Report of the Examination of

Southern Guaranty Insurance Company

Clearwater, Florida

As of December 31, 2023

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October 25, 2024

Honorable Nathan D. Houdek
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 GUARANTY INSURANCE COMPANY
Clearwater, Florida

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Southern Guaranty Insurance Company (the company, Southern Guaranty, or SGIC) was conducted in 2021 and 2022 as of December 31, 2020. The current examination covered the intervening period ending December 31, 2023, and included a review of such subsequent transactions as deemed necessary to complete the examination.

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 completing this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was originally incorporated as South Central Fire and Casualty Insurance Company on August 11, 1952. The company has gone through several changes since its incorporation, below is an abbreviated history of the company since its inception:

Year	Event
1952	The company was incorporated in Mississippi on August 11, 1952, under the name "South Central Fire and Casualty Insurance Company."
1957	On April 30, 1957, Mutual Savings Fire and Automobile Insurance Company merged with and into the company.
1968	On January 1, 1968, the company merged into United Security Fire Insurance Company (owned by the Alabama Farm Bureau Mutual Insurance Company), with the surviving entity changing its name to "Southern Guaranty Insurance Company" (Southern Guaranty) and redomiciling to Alabama.
1980	On October 1, 1980, all of the company's outstanding common stock was acquired by Fireman's Fund Insurance Company.
1981	The company formed two wholly-owned subsidiaries: Southern Guaranty Insurance Company of Georgia (Southern Guaranty – GA) and Southern Fund Insurance Corporation.
1988	Fireman's Fund Insurance Company sold Southern Guaranty (and its subsidiaries) to Winterthur Swiss Insurance Company (Switzerland) (acting through its U.S. intermediate holding company, Winterthur U.S. Holdings, Inc.).
1995	On April 3, 1995, the company acquired 100% ownership of Jefferson-Pilot Fire and Casualty Company (which was subsequently renamed "Southern Pilot Insurance Company" (Southern Pilot), and its wholly-owned subsidiary, Southern Fire & Casualty Company (Southern Fire)).
1995	On October 6, 1995, the company sold Southern Fund Insurance Company to an affiliate, Blue Ridge Insurance Company (which subsequently redomiciled from Alabama to Connecticut in 1996, and simultaneously changed its name to "Blue Ridge Indemnity Company").
1997	On December 15, 1997, the Credit Suisse Group (Switzerland) acquired the Winterthur Swiss Group.
2005	On March 31, 2005, Southern Pilot and Southern Fire redomiciled to Wisconsin (and Southern Pilot subsequently transferred ownership of Southern Fire to Southern Guaranty). On September 30, 2005, Southern Guaranty redomiciled to Wisconsin.
2005	General Casualty Company of Wisconsin (an affiliate) acquired Southern Guaranty and its subsidiaries (Southern Pilot and Southern Fire) through a capital contribution from Winterthur U.S. Holdings, Inc.
2006	General Casualty Company of Wisconsin became the immediate parent of Southern Guaranty – GA, Southern Pilot, and Southern Fire through an upward dividend of their stock by Southern Guaranty.
2006	On December 22, 2006, Credit Suisse sold Winterthur Swiss Insurance Company to AXA (France).
2007	On May 30, 2007, General Casualty Company of Wisconsin sold Southern Guaranty – GA to Key Financial Holdings, Inc.
2007	On May 31, 2007, AXA sold Winterthur U.S. Holdings, Inc. and its subsidiaries to QBE Holdings, Inc. (a subsidiary of Australian-based QBE Insurance Group Limited). Winterthur U.S. Holdings, Inc. was subsequently renamed "QBE Regional Companies (N.A.), Inc. (QBE Regional).
2017	On March 1, 2017, General Casualty Company of Wisconsin sold the company to a Florida-domiciled, privately owned business – Premier Servicing, LLC. In conjunction with the sale, General Casualty Company of Wisconsin and Southern Guaranty entered into a loss portfolio transfer and 100% quota share arrangement, whereby General Casualty Company of

Year	Event
	Wisconsin reinsures all policy liabilities relating to all business written prior to the effective date (January 1, 2017).

Currently, SGIC has a paid-up capital of $2,500,000 consisting of 2,500,000 shares of common stock with a $1.00 par value. The company has 5,000,000 shares authorized.

In 2023, the company wrote direct premium in the following states:

Texas	$7,382,788	17.1%
Pennsylvania	3,974,230	9.2
North Carolina	3,602,380	8.3
Maryland	2,866,435	6.6
South Carolina	2,783,268	6.4
Wisconsin	2,516,592	5.8
Kentucky	2,486,478	5.7
Oklahoma	2,228,780	5.2
Tennessee	2,188,555	5.1
Alabama	1,866,466	4.3
All others	11,356,172	26.3
Total	$43,252,144	100.0%

The company was licensed in 28 states as of 12/31/2023.

The major products marketed by SGIC include limited indemnity medical and short-term medical insurance. The company previously marketed Medicare Supplement starting in 2018 until the block was closed to new business in May of 2021. The major products are marketed through unaffiliated managing general agents (MGAs) or Field Marketing Organizations (FMOs).

The following table is a summary of the net insurance premiums written by the company in 2023. 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
Comprehensive (hospital and medical)	$ 8,063,778	$	$ 1,237,400	$ 6,826,378
Medicare Supplement	28,539,034		27,108,326	1,430,708
Other Health	6,649,329	946	20,447	6,629,828
Total All Lines	$43,252,141	$946	$28,366,173	$14,886,914

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Directors are elected to serve one-year terms, after which they will remain in place until their successors are duly elected and qualified, or until their earlier death, resignation, or removal. Officers are elected at the shareholder's annual meeting.

