

Report
of the
Examination of
Southern Guaranty Insurance Company
Clearwater, Florida
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

Wisconsin.gov

February 20, 2019

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Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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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 (Southern Guaranty, SGIC, 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 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 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. 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.

II. HISTORY AND PLAN OF OPERATION

Southern Guaranty Insurance Company was incorporated as a property and casualty insurer under the laws of Alabama on July 19, 1963, as the United Security Fire Insurance Company. In 1967, the company was acquired to act as the vehicle for the transfer of the corporate domicile of Southern Guaranty Insurance Company from Mississippi to Alabama in 1968. (Until 1980, the Alabama Farm Bureau Mutual Casualty Insurance Company, Inc., owned a substantial financial interest in the company—42.35%.) Below is an abbreviated history of the company since inception:

- On October 1, 1980, Fireman's Fund Insurance Company purchased 100% of the company's outstanding common stock. On July 1, 1988, the company was purchased by Winterthur U.S. Holdings, Inc., a subsidiary of Winterthur Swiss Insurance Company (Switzerland).
- In 1995, Southern Guaranty acquired 100% control of Southern Fire & Casualty Company (Southern Fire) and Southern Pilot Insurance Company (Southern Pilot).
- In 1996, the Winterthur Swiss Group merged with the Credit Suisse Group (Switzerland).
- In 2005, Southern Guaranty, Southern Fire, and Southern Pilot redomiciled to Wisconsin. Also that year, General Casualty Company of Wisconsin acquired direct control of Southern Guaranty and, consequently, indirect control of Southern Fire and Southern Pilot.
- In 2006, the Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company and its subsidiaries to AXA (France).

In 2007, AXA sold Winterthur U.S. Holdings, Inc., and its subsidiaries to QBE Holdings, Inc., a subsidiary of QBE Insurance Group Limited (Australia). Winterthur U.S. Holdings, Inc., was subsequently renamed QBE Regional Companies (N.A.), Inc. On March 1, 2017, the company was sold by General Casualty Company of Wisconsin (GCW) to a Florida-domiciled, privately owned business, Premier Servicing, LLC. Pursuant to the sale of SGIC to

Premier Servicing, LLC, effective January 1, 2017, GCW and SGIC entered into a loss portfolio transfer and 100% quota share arrangement, whereby GCW reinsures all policy liabilities relating to all business written prior to the effective date, including loss reserves, losses, and unearned premium reserves.

The company did not write any business in 2017, as it focused on acquiring licenses in additional states; the company is currently licensed in 27 states. SGIC started writing accident and health products in April of 2018, and currently offers the following insurance products, which are marketed through managing general agents: critical illness, limited indemnity medical, short-term medical, Medicare supplement, and accident.

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
Inland marine	\$(1,198)	\$0	\$(1,198)	\$0
Other liability-occurrence	<u>(73)</u>	<u>0</u>	<u>(73)</u>	<u>0</u>
Total All Lines	\$(1,271)	\$0	\$(1,271)	\$0

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of three members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Dale Schmidt St. Thomas, U.S. Virgin Islands	Owner of the Premier Group	2018
Lane Kent* Clearwater, FL	President Southern Guaranty Insurance Company	2018
Michael Barton St. Thomas, U.S. Virgin Islands	Owner Prosperitas Investment Management	2018

*Lane Kent is also President of an affiliated company, Premier Administrative Solutions, Inc.

Officers of the Company

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

Name	Office	2017 Compensation
Lane Kent	President	\$164,278*
Dale Schmidt	Chief Executive Officer and Chief Financial Officer	0
Michael Barton	Chief Investment Officer	0
Dr. Barbara Freeman	Chief Medical Officer	0

* Lane Kent's compensation is SGIC's allocated share of his total compensation, and is pro-rated due to the sale on March 1, 2017. The other officers are not directly compensated by SGIC.

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:

ERM Committee

Lane Kent, Chair
Michael Barton
Nancy DiGioacchino*
Dr. Barbara Freeman*
Elizabeth Barry*

Investment Committee

Michael Barton, Chair**
Lane Kent
Dale Schmidt
Jill Southard*

Doug Foote*

* Not board members; however, these individuals are either managers of the company or employed by one or more of the company's affiliates.

