

Report of the Examination of
Southern Pilot Insurance Company
Sun Prairie, Wisconsin
As of December 31, 2022

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May 30, 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 PILOT INSURANCE COMPANY
Sun Prairie, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Southern Pilot Insurance Company (SPIC or the company) was conducted in 2018 and 2019 as of December 31, 2017. The current examination covered the intervening period ending December 31, 2022, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the QBE North America Group. The Pennsylvania Insurance Department acted in its capacity as the lead state for the coordinated exams. Work performed by the Pennsylvania Insurance Department was reviewed and relied on where deemed appropriate.

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

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

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

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

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

Southern Pilot Insurance Company was incorporated in North Carolina on August 30, 1962, under the name Pilot Fire & Casualty Company, and commenced business on September 30, 1962. The name of the company was changed to Jefferson-Pilot Fire & Casualty Company effective May 1, 1972. On April 3, 1995, Southern Guaranty Insurance Company (SGty) acquired 100% ownership of the company and its wholly-owned subsidiary, Southern Fire & Casualty Company (SFire). 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. Upon the acquisition, the company changed its name to Southern Pilot Insurance Company.

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

On March 31, 2005, SPIC and SFire redomiciled to Wisconsin. On September 30, 2005, SGty redomiciled to Wisconsin. Also, in 2005, SPIC transferred its ownership in SFire to SGty by way of dividend. Effective December 31, 2005, General Casualty Company of Wisconsin (GCWI) acquired SGty and its subsidiaries, Southern Guaranty Insurance Company of Georgia (SGty-GA), SPIC and SFire through a capital contribution from Winterthur U.S. Holdings, Inc. On January 1, 2006, GCWI became the immediate parent of SGty-GA, SPIC, and SFire through an upward dividend of 100% of their stock by SGty. On May 30, 2007, GCWI 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, SPIC records paid-up capital of \$2,560,000 consisting of 250,000 shares of common stock with a \$10.00 par value each and 60,000 shares of preferred stock with a \$1.00 par value

each. The company has 500,000 common shares and 250,000 preferred shares authorized. All outstanding shares of SPIC are owned by GCWI.

GCWI effectively heads its own holding company subsystem under QBE Regional, consisting of three subsidiary insurers (General Casualty Insurance Company, Regent Insurance Company, and Southern Pilot Insurance Company). The following timeline depicts organizational changes within the subsystem. Further information concerning the QBE Limited holding company group is included in the report under the section titled "Affiliated Companies."

- Regent Insurance Company (Regent) was organized on January 22, 1963, and commenced business on May 1, 1963. Since its inception, Regent has been a wholly-owned subsidiary of GCWI.
- General Casualty Insurance Company (GCIC) was incorporated under the laws of the state of Illinois on December 14, 1972, and commenced business on January 1, 1973. Effective December 31, 2007, GCIC redomiciled to the state of Wisconsin. Since its inception, GCIC has been a wholly-owned subsidiary of GCWI.
- Effective September 30, 1995, Protective Insurance Company, a subsidiary of Baldwin & Lyons, Inc., sold 100% of its shares in Hoosier Insurance Company (Hoosier) to GCWI. Hoosier merged with GCWI effective October 1, 2020.
- Effective April 1, 2001, GCWI acquired Blue Ridge Insurance Company (BlueIns), a sister company of GCWI, and its subsidiaries, Blue Ridge Indemnity Company (BlueInd) and MassWest Insurance Company, Inc. (MassWest), through a capital contribution from Winterthur U.S. Holdings, Inc. On July 1, 2001, GCWI became the immediate parent of BlueInd and MassWest through an upward dividend of 100% of their stock from BlueIns. Effective December 31, 2007, MassWest merged with and into GCWI. Effective January 1, 2011, Blue Ridge Insurance Company was sold to Catlin, Inc. Under the terms of the purchase agreement, all business previously written by BlueIns was retained by QBE Limited, and all existing liabilities were reinsured by GCWI. Effective April 1, 2017, Blue Ridge Indemnity Company was sold to LOTS Intermediate Co. Under the terms of the purchase agreement, GCWI

entered into a loss portfolio transfer arrangement and a 100% quota share arrangement pursuant to which GCWI will reinsure all the policy liabilities.