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

Name	Principal Occupation	Term Expires
Dale F. Schmidt	Owner of the Premier Group	2024
Dr. Barbara L. Freeman	Chief Medical Officer Premier Group	2024
Bryan K. Schmidt	Chief Operating Officer Southern Guaranty Insurance Company	2024
Louis E. Marinaccio	Managing Partner Parkstone Growth Partners	2024
William C. Finn	Managing Partner WC Financial, LLC	2024

Officers of the Company

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

Name	Office
Dale F. Schmidt	Chief Executive Officer & Chief Financial Officer
Bryan K. Schmidt	Chief Operating Officer & Secretary
Elizabeth A. Barry	Executive Vice President of Finance

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	Investment Committee
William C. Finn, Chair	William C. Finn, Chair
Louis E. Marinaccio	Dale F. Schmidt
Dale F. Schmidt	Bryan K. Schmidt
Bryan K. Schmidt	Elizabeth A. Barry

Claims Review Advisory Committee
Dale F. Schmidt, Chair
Bryan K. Schmidt
Dr. Barbara L. Freeman
William C. Finn
Louis E. Marinaccio
Glenn S. McLellan

ERM Committee
Louis E. Marinaccio, Chair
Dr. Barbara L. Freeman
Dale F. Schmidt
Bryan K. Schmidt
William C. Finn

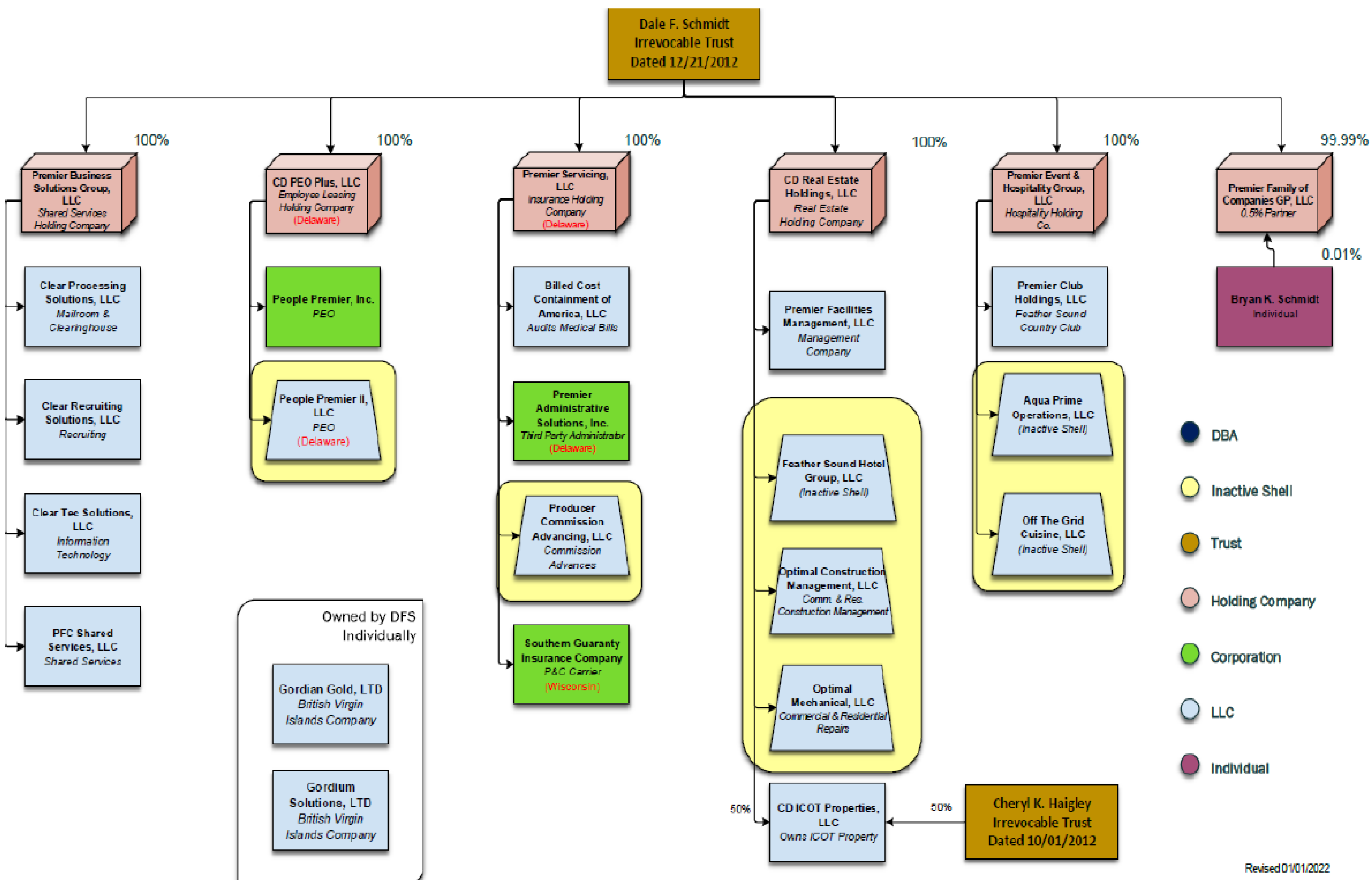
Compliance Committee
William C. Finn, Chair
Louis E. Marinaccio
Dr. Barbara L. Freeman
Bryan K. Schmidt

IV. AFFILIATED COMPANIES

Southern Guaranty Insurance Company is a member of a holding company system under the control of Dale F. Schmidt (the ultimate controlling person). The holding company system includes real estate holdings and construction companies (under CD Real Estate Holdings, LLC), healthcare services (under CD Health Solutions, LLC), employee leasing companies (under CD PEO Plus, LLC), and IT services companies (under Premier Business Solutions Group, LLC), in addition to a third-party administrators (under Premier Servicing, LLC).