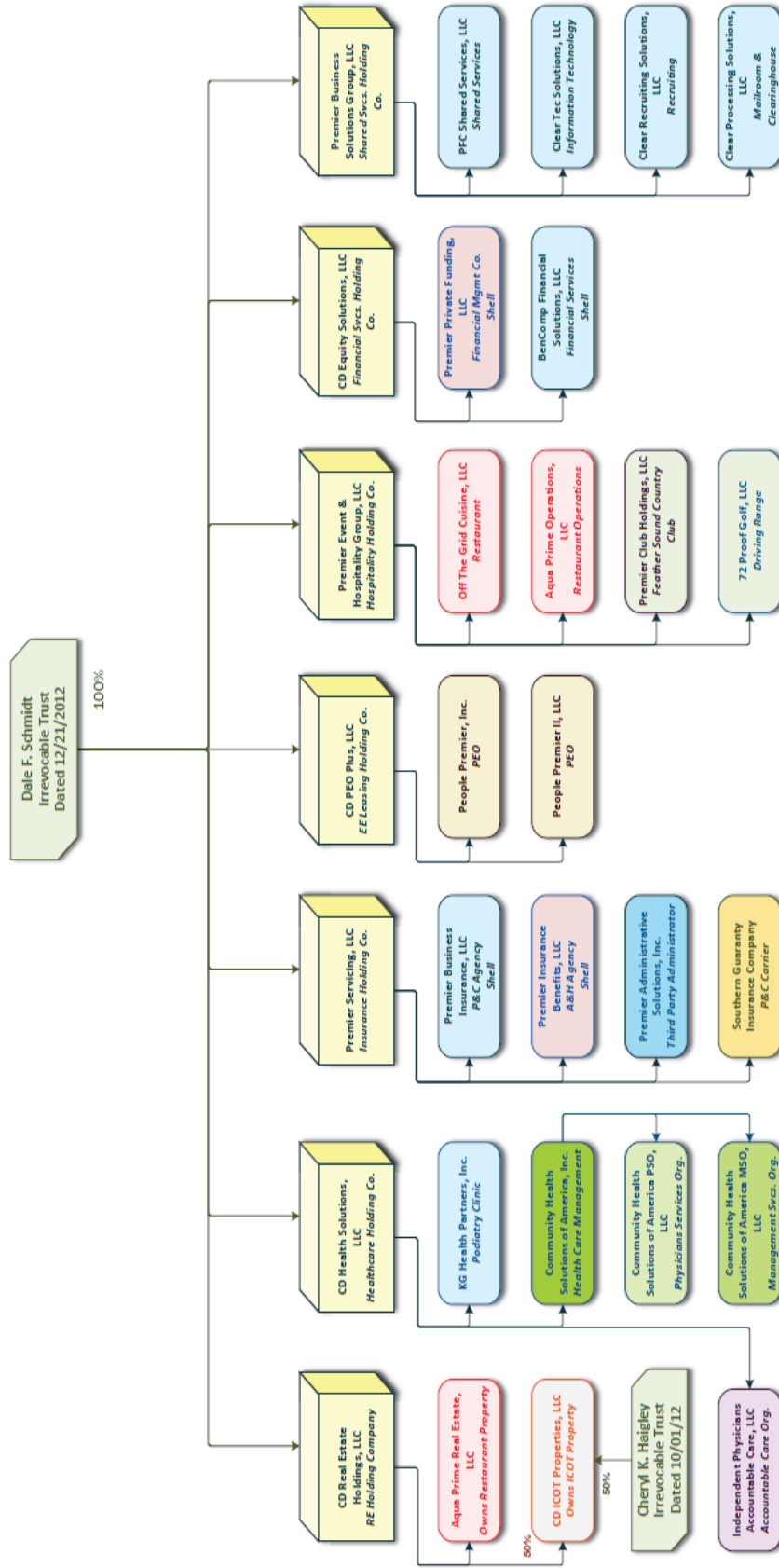
** Michael Barton also serves as the company's investment advisor.

IV. AFFILIATED COMPANIES

Southern Guaranty Insurance Company is a member of a complex holding company system under the ultimate controlling person of Dale F. Schmidt, which includes real estate holdings (under CD Real Estate Holdings, LLC), healthcare services (under CD Health Solutions, LLC), employee leasing (under CD PEO Plus, LLC), hospitality services (under Premier Event & Hospitality Group, LLC), financial services (under CD Equity Solutions, LLC), and IT services (under Premier Business Solutions Group, LLC), in addition to insurance and third-party administrative services [under Premier Servicing, LLC, (the Premier Group)].

