>10 year Sunset Clause</p>	<p>10,000,000 one occurrence</p> <p>30,000,000 aggregate</p>	2 full	<p>0.943% of net premium earned</p> <p>2,600,000 minimum</p> <p>2,600,000 deposit premium</p>	<p>Effective: 1/1/2018 Terminate: 12/31/2018</p>
<p><b>Workers' Compensation Catastrophe Excess of Loss</b> Coverages for excess liability for policies classified as workers' compensation (including employers liability) with certain exceptions</p>	Blue Ocean Re	15,000,000	<p>20,000,000 xs 15,000,000</p> <p>10-year Sunset Clause</p>	<p>15,000,000 one occurrence for workers compensation</p> <p>5,000,000 one occurrence for employers liability business</p> <p>40,000,000 aggregate</p>	<p>In the event that all or any portion of the reinsurance under this contract is exhausted by loss, the amount so exhausted shall be reinstated from the time of occurrence of such loss.</p>	<p>0.261% of net premium earned</p> <p>720,000 minimum</p> <p>720,000 deposit premium</p>	<p>Effective: 1/1/2018 Terminate: 12/31/2018</p>
		35,000,000	<p>15,000,000 xs 35,000,000</p> <p>10-year Sunset Clause</p>	<p>15,000,000 one occurrence for workers compensation</p> <p>5,000,000 one occurrence for employers liability business</p> <p>30,000,000 aggregate</p>		<p>0.087% of net premium earned</p> <p>240,000 minimum</p> <p>240,000 deposit premium</p>	

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<p><b><u>Large Risk and Catastrophe Aggregate Excess of Loss –</u></b> Covers all business written by QBENA except for: NAU, QBE Re. &amp; TC&amp;S</p>	Blue Ocean Re	251,250,000	270,000,000 (90% of 300,000,000) xs 251.250,000	270,000,000 (90% of 300,000,000) in the agg subject to a 2,500,000 franchise	No	70,000,000	Effective: 1/1/2018 Terminate:12/31/2018
<p><b><u>General Aviation Excess of Loss</u></b> coverages for aviation and aerospace products liability with certain exceptions</p>	Blue Ocean Re	5,000,000 one occurrence	5,000,000 xs 5,000,000	5,000,000 one occurrence 15,000,000 aggregate	2@100%	1.15% of gross net earned premium income  599,942 minimum 750,000 deposit premium	Effective: 1/1/2018 Terminate:12/31/2019
		10,000,000 one occurrence	10,000,000 xs 10,000,000	10,000,000 one occurrence 20,000,000 aggregate	1@100%	.875% of gross net earned premium income  456,477 minimum 571,000 deposit premium	
		30,000,000 one occurrence	30,000,000 xs 20,000,000	30,000,000 one occurrence 60,000,000 aggregate	1@100%	1.650% of gross net earned premium income  860,786 minimum 1,076,000 deposit premium	

## **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, 2017, 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.

**Southern Fire & Casualty Company**  
**Assets**  
**As of December 31, 2017**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$6,701,450	\$	\$6,701,450
Cash, cash equivalents, and short-term investments	417,320		417,320
Investment income due and accrued	19,525		19,525
Receivable from parent, subsidiaries, and affiliates	<u>72,295</u>	—	<u>72,295</u>
Total Assets	<u>\$7,210,590</u>	<u>\$0</u>	<u>\$7,210,590</u>

**Southern Fire & Casualty Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2017**

Amounts withheld or retained by the company for account of others		\$ (3,888)
Payable to parent, subsidiaries, and affiliates		72,704
Total liabilities		68,816
Common capital stock	\$2,500,000	
Gross paid in and contributed surplus	2,858,861	
Unassigned funds (surplus)	<u>1,782,912</u>	
Surplus as regards policyholders		<u>7,141,774</u>
Total liabilities and surplus		<u>\$7,210,590</u>