The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2023



Below is a description of the affiliated entities of the group with which SGIC receives services from or provides services to:

Dale F. Schmidt Irrevocable Trust and Dale F. Schmidt

The Dale F. Schmidt Irrevocable Trust (the Trust), established December 22, 2012, owns 100% of Premier Servicing, LLC, which owns 100% of the shares of Southern Guaranty Insurance Company. Dale F. Schmidt (an individual) is the Trust's grantor and is therefore considered to be the ultimate controlling person of the holding company system.

Premier Servicing, LLC (Premier Servicing)

Premier Servicing is the insurance holding company for the companies that comprise the Premier Group and is the direct parent company of SGIC. Premier Servicing has a cost sharing agreement with SGIC.

Premier Administrative Solutions, Inc. (PAS)

PAS is a third-party administrator serving SGIC and outside parties. PAS has a Master Services Agreement with SGIC and performs the responsibilities of a Third-Party Administrator for SGIC (providing claims payment and underwriting services).

CD PEO Plus, LLC

CD PEO Plus, LLC is an employee leasing holding company that owns both People Premier companies. Both People Premier entities are employee leasing companies, where PEOple Premier provides services for SGIC, including payroll and benefits for employees leased from PEOple Premier.

CD Icot Properties, LLC

CD Icot Properties, LLC is a property management company, which owned the ICOT office building during the examination period. During the examination period, SGIC paid CD Icot Properties, LLC rent prior to moving into their new headquarters.

CD Paradise Management, LLP

CD Paradise Management, LLP provides management services to SGIC, including the CEO fees. SGIC reimburses CD Paradise Management for the services provided by the employees under the CD Paradise Management company.

PFC Shared Services, LLC

PFC Shared Services, LLC is a shared services company that provides financial and legal/compliance services to SGIC.

Clear Tec Solutions, LLC (CTS)

CTS provides IT services for the Premier Group. Expenses are allocated monthly to members of the group, based on their use of services during that month.

Premier Insurance Benefits, LLC (PIB)

PIB is a health care insurance sales agency in the Premier Group. PIB provides shared marketing and sales services to the Premier Group.

Aqua Prime Real Estate, LLC

Aqua Prime Real Estate, LLC is the manager of the office building used by SGIC. SGIC has a Property Management Services Agreement with Aqua Prime Real Estate, LLC to provide management services for the property for a monthly fee.

Agreements with Affiliates

Master Services Agreement

Effective December 1, 2017, SGIC entered into a Master Services Agreement with Premier Administrative Solutions, Inc. This agreement was amended on December 1, 2022, to update the governing clause, services and fees, funds, and invested assets. Pursuant to this agreement, PAS provides various administrative services pertaining to underwriting and policy issuance, premium billing, and collection, claims and commission processing, policy maintenance, and various reporting and support services, in exchange for a fee intended to reflect current market rates charged by PAS to its non-affiliated customers. Per stipulation and order, the company is required to provide evidence of the appropriateness of the fees charged on an annual basis.

Cost Sharing Agreement

Effective December 1, 2017, SGIC entered into a Cost Sharing Agreement with Premier Servicing, LLC, Premier Insurance Benefits, LLC, Premier Business Insurance, LLC, Premier Administrative Solutions, Inc., and the Dale F. Schmidt Irrevocable Trust. Pursuant to this agreement, all parties share certain personnel, office space, facilities, furniture, equipment, and computer hardware and software, the cost of which shall be allocated to each party in accordance with generally accepted cost accounting principles.

Aqua Prime Real Estate, LLC

Effective April 1, 2020, SGIC entered into a Property Management Services Agreement with Aqua Prime Real Estate, LLC (APRE), an affiliate. Pursuant to this agreement, APRE performs rent collection, sales tax payments, and real property report filings for any real properties owned by SGIC. As the company no longer owns real property, this agreement is currently dormant.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination 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 proper insolvency provisions.

Nonaffiliated Ceding Contracts

1.	Type:	Medical Excess
	Reinsurer:	Zurich American Insurance Company
	Retention:	Each Covered Person, Each Agreement Period: 1) Specific Retention: The Reinsured shall retain the following amount of Loss incurred by the Reinsured during the Agreement period: The first $75,000 2) The company shall indemnify the Reinsured for the following percentage of Loss incurred by the Reinsured during the Agreement period in excess of the Specific Retention: 100%. 3) Reinsurance Limits, Each Covered Person: a. Each Agreement Period: $2,000,000 b. Lifetime: Unlimited
	Coverage:	Short Term Medical
	Effective date:	January 1, 2023
	Termination:	The agreement shall remain in force until cancelled in accordance with the terms of the agreement.