The abbreviated organizational chart on the following page depicts the relationships among the principal U.S.-based affiliates within the holding company system. A brief description of the significant affiliates follows the organizational chart.

Premier Family of Companies
Structure Chart as of July 31, 2018



Premier Servicing, LLC (Premier Servicing)

Premier Servicing is the holding company for the companies that comprise the Premier Group, and is the direct parent company of SGIC. As of December 31, 2017, the unaudited financial statements of Premier Servicing reported assets of \$32,908,000, liabilities of \$3,500,000, and total equity of \$29,408,000. Operations for 2017 produced net loss of \$396,000. Premier Servicing, LLC, shares costs with SGIC as well as other Premier Group affiliates, and the Dale F. Schmidt Irrevocable Trust through a Cost Sharing Agreement (discussed below).

Premier Administrative Solutions, Inc. (PAS)

Premier Administrative Solutions, Inc., is a third-party administrator serving SGIC and outside parties. PAS has a Master Services Agreement with SGIC (discussed below).

Dale F. Schmidt Irrevocable Trust and Dale F. Schmidt

The Dale F. Schmidt Irrevocable Trust (the Trust), established December 22, 2012, wholly owns all other entities within the holding company system. 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.

CD Real Estate Holdings, LLC

CD Real Estate Holdings, LLC, is a real estate holding company that owns the property where the company headquarters is located.

CD Health Solutions, LLC

CD Health Solutions, LLC, is a healthcare holding company that owns Community Health Solutions entities and KG Health Partners Inc., a podiatry clinic. The Community Health Solutions companies are healthcare, physician service, and management service organizations.

CD PEO Plus, LLC

CD PEO Plus, LLC, is an employee leasing holding company which owns both People Premier companies. Both People Premier entities are employee leasing companies.

Premier Event & Hospitality Group, LLC

Premier Event & Hospitality Group, LLC, is a hospitality holding company with entities including a golf course, a driving range, and Off the Grid Cuisine, LLC, a restaurant.

CD Equity Solutions, LLC

CD Equity Solutions, LLC, is a financial services holding company. Both entities owned by this company are shell companies.

Premier Business Solutions Group, LLC

Premier Business Solutions Group, LLC, is a shared services holding company. This group has a shared services company, an information technology company, a recruiting firm, and a mailroom and clearinghouse company.

Agreements with Affiliates

Master Services Agreement

Effective December 1, 2017, SGIC entered into a Master Services Agreement with Premier Administrative Solutions, Inc. 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. For 2017, there were no expenses incurred under this agreement, as the company had not yet sold any policies.

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. For the year ended December 31, 2017, the company incurred expenses totaling \$628,602 under this agreement.

General Casualty Company of Wisconsin

Effective January 1, 2017, SGIC entered into an Administrative Services Agreement with General Casualty of Wisconsin, its former parent. Pursuant to this agreement, GCW assumed all administrative duties as applicable to all policies in force at the time of the closing of the sale of SGIC to Premier Servicing, LLC. This agreement terminated as of December 31, 2017, with no in-force policies left to be serviced.

V. REINSURANCE

The company's reinsurance portfolio is outlined below. The contracts contain proper insolvency provisions.

Unaffiliated Ceding Contracts

1. Type: Medical Quota Share
Reinsurer: Axis Insurance Company
Limits and Retention: 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 as respects all covered persons during the Agreement Year.

Coverage: Limited Medical, Short Term Medical, and Accident Expense Medical, including Critical Illness Riders

Premium: 50% quota share

Commissions: 40% Limited Medical, 42% Short Term Medical, 41% Accident Expense Medical

Effective date: April 1, 2018

Termination: The agreement shall remain in force until canceled in accordance with the terms of this agreement.