**Southern Fire & Casualty Company**  
**Summary of Operations**  
**For the Year 2017**

<b>Investment Income</b>		
Net investment income earned	\$81,540	
Net realized capital gains (losses)	<u>(11,126)</u>	
Net investment gain (loss)		\$ 70,414
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		70,414
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		70,414
Federal and foreign income taxes incurred		<u>(402,696)</u>
Net income		<u>\$ 473,110</u>

**Southern Fire & Casualty Company**  
**Cash Flow**  
**For the Year 2017**

Net investment income		\$ <u>60,891</u>
Total		60,891
Federal and foreign income taxes paid (recovered)	\$ (572,203)	
Total deductions		<u>(572,203)</u>
Net cash from operations		633,094
Proceeds from investments sold, matured, or repaid:		
Bonds	\$2,012,258	
Net gains (losses) on cash, cash equivalents, and short-term investments	(2,557)	
Total investment proceeds		2,009,701
Cost of investments acquired (long- term only):		
Bonds	<u>6,157,146</u>	
Net cash from investments		(4,147,445)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>969,302</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		(2,545,049)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>2,962,369</u>
End of Year		<u>\$ 417,320</u>

**Southern Fire & Casualty Company**  
**Compulsory and Security Surplus Calculation**  
**December 31, 2017**

Assets		\$7,210,590
Less liabilities		<u>68,816</u>
Adjusted surplus		7,141,774
Annual premium:		
Lines other than accident and health	\$379,000	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory surplus excess (deficit)		<u>\$5,141,774</u>
Adjusted surplus (from above)		\$7,141,774
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>2,800,000</u>
Security surplus excess (deficit)		<u>\$4,341,774</u>

**Southern Fire & Casualty Company**  
**Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2017**

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

	2017	2016	2015	2014	2013
Surplus, beginning of year	\$6,668,664	\$6,364,153	\$5,554,641	\$5,561,623	\$5,939,916
Net income	473,110	170,221	263,957	17,207	(446,099)
Change in net deferred income tax		1,657	(549,601)	3,050	138,117
Change in nonadmitted assets		167,576	53,228	(27,418)	(55,301)
Cumulative effect of changes in accounting principles				438	9,092
Surplus adjustments:					
Paid in			1,000,000		
Dividends to stockholders					(1,500,000)
Write-ins for gains and (losses) in surplus:					
Change in defined benefit plan					(23,336)
Surplus contribution from parent					1,500,000
Change in miscellaneous surplus			(619)	(258)	(766)
Special surplus-retroactive reinsurance movement		(34,943)	11,648		
Correction of errors			30,899		
Totals	<u>                    </u>	<u>(34,943)</u>	<u>41,928</u>	<u>(258)</u>	<u>1,475,898</u>
Surplus, end of year	<u>\$7,141,774</u>	<u>\$6,668,664</u>	<u>\$6,364,153</u>	<u>\$5,554,641</u>	<u>\$5,561,623</u>

**Southern Fire & Casualty Company**  
**Insurance Regulatory Information System**  
**For the Five-Year Period Ending December 31, 2017**

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

Ratio	2017	2016	2015	2014	2013
#1 Gross Premium to Surplus	13%	0%	170%	159%	174%
#2 Net Premium to Surplus	0	0	126	98	108
#3 Change in Net Premiums Written	0	-131*	48*	-9	10
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	108*	98	106*	111*
#6 Investment Yield	1.3*	0.5*	0.2*	0.5*	0.6*
#7 Gross Change in Surplus	7	5	15	-0	-6
#8 Change in Adjusted Surplus	7	5	-3	-0	-6
#9 Liabilities to Liquid Assets	1	16	114*	98	100*
#10 Agents' Balances to Surplus	0	0	12	12	16
#11 One-Year Reserve Development to Surplus	0	0	1	1	7
#12 Two-Year Reserve Development to Surplus	0	0	3	7	14
#13 Estimated Current Reserve Deficiency to Surplus	0	0	-1	-9	12

Ratio No.3 ("Change in Net Premiums Written") measures the change in net premium written from the prior year. Net premiums written decreased by 131% in 2016 compared to 2015 as a result of the changes in the pooling agreement, where the company's percentage increased from 0.2% to 0.3% in 2015 and decreasing from 0.3% to 0.0% in 2016.