Nonaffiliated Ceding Contracts in Runoff

1.	Type:	Medical Quota Share and Excess of Loss
	Reinsurer:	Axis Insurance Company
	Retention Quota Share:	The company shall retain a 50% quota share participation and cede to the reinsurer a 50% quota share participation. The reinsurer's maximum liability for any Extra-Contractual Obligations shall not exceed $2,000,000 in the aggregate per Agreement Year with respect to all covered persons during the Agreement Year.
	Retention Excess of Loss:	Layer 1: Reinsurer shall be liable for 100% of the Net Loss per Covered Person, Per Policy in excess of the first $1,000,000, never exceed $1,000,000 Net Loss any one Covered Person, any one Policy. Layer 2: Reinsurer shall be liable for 100% of the Net Loss per Covered Person, Per Policy in excess of the first $2,000,000, never exceed $3,000,000 Net Loss any one Covered Person, any one Policy. Layer 3: Reinsurer shall be liable for 100% of the Net Loss per Covered Person, Per Policy in excess of the first $5,000,000, never exceed $5,000,000 Net Loss any one Covered Person, any one Policy.

Coverage:	Short Term Medical
Effective date:	April 1, 2018
Termination:	Effective January 1, 2023, in accordance with the terms in Article II-Commencement and Termination. Reinsurer shall remain liable for all policies issued prior to the term date, until the expiry of such policy as stated in Article II.

2. Type: Medical Quota Share and Excess of Loss

Reinsurer:	Axis Insurance Company
Retention Quota Share:	The company shall retain a 50% quota share participation and cede to the reinsurer a 50% quota share participation. The reinsurer's maximum liability for any Extra-Contractual Obligations shall not exceed \$2,000,000 in the aggregate per Agreement Year with respect to all covered persons during the Agreement Year.
Retention Excess of Loss:	Layer 1: Reinsurer shall be liable for 100% of the Net Loss per Covered Person, Per Policy in excess of the first \$1,000,000, never exceed \$1,000,000 Net Loss any one Covered Person, any one Policy. Layer 2: Reinsurer shall be liable for 100% of the Net Loss per Covered Person, Per Policy in excess of the first \$2,000,000, never exceed \$3,000,000 Net Loss any one Covered Person, any one Policy. Layer 3: Reinsurer shall be liable for 100% of the Net Loss per Covered Person, Per Policy in excess of the first \$5,000,000, never exceed \$5,000,000 Net Loss any one Covered Person, any one Policy.
Coverage:	Limited Medical
Effective date:	April 1, 2018
Termination:	Effective January 1, 2020, in accordance with the terms in Article I-Addendum No. 4. Reinsurer shall remain liable for all policies issued prior to the term date, until the expiry of such policy.

3. Type: Medicare Supplement Coinsurance

Reinsurer:	Aetna Life Insurance Company
Retention:	The company retains 5% of the business written with 95% ceded to the reinsurer.
Coverage:	Medicare Supplement
Effective date:	April 6, 2018
Termination:	The Medicare Supplement block of business was closed to new business by the Aetna Life Insurance Company effective May 1, 2021, in accordance with the terms of the coinsurance agreement.

4.	Type:	Loss Portfolio Transfer and Quota Share Agreement
	Reinsurer:	General Casualty Company of Wisconsin
	Retention:	The reinsurer assumes at 100% all business written prior to the effective date with no retention by the ceding company.
	Coverage:	All lines prior to the sale
	Effective date:	January 1, 2017
	Termination:	None

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, 2023, 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 and the compulsory and security surplus calculation.

Southern Guaranty Insurance Company
Assets
As of December 31, 2023

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$9,293,751	$	$9,293,751
Cash, cash equivalents, and short-term investments	21,177,223		21,177,223
Investment income due and accrued	58,064		58,064
Uncollected premiums and agents' balances in course of collection	917,048		917,048
Reinsurance:			
Amounts recoverable from reinsurers	158,997		158,997
Funds held by or deposited with reinsured companies	2,422,604		2,422,604
Other amounts receivable under reinsurance contracts	234,040		234,040
Net deferred tax asset	51,711		51,711
Furniture and equipment, including health care delivery assets	15,919	15,919	
Receivable from parent, subsidiaries, and affiliates	242,214		242,214
Health care and other amounts receivable	138,555		138,555
Write-ins for other than invested assets:	470,000		470,000
Total Assets	$35,180,126	$15,919	$35,164,207

Southern Guaranty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2023

Claims unpaid		$ 936,193
Unpaid claims adjustment expenses		20,000
Aggregate health policy reserves		286,245
Premiums received in advance		25,807
General expenses due or accrued		538,789
Funds held under reinsurance treaties with reinsurers		638,964
Total Liabilities		5,111,990
Common capital stock	$2,500,000	
Gross paid in and contributed surplus	27,908,971	
Unassigned funds (surplus)	(356,756)	
Total Capital and Surplus		30,052,215
Total Liabilities, Capital and Surplus		$35,164,205

Southern Guaranty Insurance Company
Statement of Revenue and Expenses
For the Year 2023

Net premium income		$14,886,914
Change in unearned premium reserves and reserve for rate credits		98,581
Total revenues		14,985,495
Medical and Hospital:		
Hospital/medical benefits	$31,181,015	
Other professional services	3,106,022	
Outside referrals		
Emergency room and out-of-area	181,795	
Subtotal	34,468,832	
Less		
Net reinsurance recoveries	28,732,938	
Total medical and hospital	5,735,894	
Non-health claims		
Claims adjustment expenses	97,353	
General administrative expenses	8,678,099	
Increase in reserves for life and accident and health contracts	(929,857)	
Total underwriting deductions		13,581,489
Net underwriting gain or (loss)		1,404,006
Net investment income earned	901,165	
Net realized capital gains or (losses)	71,046	
Net investment gains or (losses)		972,211
Net income or (loss) before federal income taxes		2,376,217
Federal and foreign income taxes incurred		1,235,651
Net Income (Loss)		$ 1,140,566