2. Type: Medicare Supplement Coinsurance
Reinsurer: Aetna Life Insurance Company
Coverage: Medicare Supplement

Premium: 95% of premiums

Underwriting Allowance \$90 each issued underwritten policy, \$40 non-underwritten, \$20 each application declined or withdrawn

Administrative Allowance \$7.50 per member per month

Marketing Allowance \$80 each underwritten policy, \$20 each non-underwritten policy

Effective date: April 6, 2018

Termination: April 6, 2021

Loss Portfolio Transfer Agreement

- 1. Type: Loss Portfolio Transfer
- Reinsurer: General Casualty Company of Wisconsin
- Coverage: All lines prior to the sale
- Premium: All premiums
- Effective date: January 1, 2017
- Termination: N/A

Nonaffiliated Assuming Contract

- 1. Type: Quota Share
- Reinsured: National Guardian Life Insurance Company
- Coverage: Group Fixed Indemnity
- Premium/Losses: Shared 50/50 percent
- Effective date: January 1, 2018
- Termination: January 1, 2020

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Wisconsin Office of the Commissioner of Insurance (OCI) 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 Guaranty Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$10,531,786		\$10,531,786
Stocks:			
Common stocks	2,010,678		2,010,678
Mortgage loans on real estate:			
First liens	2,793,572		2,793,572
Cash, cash equivalents, and short-term investments	11,023,608		11,023,608
Receivables for securities	3,777,209		3,777,209
Investment income due and accrued	72,994		72,994
Net deferred tax asset	<u>258,107</u>	\$120,774	<u>137,333</u>
Total Assets	<u>\$30,467,954</u>	<u>\$120,774</u>	<u>\$30,347,180</u>

Southern Guaranty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2017

Other expenses (excluding taxes, licenses, and fees)	\$ 26,855
Payable to parent, subsidiaries, and affiliates	<u>628,602</u>
Total Liabilities	655,457
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	27,430,571
Unassigned funds (surplus)	<u>(238,848)</u>
Surplus as regards policyholders	<u>29,691,723</u>
Total Liabilities and Surplus	<u>\$30,347,180</u>

**Southern Guaranty Insurance Company
Summary of Operations
For the Year 2017**

Underwriting Income

Premiums earned		\$ 0
Deductions:		
Other underwriting expenses incurred	\$623,216	
Total underwriting deductions		<u>623,216</u>
Net underwriting gain (loss)		<u>(623,216)</u>

Investment Income

Net investment income earned	183,948	
Net realized capital gains (losses)	<u>(4,989)</u>	
Net investment gain (loss)		<u>178,959</u>

Other Income

Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(444,257)
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		<u>(444,257)</u>
Net Income (Loss)		<u>\$(444,257)</u>

Southern Guaranty Insurance Company
Cash Flow
For the Year 2017

Net investment income		\$ <u>259,400</u>
Net cash from operations		259,400
Proceeds from investments sold, matured, or repaid:		
Bonds	\$13,803,794	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>(640)</u>	
Total investment proceeds		\$13,803,154
Cost of investments acquired (long- term only):		
Bonds	21,114,948	
Mortgage loans	2,800,000	
Miscellaneous applications	<u>4,349</u>	
Total investments acquired		<u>23,919,297</u>
Net cash from investments		(10,116,143)
Cash from financing and miscellaneous sources:		
Capital and paid in surplus less treasury stock		21,572,490
Other cash provided (applied)		<u>(7,834,085)</u>
Net cash from financing and miscellaneous sources		<u>13,738,405</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		3,881,662
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>7,141,946</u>
End of Year		<u>\$11,023,608</u>

**Southern Guaranty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017**

Assets			\$30,347,180
Less liabilities			<u>655,457</u>
Adjusted surplus			29,691,723
Annual premium:			
Individual accident and health	\$0		
Factor	<u>15%</u>		
Total		\$0	
Group accident and health	0		
Factor	<u>10%</u>		
Total		0	
Lines other than accident and health	0		
Factor	<u>20%</u>		
Total		<u>0</u>	
Compulsory surplus (subject to a minimum of \$2 million)			<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)			<u>\$27,691,723</u>
Adjusted surplus (from above)			\$29,691,723
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>\$26,891,723</u>