Ratio No. 5 ("Two-Year Overall Operating Ratio") measures the company's profitability over the previous two-year period. This ratio was exceptional in the years 2013, 2014, and 2016. The exceptional ratios were the result of significant losses and loss adjustment expenses incurred during this period, decreased premium volume, and adverse prior year development.

Ratio No. 6 ("Investment Yield") measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. This ratio was considered exceptional in all years under examination. A large portion of the company's portfolio is allocated in high quality, short duration fixed income securities. The company's conservative investment approach and the prolonged low-interest rate environment in the United States contributed to exceptional results.

Ratio No. 9 (“Liabilities to Liquid Assets”) measures the company’s ability to meet financial demands. This ratio was considered exceptional in the years 2013 and 2015. The primary reasons for the exceptional results were the decreasing premium volume, the adverse prior year development, and seasonal fluctuations related to administration of the Federal Crop Business, which can periodically create large receivables that are not counted as liquid assets under this ratio. In 2016 and thereafter, SFire did not retain any pooled business and therefore did not have the seasonal impact.

**Growth of Southern Fire & Casualty Company  
Surplus as  
Regards  
Policyholders**

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	\$ 7,210,590	\$ 68,816	\$7,141,774	\$473,110
2016	7,523,276	857,612	6,668,664	170,221
2015	21,844,387	15,480,233	6,364,153	263,957
2014	16,051,819	10,497,177	5,554,641	17,207
2013	17,133,250	11,571,627	5,561,623	(446,099)
2012	16,967,775	11,027,859	5,939,916	170,221

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2017	\$ 946,610	\$ 0	\$ 0	0.0%	0.0%	0.0%
2016	(69,308)	(2,534,468)	0	0.0	0.0	0.0
2015	10,810,452	8,047,778	7,632,524	63.9	31.1	95.0
2014	8,835,790	5,451,341	5,534,668	69.2	32.7	101.9
2013	9,672,248	5,980,023	6,178,993	75.2	34.4	109.6
2012	9,887,979	5,419,418	7,036,145	73.5	39.5	113.0

During the period under examination SFire, as a member of the QBE North American sub-group, faced significant challenges due to the global economic conditions, unusual frequency and severity of claims, catastrophes, and difficult investment market conditions. From 2012 to 2017, the company reported a 57.5% decrease in assets, a 99.4% decrease in liabilities, and a 20.2% decrease in surplus. The net operating results were unfavorable in 2013.

In 2013, QBE Limited implemented an operational transformation program with the goal to increase effectiveness and ability to compete in the insurance markets. A major objective of the program was to provide operational expense savings by offshoring and outsourcing services. The plan was completed in 2015 resulting in improved net operating results.

From 2012 to 2017, gross premiums written decreased by 90.4%, mostly due to the reduction in the premium volume. Net premiums written decreased by 100%, due to the company ceding all net written business to QBEIC, the lead company in the North American affiliated pooling agreement.

The loss and LAE ratio had a decreasing trend from 2013 through 2015. In 2016 and thereafter, the ratio was 0.0% due to the company's participating share in the reinsurance pooling agreement being reduced to 0.0%.

#### **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, 2017, 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. Biographical Information and Jurat Page Reporting—It is recommended that the company file biographical affidavits on all officers who have executive decision-making authority in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

Action—Compliance.

2. Equator Re Reinsurance Agreements and Trust—It is recommended that the company amend its reinsurance trust agreements to include how recoveries are to be allocated among participants in the event that the reinsurer is unable to fulfill its responsibilities.