Southern Guaranty Insurance Company
Cash Flow
For the Year 2023

Premiums collected net of reinsurance			$15,902,577
Net investment income			845,536
Total			16,748,113
Benefit- and loss-related payments		$6,824,446	
Commissions, expenses paid, and aggregate write-ins for deductions		8,775,451	
Federal and foreign income taxes paid (recovered)		57,757	
Total deductions			15,657,654
Net cash from operations			1,090,459
Proceeds from investments sold, matured, or repaid:			
Bonds	$2,682,356		
Stocks	5,462,994		
Mortgage loans	3,941,561		
Miscellaneous proceeds	90		
Total investment proceeds		12,087,001	
Cost of investments acquired (long-term only):			
Bonds	1,283,109		
Total investments acquired		1,283,109	
Net cash from investments			10,803,892
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			11,894,351
Cash, cash equivalents, and short-term investments:			
Beginning of year			9,282,869
End of Year			$21,177,220

Southern Guaranty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2023

The company's calculation as of December 31, 2023, as modified for examination adjustments is as follows:

Assets*		$35,164,205
Less liabilities		5,111,990
Adjusted surplus		30,052,215
Annual premium:		
Individual accident and health	$14,886,914	
Factor	15%	
Compulsory surplus (subject to a minimum of $2 million)		2,233,037
Compulsory Surplus Excess (Deficit)		$27,819,178
Adjusted surplus (from above)		$29,152,215
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%)		3,126,252
Security Surplus Excess (Deficit)		$26,925,963

*Assets reported by the company were reduced by $900,000 for loans which should have been nonadmitted (as explained in the Summary of Current Examination Results).

Southern Guaranty Insurance Company
Analysis of Surplus
For the Three-Year Period Ending December 31, 2023

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

	2023	2022	2021
Surplus, beginning of year	$27,125,493	$33,953,703	$32,878,302
Net income	1,140,566	(4,689,676)	238,100
Change in net unrealized capital gains/losses	244,130	(1,362,695)	756,788
Change in net deferred income tax	166,978	590,521	(7,935)
Change in nonadmitted assets	905,092	(1,366,360)	88,448
Surplus adjustments:			
Paid in	470,000		
Surplus, End of Year	$30,052,259	$27,125,493	$33,953,703

Growth of Southern Guaranty Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2023	$35,164,205	$5,111,990	$30,052,215	$ 1,140,566
2022	31,010,874	3,885,381	27,125,493	(4,689,676)
2021	37,748,436	3,794,733	33,953,703	238,100
2020	37,809,189	4,930,884	32,878,306	2,447,221

Subsequent to the 2023 annual statement, the company converted from the property and casualty blank to the health blank. The following items are included in the health blank but are not included in the property and casualty blank. The information below is for 2023 (the year the company filed on the health blank):

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2023	7.2%	32.1%	58.6%	(16.3)%

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2023	1,362	138.8	7.6

Per Member Per Month Information

	2023
Premiums:	
Comprehensive	$141.90
Other Health	33.10
Medicare Supplement	158.80
Net Premium Income	$ 98.80
Expenses:	
Hospital/medical benefits	$71.10
Other professional services	7.10
Emergency room and out-of-area	.40
Total medical and hospital	78.6
Claims adjustment expenses	.20
General administrative expenses	19.80
Total underwriting deductions	$20.00

The company had positive underwriting performance in all three years and a net loss in one year, 2022. 2022 saw a net loss of $4.7 million due to an examination adjustment in the examination as of December 31, 2021, where intercompany loans and real estate were adjusted, and the changes were made to the financial statements as of December 31, 2021. The financial statements as of December 31, 2021, were not required to be refiled with the examination adjustments. The company saw overall capital and surplus decline by $3.9 million over the three-year period, primarily due to the examination adjustments discussed above.

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus as regards policyholders between that reported by the company and as determined by this examination. Changes shown on this page are discussed in the "Summary of Examination Results" section of this report.

Surplus December 31, 2023, per annual statement			$30,052,215
	Increase	**Decrease**	
Cash, cash equivalents, and short-term investments		$900,000	
Net increase or (decrease)			(900,000)
Surplus December 31, 2023, per Examination			$29,152,215

Examination Reclassifications

	Debit	**Credit**
Funds held by or deposited with reinsured companies	$2,422,604	
Other amounts receivable under reinsured contracts		$2,422,604

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 19 specific recommendations in the previous examination report. The actions taken by the company as a result of the recommendations *were* as follows:

1. Information Technology - It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated April 11, 2022.

   Action—Partial compliance, see comments in the “Summary of Current Examination Results.”

2. Business Continuity Plan - It is again recommended that the company develop a Business Continuity Plan (BCP) based on a Business Impact Analysis or Risk Assessment that identifies all critical business functions and supporting systems. The BCP should consider the business disruptions from third parties (if the company outsources critical operations to third parties). The BCP should include a step-by- step framework that is easily accessible and executable in an emergency situation.

   Action—Compliance.

3. Investment Limitations - All Securities of a Single Issuer and its Affiliates - It is recommended the company properly report all securities of a single issuer and its affiliates in excess of 10% of admitted assets as nonadmitted in future statutory financial statements.

   Action—Compliance.

4. Real Estate Investments - It is recommended that the Company review the Stipulation and Order and take corrective action to ensure compliance with the Stipulation and Order going forward, in accordance with the recommendations made in the letter to management dated April 11, 2022.

   Action—Compliance.