**Southern Guaranty Insurance 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	\$ 4,478,844	\$22,773,397	\$23,908,922	\$23,869,502	\$37,894,216
Net income	(444,257)	2,234,398	1,695,849	(11,365)	(3,439,746)
Change in net unrealized capital gains/losses	47,146				
Change in net deferred income tax	270,638	7,185	(8,528,239)	32,458	1,173,399
Change in nonadmitted assets	(120,774)	726,161	5,546,914	(62,240)	(3,104,561)
Change in provision for reinsurance	56,000	14,200	(48,200)	115,600	(36,600)
Cumulative effect of changes in accounting principles				2,849	72,736
Surplus adjustments:					
Paid in	27,430,570	(21,740,000)			(8,500,000)
Write-ins for gains and (losses) in surplus:					
QBE prior parent NI prior to acquisition	46,025				
Fair Value of Investments at acquisition	8,400				
Correction of errors		614,923	200,841		
Change in miscellaneous surplus			(2,690)	(2,940)	
Special surplus-retroactive reinsurance movement				(34,943)	
Change in defined benefit (net of tax)					(183,588)
Pension transfer valuation adjustment					(6,354)
Special surplus-retroactive reinsurance movement		(151,420)			
Surplus in SGIC at acquisition not reflected in line 33	<u>(500,000)</u>				
QBE prior parent distribution	<u>(1,580,869)</u>				
Surplus, End of Year	<u>\$29,691,723</u>	<u>\$ 4,478,844</u>	<u>\$22,773,397</u>	<u>\$23,908,922</u>	<u>\$23,869,502</u>

**Southern Guaranty Insurance 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	0%	0%	133%	134%	195%
#2 Net Premium to Surplus	0	0	133	134	195
#3 Change in Net Premiums Written	0	-136*	-6	-31	-10
#4 Surplus Aid to Surplus	0	0	0	0	1
#5 Two-Year Overall Operating Ratio	999*	117*	101*	107*	108*
#6 Investment Yield	0.9*	1.2*	1.4*	0.8*	1.3*
#7 Gross Change in Surplus	563*	-80*	-5	0	-37*
#8 Change in Adjusted Surplus	-50*	15	-5	0	-15*
#9 Liabilities to Liquid Assets	2	70	138*	132*	132*
#10 Agents' Balances to Surplus	0	0	15	19	31
#11 One-Year Reserve Development to Surplus	0	0	2	1	8
#12 Two-Year Reserve Development to Surplus	0	0	3	7	17
#13 Estimated Current Reserve Deficiency to Surplus	0	0	-3	-15	22

GCW sold SGIC on March 1, 2017, as a clean shell. The unusual IRIS ratios in 2016 and 2017 are direct results of the sale. The company remained a shell company in 2017 until the company resumed writing business in April 2018. The IRIS ratios from 2013–2015 reflect results under the company's prior ownership,

Growth of Southern Guaranty Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	\$30,347,180	\$655,457	\$29,691,723	\$(444,257)
2016	13,163,968	8,685,124	4,478,844	2,234,398
2015	90,314,190	67,540,792	22,773,397	1,695,849
2014	90,032,576	66,123,654	23,908,922	(11,365)
2013	109,472,849	85,603,347	23,869,502	(3,439,746)
2012	132,380,331	94,486,115	37,894,216	(1,657,802)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2017	\$ (1,271)	\$ 0	\$ 0	0.0%	0.0%	0.0%
2016	(10,967,076)	(10,982,675)	0	0	0	0
2015	30,301,989	30,282,079	33,074,273	63.9	35.8	99.7
2014	32,150,812	32,129,899	35,975,340	69.2	36.1	105.3
2013	46,651,819	46,639,416	49,431,938	75.2	35.3	110.5
2012	52,805,732	52,092,415	59,807,235	73.5	35.0	108.5

The company entered into run-off starting in 2016. The 2017 premiums were ceded 100% to the prior parent company, GCW. All the activity through 2016 reflects the results of SGIC's under its prior ownership and management. It should also be noted that the company primarily wrote a mix of personal and commercial property and casualty business prior to the company's acquisition from GCW on March 1, 2017. Since the acquisition, the company's business mix has focused exclusively on accident and health business.

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—Not applicable

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

Action—Not applicable

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—Not applicable

The prior exam recommendations were not reviewed due to their irrelevance as a result of the change in ownership. Compliance with prior exam recommendations is not applicable to this examination.

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.

Succession Plan

It is the usual and customary expectation that insurers should develop formalized succession plans in the event of departures of their senior executives. History has shown that insurers that fail to plan for the succession of their senior executives often see a significant disruption in their operations, which could impair achievement of the company's strategic objectives, or place the company in a financially hazardous condition.

The examination discovered that the company currently does not have a succession plan in case of executive deaths or departures. It is recommended that the company develop a formal board-approved succession plan in the event of a departure of one or more of its senior executives.