Action—Compliance.

3. Reserve Development and Documentation—It is recommended that the company include sufficient documentation in its actuarial report including clear descriptions of sources of data, material assumptions, and methods in accordance with Actuarial Standard of Practice No. 41.

Action—Non-Compliance, see comments in the “Summary of Current Examination Results”.

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

## **Management and Control**

The company has established a procedure for disclosure of conflicts of interest for its officers, directors, and responsible employees in compliance with a directive of the Commissioner of Insurance. As part of the examination, a review was performed to ensure that all officers and directors are complying with the company's conflict of interest disclosure requirements. Conflict of interest questionnaires were reviewed for the period under examination and the company was unable to locate copies of the conflict of interest statements for all officers and directors for 2016. It is recommended that the company continue to have all officers and directors complete an annual conflict of interest disclosure.

## **Executive Compensation**

The State of Wisconsin requires each Wisconsin-domiciled insurer to file a supplement to the annual statement entitled "Report of Executive Compensation" pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, the chief executive officer, and the four most highly compensated officers or employees other than the chief executive officer. In addition, the report requires disclosure of the compensation of all executive officers whose compensation exceeds specified amounts. The company completed this form disclosing employees with compensation over \$400,000. All remuneration paid or accrued for services on behalf of each reportable employee should be included in the Report on Executive Compensation.

The examiners' review of the executive compensation revealed that the company did not include in the Report on Executive Compensation the employer paid portion of health insurance benefits, (401) K employer's matching contribution, accidental death and dismemberment, group –term life insurance, employee assistance program, medical benefit contribution, employer's health savings account contribution, long-term disability employer's paid

premiums. It is recommended that the company properly complete the Report on Executive Compensation as required by s. 611.63 (4), Wis. Stat.

### **Actuarial Report Documentation**

The review of the QBENA reserves was performed by INS Consultants, Inc., an outside independent actuary contracted by the lead state.

The external actuary found that QBENA companies' exam report contained a finding that the actuarial report issued in support of the 2017 Statement of Actuarial Opinion did not provide sufficient details for another actuary practicing in the same field to evaluate the work in accordance with Actuarial Standard of Practice No 41. Pursuant to the NAIC's *Annual Statement Instructions – Property/Casualty*, actuarial report documentation should clearly disclose the sources of data, material assumptions, and methods, among other requirements. It is again recommended that the company include sufficient documentation in its actuarial report in accordance with Actuarial Standard of Practice No. 41. The following are specific areas where improvement in actuarial report documentation is recommended:

- Future actuarial report exhibits developed in ResQ model reflect clearer labeling and footnotes, to the extent possible;
- A summary of the indicated and carried loss and LAE reserve position by reserve review segment as of both September 30, 20XX and December 31, 20XX be included in future versions of the actuarial report;
- The companies include a more traditional actual-versus-expected roll-forward analysis at a disaggregated level in future reserve studies;
- All detailed exhibits in support of the crop analysis performed by the companies be included in future actuarial reports;
- Detailed exhibits in support of the asbestos and environmental ("A&E") analysis be included in the actuarial report, with a breakout of A&E reserves from the by-segment analysis provided; and

- Future actuarial reports include a complete Schedule P reconciliation of paid losses, case outstanding reserves, and earned premiums by reserve review segment to the Schedule P lines of business.

## VIII. CONCLUSION

The company was incorporated under Tennessee laws on June 10, 1953, as a title insurer. Charter amendments adopted in 1955 authorized the issuance of multiple line insurance coverages. The company redomiciled to Wisconsin on March 31, 2005. Effective December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company (former upstream parent of the company) to AXA. Effective May 31, 2007, AXA finalized the sale of Winterthur U.S. Holdings, Inc., (a former subsidiary of Winterthur Swiss Insurance Company) and its consolidated subsidiaries to QBE Holdings, Inc., a subsidiary of Australian-based QBE Insurance Group Limited. Winterthur U.S. Holdings, Inc., was renamed QBE Regional Companies (N.A.), Inc.