5. Real Estate Investments (Statutory Accounting Principles) - It is recommended the company comply with SSAP 40R paragraph 2, which requires that only directly-owned real estate (for which the company holds title) be reported as real estate investments in the statutory financial statements.

   It is further recommended that, for any remaining properties relating to the Purchase Agreements reported in the June 30, 2022, statutory financial statements, the company correct this error via a prior period adjustment (correction of an error) in the September 30, 2022, statutory financial statements (to remove those properties from SGIC's financial statement) and include an explanation of the prior period adjustment in Note 2.

   Action—Compliance.

6. Investment Limitations Properties Held for the Production of Income - It is recommended the company properly report all Properties Held for the Production of Income in excess of 10% of admitted assets as nonadmitted in future statutory financial statements in accordance with s. 620.23 (1) (c), Wis. Stat.

   Action—Compliance.

7. Investment Policy - It is recommended the company revise its Investment Policy to require compliance with the investment limitations prescribed by s. 620.23, Wis. Stat., as well as the

requirements of Stipulation and Order, and incorporate both documents (either explicitly or by reference).

Action—Compliance.

8. IBNR Reserve - It is recommended that the company properly report its IBNR reserves in accordance with actuarial standards.

   Action—Compliance.

9. Conflict of Interest - It is again recommended that the company take steps to preclude or prevent persons who have a conflict of interest from serving on the Investment Committee, in accordance with s. 611.60, Wis. Stat.

   Action—Compliance.

10. Succession Plan - It is again recommended that the company develop a formal written board approved succession plan in the event of a departure of one or more of its senior executives and submit a copy of the board approved succession plan to the OCI.

    Action—Compliance.

11. Underwriting Policy - It is recommended the company develop a formal written board approved underwriting policy.

    Action—Compliance.

12. Reinsurance Intermediary - It is again recommended the company take action to ensure that its reinsurance intermediary-brokers meet the necessary licensing requirements prescribed by s. Ins 47.02, Wis. Adm. Code (or enter into new agreements with reinsurance intermediary-brokers that do comply with the prescribed licensing requirements).

    Action—Compliance.

13. Managing General Agents - It is recommended the company develop formal written procedures pertaining to the oversight of its MGAs (including documentation requirements) to evidence the company's compliance with the requirements prescribed by s. Ins. 42.05 Wis. Adm. Code.

    Action—Compliance.

14. Affiliated Loans - It is recommended the company report in writing to the commissioner all transactions subject to reporting and disapproval at least 30 days prior to entering any such transactions, in accordance with s. Ins. 40.04 (2) Wis. Adm. Code.

    It is further recommended the company properly report and disclose all affiliated loans that have been non-disapproved by the OCI in accordance with NAIC Annual Statement Instructions-Property/Casualty.

    Action—Compliance.

15. Affiliated Agreements - It is recommended the company amend the Master Services Agreement with PAS to comply with s. Ins. 40.04 (2) (d) Wis. Adm. Code and file the amended agreement for non-disapproval to OCI.

    It is further recommended that the company develop a process to ensure all current and future affiliated agreements comply with s. Ins. 40.04 (2) (d), Wis. Adm. Code.

Action—Compliance.

16. Statutory Financial Statement Reporting - It is recommended the company complete its Quarterly and Annual Statutory Financial Statements in accordance with NAIC *Annual Statement Instructions-Property/Casualty* in all future statutory filings.

    It is further recommended that the company file its financial statements on the Health Blank, for year-end 2022.

    It is further recommended the company develop policies and procedures to ensure that LAE reserves are reasonably estimated in accordance with actuarial standards and accurately reported in the statutory financial statements, in accordance with SSAP 55 (regardless of any payments made to third-party administrators).

    Action—Partial compliance, see comments in the “Summary of Current Examination Results.”

17. Compliance with Company Bylaws - It is recommended the company maintain written meeting minutes of its Annual Shareholders Meeting, which shall include the election of directors, in accordance with Article I, par. A and Article VII, par. A of its Bylaws. It is further recommended that the company record all officer appointments in the Board minutes, in accordance with Article IV, par. A of its Bylaws.

    Action—Compliance.

18. Agreement with Prosperitas Investment Management - It is recommended the company terminate its investment management agreement with Prosperitas Investment Management and provide evidence of termination to OCI.

    Action—Compliance.

19. Subsequent Event - It is recommended that the company review the Stipulation and Order and take corrective action to ensure compliance with the Stipulation and Order going forward, in accordance with the recommendations made in the letter to management dated April 11, 2022.

    Action—Compliance.

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.

Information Technology General Controls

During the examination, a review was made of the company's IT general controls. The review led to the identification of issues that are addressed in a separate Management Letter.

It is recommended that the company address the issues outlined in the Management Letter in accordance with the recommendations made in a separate Management Letter dated November 6, 2024.

Compliance with Stipulation and Orders

Cash, cash equivalents, and short-term investments	**$20,277,223**
Capital and Surplus	**$29,152,215**

The above balance reflects a decrease of $900,000 to the amount reported in the company's annual statement for cash, cash equivalents, and short-term investments. The company had two loans that on review should have been nonadmitted assets as they did not comply with s. 620.22 (1) and (2), Wis. Stat. as a permitted assets as there was no tangible property securing these loans. These loans were subsequently paid off in 2024.

During the examination, a review was made of the company's compliance with current stipulation and orders. The review led to the identification of significant issues that were assessed as exam recommendations, which are addressed in a separate Management Letter.