Holding Company Reporting

Per s. Ins 40.20, Wis. Adm. Code (Form B – Insurance Holding Company System Annual Registration Statement), the registrant is to furnish, as Item #2 to the Form B filing, a chart or listing clearly presenting the identities of, and interrelationships among, all affiliated persons within the insurance holding company system. In addition, per the NAIC's Annual Statement Instructions – Property/Casualty, if the company is required to file a Holding Company System Annual Registration Statement, this organizational chart must also be included in Schedule Y – Part 1 of the Annual Statement.

Moreover, the registrant is to include, as Item #8 to the Form B filing, the annual financial statements of the ultimate controlling person for the immediately preceding fiscal year, which shall be accompanied by a certificate of an independent public accountant to the effect that the statements present fairly the financial position of the ultimate controlling person, in accordance with generally accepted accounting principles. If the ultimate controlling person is an

individual, in lieu of audited financial statements, personal financial statements may be submitted that have been reviewed by an independent public accountant, provided that the review is conducted in accordance with the standards for review of personal financial statements published in the Personal Financial Statements Guide by the American Institute of Certified Public Accountants. The independent public accountant's Standard Review Report must state that the accountant is not aware of any material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles.

The examination noted that SGIC did not include a chart showing all affiliated persons in its 2017 Form B filing and its Schedule Y – Part 1 of the 2017 Annual Statement. Moreover, SGIC did not submit audited or reviewed personal financial statements of the ultimate controlling person with its 2017 Form B filing.

It is recommended that the company provide a complete organizational chart to OCI showing all affiliates whose total assets are equal to or greater than 0.5% of the total assets of the ultimate controlling person in future Form B – Insurance Holding Company System Annual Registration Statement and Annual Statement filings, in accordance with s. Ins 40.20, Wis. Adm. Code (Form B filing requirements), and the NAIC's Annual Statement Instructions – Property/Casualty.

It is further recommended that the company submit to OCI in future Form B – Insurance Holding Company System Annual Registration Statement filings, the financial statements of the ultimate controlling person for the most recently completed fiscal year accompanied by a certified Standard Audit Report, or, in the case of personal financial statements, a Standard Review Report issued by an independent public accountant, in accordance with s. Ins 40.20, Wis. Adm. Code (Form B filing requirements).

Intermediary

Chapter Ins 47, Wis. Adm. Code, sets forth the regulatory requirements for reinsurance intermediaries. Specifically, s. Ins 47.02, Wis. Adm. Code, sets forth the licensing requirements for reinsurance intermediaries, and s. Ins 47.03, Wis. Adm. Code, states, “No reinsurance Intermediary-broker or insurer may enter into an agreement or arrangement...for the reinsurance intermediary-broker to represent the insurer as a reinsurance intermediary-broker unless the reinsurance intermediary-broker obtains written authorization from the insurer, the reinsurance intermediary-broker complies with the terms of the authorization, and the authorization specifies the responsibilities of each party, including but not limited to, the following:

- (1) The insurer may terminate the reinsurance intermediary-broker authority at any time.
- (2) The reinsurance intermediary-broker will render accounts to the insurer accurately detailing all material transactions, including information necessary to support all commissions, charges and other fees received by, or owing, to the reinsurance intermediary-broker, and remit all funds due to the insurer within 30 days of receipt.
- (3) The reinsurance intermediary-broker will hold all funds collected for the insurer’s account in a fiduciary capacity in a qualified United States financial institution.
- (4) The reinsurance intermediary-broker will comply with s. Ins 47.04 (Books and records – reinsurance intermediary-brokers).
- (5) The reinsurance intermediary-broker will comply with the written standards established by the insurer for the cession or retrocession of all risks.
- (6) The reinsurance intermediary-broker will disclose to the insurer any relationship with any reinsurer to which business will be ceded or retroceded.”

In addition, s. Ins 47.05 (3), Wis. Adm. Code, states, “An insurer shall annually obtain a copy of statements of the financial condition of each reinsurance intermediary-broker with which it transacts business.”