SFire was one of the 16 companies that comprise the QBENA pooled entities at year-end 2017. As a part of the QBENA sub-group, the company markets a broad range of property and casualty products, including personal, commercial, agriculture, crop, and specialty products.

During the period from 2012 to 2017, SFire's admitted assets decreased by 57.5%, gross premiums written decreased by 90.4%, and surplus decreased by 20.2%. The decrease in admitted assets and surplus was a result of the decrease in net income from operations. The decrease in gross premium written was primarily attributable to the reduction in the premium volume. As of December 31, 2017, SFire had assets of \$7,210,590 liabilities of \$68,816, and surplus of \$7,141,774.

The company complied with two out of the three recommendations from the previous examination report.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 50 - Management and Control—It is recommended that the company continue to have all officers and directors complete an annual conflict of interest disclosure.
2. Page 51 - Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation as required by s. 611.63 (4), Wis. Stat.
3. Page 51 - Statement of Actuarial Opinion Compliance—It is again recommended that the company include sufficient documentation in its actuarial report in accordance with Actuarial Standard of Practice No. 41.
  - Future actuarial report exhibits developed in ResQ model reflect clearer labeling and footnotes, to the extent possible.
  - A summary of the indicated and carried loss and LAE reserve position by reserve review segment as of both September 30, 20XX and December 31, 20XX be included in future versions of the actuarial report.
  - The companies include a more traditional actual versus expected roll-forward analysis at a disaggregated level in future reserve studies.
  - All detailed exhibits in support of the Crop analysis performed by the QBENA companies be included in future actuarial reports.
  - Detailed exhibits in support of the asbestos and environmental (“A&E”) analysis be included in the actuarial report, with a breakout of A&E reserves from the by-segment analysis provided.
  - Future actuarial reports include a complete Schedule P reconciliation of paid losses, case outstanding reserves, and earned premiums by reserve review segment to the Schedule P lines of business.

## **X. SUBSEQUENT EVENTS**

On December 22, 2017, the US Tax Reform Act was signed into law. Several provisions of the new Tax Legislation significantly affected the insurance industry including the Base Erosion Anti Abuse Tax (BEAT) provision. The BEAT imposes an additional minimum tax on payments made from US companies to foreign affiliates including payments related to reinsurance. As disclosed in the Notes to the company's 2018 financial statements: "To avoid a significant negative capital impact resulting from the BEAT, QBE Insurance Group of North America restructured its organizational legal entity structure. A new Bermuda subsidiary, called QBE Blue Ocean Re Limited ("Blue Ocean Re"), was formed and moved under U.S. ownership. Blue Ocean Re will make an IRS 953(d) election to be taxed as a US taxpaying corporation. Most all the affiliate reinsurance placements from the Company will be placed with Blue Ocean effective January 1, 2018. Since the reinsurance payments made by the Company to Blue Ocean will be considered US domestic to US domestic payments the BEAT will not apply."

On August 1, 2018, Sutton National Insurance Holdings LLC submitted a Form A filing with the State of Wisconsin Office of the Commissioner of Insurance (OCI) pertaining to a proposed acquisition of control of Unigard Indemnity Company. OCI approved the transaction on December 17, 2018. The sale was consummated on January 1, 2019.

On December 5, 2018, Integon National Insurance Company submitted a Form A filing with the State of Wisconsin, OCI pertaining to a proposed acquisition of control of NFU. The application is currently under review.

## 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>
Stephanie Falck, CFE	Insurance Financial Examiner
Yi Xu	Insurance Financial Examiner
Xiaozhou Ye	Insurance Financial Examiner
Ana Careaga	ACL Specialist
Eleanor Lu	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist
Karl Albert, CFE	Quality Control Specialist

Respectfully submitted,

Ana Careaga  
Examiner-in-Charge