It is recommended that the company comply with s. 620.22 (2), Wis. Stat. and with the requirements of stipulation and orders in accordance with recommendations made in a separate Management Letter dated November 6, 2024.

Affiliated Transactions/Agreements

The NAIC's Accounting Practices and Procedures Manual prescribes the following statutory accounting principles (SSAP's) relating to affiliated transactions:

- Per SSAP No. 25, par. 8 (Written Agreements): Transactions between related parties must be in the form of a written agreement, which must provide for timely settlement of amounts owed, with a specified due date.

- Per SSAP No. 25, par. 18 (Affiliated and Related Parties – Transactions Involving Services): Expenses resulting from cost allocations shall be allocated in accordance with fair and reasonable standards (as prescribed by statutory accounting principles), and the books and records of each party shall disclose clearly and accurately the precise nature and details of the transaction.

In addition, per s. Ins 40.04 (1) (c), Wis. Adm. Code: An insurer may not enter directly or indirectly into a transaction between the insurer and the affiliate unless the books and records of each party to the transaction clearly and accurately disclose the nature and details of the transaction, including the accounting information which is necessary to support the reasonableness of the charges or fees of the respective parties.

The company has a Cost Sharing Agreement with its parent, Premier Servicing, LLC, and other affiliates, whereby direct and indirect costs incurred on behalf of the company are allocated to the company. During exam testing of affiliated transactions, the company was unable to provide evidence to support the costs being allocated to the company under the Cost Sharing Agreement.

In addition, the exam identified several transactions between the company and various affiliates that were not parties to the Cost Sharing Agreement, which lacked supporting documentation necessary to support the nature or reasonableness of the amounts charged.

It is recommended that the company maintain sufficient documentation to accurately disclose the nature and details of transactions with affiliates, including the accounting information necessary to support the reasonableness of the fees charged, in accordance with SSAP No. 25 (Allocation of Expenses) and s. Ins 40.04 (1) (c), Wis. Adm. Code.

It is further recommended that the company submit a Form D filing, within 60 days of the adoption of the examination report, to amend the Cost Sharing Agreement with Premier Servicing, LLC to ensure compliance with SSAP No. 25 (Affiliated Transaction). The Amended Cost Sharing Agreement should:

- Include, as parties, all affiliates that allocate direct or indirect costs to SGIC.
- Provide for the timely settlement of amounts owed, with a specified due date.

- Prescribe in detail the methodology for allocating costs amongst participating affiliates (which shall be in accordance with fair and reasonable standards, as prescribed by statutory accounting principles).
- Prescribe that the books and records of each party shall disclose clearly and accurately the precise nature and details of costs that are allocated to SGIC.

Statutory Financial Statement Reporting (Repeat)

Funds held by or deposited with reinsured companies	**$ 0**
Other amounts receivable under reinsurance contracts	**$2,656,644**

The above balance reflects a decrease to funds held by or deposited with reinsured companies and an increase to other amounts receivable under reinsured contracts as an examination reclassification with details noted below. The examination noted several instances of non-compliance with the NAIC's *Annual/Quarterly Statement Instructions – Health*, as noted below:

- Assets Page: Other Amounts Receivable Under Reinsurance Contracts: The 2023 NAIC *Annual Statement Instructions – Health* provides the following instructions for Assets Page, line 16.2 (Funds held or deposited with reinsured companies):

  > Include: Reinsurance premiums withheld by the ceding entity as specified in the reinsurance contract…or advances from the reinsurer to the ceding entity for the payment of losses before the accounting is made by the ceding entity.

  In the 2023 Annual Statement, the company reported a balance of $2,422,604 on line 16.2 of the Assets Page (Funds held or deposited with reinsured companies). Upon inquiry, the examination determined that the amount reported represented amounts held by Aetna relating to the company's Medicare Supplement reinsurance contract.

  As the amount reported did not meet the criteria for inclusion on line 16.2 of the Assets Page, it should have been reported on line 16.3 of the Assets Page (Other Amounts Receivable Under Reinsurance Contracts).

- Schedule Y – Part 2 (Summary of Insurer's Transactions with any Affiliates): In the 2023 Annual Statement, the company failed to provide all amounts paid to all affiliated parties in Schedule Y – Part 2.
- Underwriting and Investment Exhibit – Part 3 (Analysis of Expenses): The company reported amounts for real estate taxes and expenses on lines 21 and 22, even though the company did not own any real estate during 2023. These amounts should have been reported on line 1 (rent).

  The company also reported on line 18 (Group service and administrative fees) amounts paid to its affiliated third-party administrator (Premier Administrative Services). Per the 2023 NAIC *Annual Statement Instructions – Health*, a reporting entity that pays any affiliated entity for management/administrative services of all or part of its business operations shall allocate these costs to the appropriate expense category – as if those costs had been borne directly by the company (the company should not report these fees as a one-line expense).

- General Interrogatories – 26.1 – 26.2 (Statutory Deposits): In the 2023 Annual Statement, Schedule E – Part 3 (Special Deposits), the company reported statutory deposits pledged to various states with a book value of $5,060,326. The company failed to disclose these statutory deposits in General Interrogatories 26.1 – 26.2:

  - 26.1: The company incorrectly responded "No" to this general interrogatory pertaining to whether the company had any assets that are not exclusively under control of the company.
  - 26.2: The company should have reported the total amount of the statutory deposits on line 26.28 (On deposit with states)

- Unpaid Claims Adjustment Expenses: SSAP 55 establishes the statutory guidelines for recording liabilities for unpaid claims and claim adjustment expenses.[1] Per SSAP 55, par. 7.c., Unpaid

[1] At the time of the prior examination, the company was filing a Property & Casualty Annual Statement. Beginning in 2023, the company began filing a Health Annual Statement. Regardless, the principles set-forth in SSAP 55 still apply.