The examination determined that the reinsurance intermediary, Ethix Reinsurance Intermediaries, LLC, managed by Timothy J. Pawlik, is not licensed in Wisconsin, and that the reinsurance intermediary agreement is missing all or part of clauses 3–6, required under s. Ins

47.03, Wis. Adm. Code. In addition, the examination determined that the company is not obtaining a copy of its reinsurance intermediary's statements of financial condition on an annual basis, in accordance with s. Ins 47.05 (3), Wis. Adm. Code. It is recommended that:

- 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); and
- The company execute an agreement with its reinsurance intermediary that complies with the requirements set-forth in s. Ins 47.03, Wis. Adm. Code; and
- The company annually obtain a copy of the statement of the financial condition of each reinsurance intermediary-broker with which it transacts business, in accordance with s. Ins 47.05 (3), Wis. Adm. Code.

Business Continuity Plan

During the Business Continuity Plan review, it was noted that the company has not performed the Business Impact Analysis or Risk Assessment.

It is 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.

Conflict of Interest

A conflict of interest is a situation that has the potential to undermine the impartiality of a person because of the possibility of a clash between the person's self-interest and professional or public interest. Industry best practices, as well as s. 611.60, Wis. Stat., advocate that persons recuse themselves from decisions or votes on any matters in which they have a conflict of interest (or the appearance thereof).

During the examination, it was discovered that the Chairman of the Investment Committee also serves as the company's investment advisor. As the Investment Committee is charged with overseeing the company's investment transactions and actions taken by any service providers hired by the company to provide investment management or advisory services, this situation creates a conflict of interest.

It is 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.

VIII. CONCLUSION

The company was purchased by Premier Servicing, LLC, as a clean shell company on March 1, 2017. All premiums and loss reserves were ceded to its prior parent company, General Casualty Company of Wisconsin on January 1, 2017. The company started writing accident and health products on April 1, 2018. The major accident and health products marketed by the company in 2018 include limited indemnity medical, short-term medical, and Medicare supplement insurance. Dale F. Schmidt is the ultimate controlling person, as the sole grantor of the Dale F. Schmidt Irrevocable Trust (dated 12/21/12).

SGIC is party to multiple affiliated agreements with companies under the Dale F. Schmidt Irrevocable Trust umbrella. One agreement is a master services agreement with Premier Administrative Solutions, Inc., whereby various administrative services are performed such as claims and policy administration. The other agreement is a cost sharing agreement with several Premier Group affiliates.

The examination resulted in five recommendations. The recommendations from the prior exam are not applicable, due to the change in ownership.

The company's losses in 2017 are a result of startup costs and expansion into other states. The company is currently licensed in 27 states.

There were no adjustments to surplus as a result of the examination.

Subsequent Event

Effective March 1, 2019, Lane Kent will be stepping down as the Company's President, but will remain on the Board of Directors through April 2019. A replacement has not been named at this time.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Succession Plan—It is recommended that the company develop a formal board-approved succession plan in the event of a departure of one or more of its senior executives.
2. Page 25 - Holding Company Reporting—It is recommended that the company provide to OCI a complete organizational chart showing all affiliates whose total assets are equal to or greater than 0.5% of the total assets of the ultimate controlling person in future Form B – Insurance Holding Company System Annual Registration Statement and Annual Statement filings, in accordance with s. Ins 40.20, Wis. Adm. Code (Form B filing requirements) and the NAIC's Annual Statement Instructions – Property/Casualty.

It is further recommended that the company submit to OCI in future Form B – Insurance Holding Company System Annual Registration Statement filings, the financial statements of the ultimate controlling person for the most recently completed fiscal year accompanied by a certified Standard Audit Report, or, in the case of personal financial statements, a Standard Review Report issued by an independent public accountant, in accordance with s. Ins 40.20, Wis. Adm. Code (Form B filing requirements).

3. Page 27 - Reinsurance Intermediary—It is recommended that:
 - 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); and
 - The company execute an agreement with its reinsurance intermediary that complies with the requirements set-forth in s. Ins 47.03, Wis. Adm. Code; and
 - The company annually obtain a copy of the statement of the financial condition of each reinsurance intermediary-broker with which it transacts business, in accordance with s. Ins 47.05 (3), Wis. Adm. Code.
4. Page 27 - Business Continuity Plan—It is 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.
5. Page 28 - Conflict of Interest—It is 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.

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:

Name	Title
Nicholas Hartwig	Insurance Financial Examiner
Eleanor Lu	Insurance Financial Examiner-Advanced, Information Systems Audit Specialist
Terry Lorenz	Insurance Financial Examiner-Advanced, Exam Planning and Quality Control Specialist

Respectfully submitted,

Jacob Burkett, CPA
Examiner-in-Charge