Claim Adjustment Expenses include “those costs expected to be incurred in connection with the adjustment and recording of accident and health claims. . ..” Per SSAP 55, par. 5: “The liability for unpaid LAE shall be established regardless of any payments made to third-party administrators, management companies or other entities.”

The prior exam noted that the company did not report any Unpaid Loss Adjustment Expenses for two of the years under examination, and only reported a minimal amount for 2020.

The company should report a reserve for all Claims Adjustment Expenses as defined in SSAP 55. Further, per SSAP 55, par. 5, the liability for Unpaid Claims Adjustment Expenses shall be established regardless of payments made to third-party administrators (i.e. – this liability should include estimates of amounts expected to be paid to the affiliated third-party administrator to settle unpaid claims as of the financial statement reporting date (including incurred but not reported claims)).

It is again recommended that the company complete its quarterly and annual statutory financial statements in accordance with the NAIC’s *Annual Statement Instructions* in all future statutory filings.

Actuarial Disclosures

The exam actuarial consultant identified the following areas of non-compliance with the NAIC’s *Annual Statement Instructions – Health* as well as actuarial standards of practice:

- The Actuarial Memorandum did not document how the actuary confirmed that amounts provided by other parties was reasonable (as required by Actuarial Standards of Practice (ASOP) #23).
- The Actuarial Memorandum did not include information on the development of Unpaid Claims Adjustment Expense.
- The Actuarial Memorandum did not include a description of the development of the reinsurance offset to the Unpaid Claims.

- The Actuarial Memorandum did not include an exhibit which ties to the Annual Statement entries and compares them to the actuary's estimates of the items represented by the carried amounts.
- The Actuarial Memorandum must include documentation of the required reconciliation of the data used for analysis to the Underwriting and Investment Exhibit, Part 2B.
- The Actuarial Memorandum did not include sufficient evidence to support the amount of premium deficiency reserve reported or why a premium deficiency reserve was deemed unnecessary (as required by ASOP #28 and #42).

It is recommended that the Actuarial Memorandum comply with the NAIC's *Annual Statement Instructions – Health* as well as actuarial standards of practice, to allow sufficient information for an actuary in the same field to evaluate the work performed.

VIII. CONCLUSION

SGIC is a licensed property and casualty insurer that currently writes limited indemnity medical and short-term medical insurance. The company has a Medicare Supplement line of business which is currently in runoff, after being closed to new business as of May 2021, with the majority of the business ceded to Aetna. The company is currently licensed in 28 states. The company has agreements with various affiliated parties for various services, including its third-party administrator, Premier Administrative Solutions.

At the end of 2023, the company reported total net assets of $35.2 million, total liabilities of $5.1 million, and total capital and surplus of $30.1 million. The examination resulted in one adjustment, which resulted in a decrease of $900 thousand to assets and surplus. Adjusted compulsory capital and surplus of $26.9 million satisfied the compulsory surplus requirement at year end 2023, after the surplus adjustment of $900 thousand was made.

The prior examination resulted in 19 recommendations; the company has complied with 17 of the recommendations, with partial compliance with the other two recommendations. The current examination resulted in five recommendations.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - **Information Technology General Controls -** It is recommended that the company strengthen its information technology system controls in accordance with the recommendations made in a separate Management Letter dated November 6, 2024.

2. Page 28 - **Compliance with Stipulation and Orders -** It is recommended that the company comply with s. 620.22 (2), Wis. Stat. and with the requirements of stipulation and orders in accordance with recommendations made in a separate Management Letter dated November 6, 2024.

3. Page 28 - **Affiliated Transactions/Agreements -** It is recommended that the company maintain sufficient documentation to accurately disclose the nature and details of transactions with affiliates, including the accounting information necessary to support the reasonableness of the fees charged, in accordance with SSAP No. 25 (Allocation of Expenses) and s. Ins 40.04 (1) (c), Wis. Adm. Code.

   It is further recommended that the company submit a Form D filing within 60 days of the adoption of the examination report, to amend the Cost Sharing Agreement with Premier Servicing, LLC to ensure compliance SSAP No. 25 (Affiliated Transactions). The amended Cost Sharing Agreement should:

   - Include as parties, all affiliates that allocate direct or indirect costs to SGIC.
   - Provide for the timely settlement of amounts owed, with a specified due date.
   - Prescribe in detail the methodology for allocating costs amongst the participating affiliates (which shall be in accordance with fair and reasonable standards, as prescribed by statutory accounting principles).
   - Prescribe that the books and records of each party shall disclose clearly and accurately the precise nature and details of costs that are allocated to SGIC.

4. Page 30 - **Statutory Financial Statement Reporting (Repeat) -** It is *again* recommended that the company complete its quarterly and annual statutory financial statements in accordance with NAIC's *Annual Statement Instructions* in all future statutory filings.

5. Page 32 - **Actuarial Disclosures -** It is recommended that the Actuarial Memorandum comply with the NAIC's *Annual Statement Instructions – Health* as well as actuarial standards of practice, to allow sufficient information for an actuary in the same field to evaluate the work performed.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination 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:

Name	Title
Nicholas Siskoff, AFE	Insurance Financial Examiner
Michael Herman	Insurance Financial Examiner
Adam Donovan, CISSP	IT Specialist
Nicholas Hartwig, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

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Examiner-in-Charge