- Effective December 31, 2005, GCWI acquired Southern Guaranty Insurance Company (SGIC), a sister company, and its subsidiaries, Southern Guaranty Insurance Company of Georgia (SGIC-GA), Southern Pilot Insurance Company (SPIC), and Southern Fire & Casualty Company (SFIC), through a capital contribution from Winterthur U.S. Holdings, Inc. On January 1, 2006, GCWI became the immediate parent of SGIC-GA, SPIC, and SFIC through an upward dividend of 100% of their stock by SGIC. On May 30, 2007, GCWI sold SGIC-GA to Key Financial Holdings, Inc. Effective March 1, 2017, SGIC was sold to Premier Servicing, LLC. Effective November 1, 2020, GCWI sold SFIC to Sentry Insurance a Mutual Company.
- Effective October 31, 2008, GCWI purchased National Farmers Union Property and Casualty Company (NFU) and its subsidiary, United Security Insurance Company (USIC) from QBE Reinsurance Corporation, a sister company of QBE Regional. Effective January 1, 2009, USIC's stock was transferred from NFU to GCWI via an upward stock dividend. Effective January 1, 2011, USIC was sold to Missouri Employers Mutual Insurance Company. Effective August 1, 2019, NFU was sold to Integon National Insurance Company.

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 Insurance Corporation (QBEIC) is the primary employer for its holding company subsystem, with approximately 2,700 employees nationwide at the time of this examination. Subsidiaries of GCWI have no employees of their own and rely principally on QBEIC for the staff essential to running day-to-day operations. QBE Group Services Pty Limited manages the companies' investments, subject to the Global Investment Services Master Agreement. All operations of the holding company subsystem are conducted with staff provided by QBEIC 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 2022, the company wrote \$440 of direct premium in North Carolina. Direct premium was not written in any other states.

SPIC is one of 11 companies that comprise the QBE North America Pooled Entities (collectively referred to as "QBENA"). QBENA includes General Casualty Company of Wisconsin (GCWI), GCIC, 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), Southern Pilot Insurance Company (SPIC), and Stonington Insurance Company (Stonington).

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 independent agents, brokers, and program managers.

The following table is a summary of the net insurance premiums written by the company in 2022. 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
Other commercial auto liability	<u>\$440</u>	<u>\$0</u>	<u>\$440</u>	<u>\$0</u>
Total All Lines	<u>\$440</u>	<u>\$0</u>	<u>\$440</u>	<u>\$0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of eight members. All directors are elected annually to serve a one-year term. Non-executive directors are restricted from holding office for a continuous period over three years, without submitting for re-election by the QBE Group board. Executive directors are restricted from holding office for a continuous period more than three years, without submitting for re-election by the QBE Group CEO. Members of the company's board of directors may also be members of other boards of directors in the holding company group.

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

Name and Residence	Principal Occupation	Term Expires
Christopher Castaldo Windsor Township, NJ	Chief Financial Officer QBE North America division	2025
Kristen Dodge Dauphinais Dallas, TX	Retired Former Head of US Cyber & Technology Division Beazley Insurance Group	2025
Laurie Lee Harris New York, NY	Retired Former Global Engagement Audit Partner, PricewaterhouseCoopers LLP	2025
David Andrew Horton Woollahra, NSW, Australia	QBE Group Chief Executive Officer	2025
Daniel Lawrence Jones Salt Lake, UT	Retired Chairman of QBE North American Divisional Board of Directors	2025
Shamla Thirupurasundrie Naidoo Keystone, SD	Head of Cloud Strategy and Innovation Netskope	2025
Sharon Ann Ritchey Longboat Key, FL	Chief Strategy Officer Enlighten Operational Excellence	2025
Julie Madden Wood Atlanta, GA	Chief Executive Officer/President QBE North America division	2025

Officers of the Company

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

Name	Office
Julie Madden Wood	Chief Executive Officer/President
Christopher Castaldo	Chief Financial Officer
Mark Thomas Pasko	Chief Legal Officer/Corporate Secretary
Joseph Angelo Milicia	Chief Actuary
Jason Brian Pircher	Treasurer
Rachel Louise Beatrice Pollack	Chief People Officer
Adrian Michael La Forgia	Interim Chief Underwriting Officer
Todd Michael Greeley	Chief Claims Officer
John Yoon	Chief Accounting Officer
Patricia Smith	Chief Information Security Officer
Daniel Scott Fortin	Executive Vice President
David Michael Mulligan	Chief Operating Officer
Michael William Foley	Executive Vice President

Effective February 2016, once an individual is appointed an officer, they hold such position until their replacement, removal from office, termination of employment or such other event as specified in the company's bylaws, whichever first occurs.

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:

Administrative Committee

Julie Madden Wood, Chair
Christopher Castaldo
Laurie Lee Harris

Audit Committee

Laurie Lee Harris, Chair
Shamla Thirupurasundrie Naidoo
Sharon Ann Ritchey

Governance & Nomination Committee

Daniel Lawrence Jones, Chair
Kristen Dodge Dauphinais
Laurie Lee Harris
David Andrew Horton
Shamla Thirupurasundrie Naidoo
Sharon Ann Ritchey

People & Remuneration Committee

Sharon Ann Ritchey, Chair
Kristen Dodge Dauphinais
Laurie Lee Harris
Daniel Lawrence Jones
Shamla Thirupurasundrie Naidoo

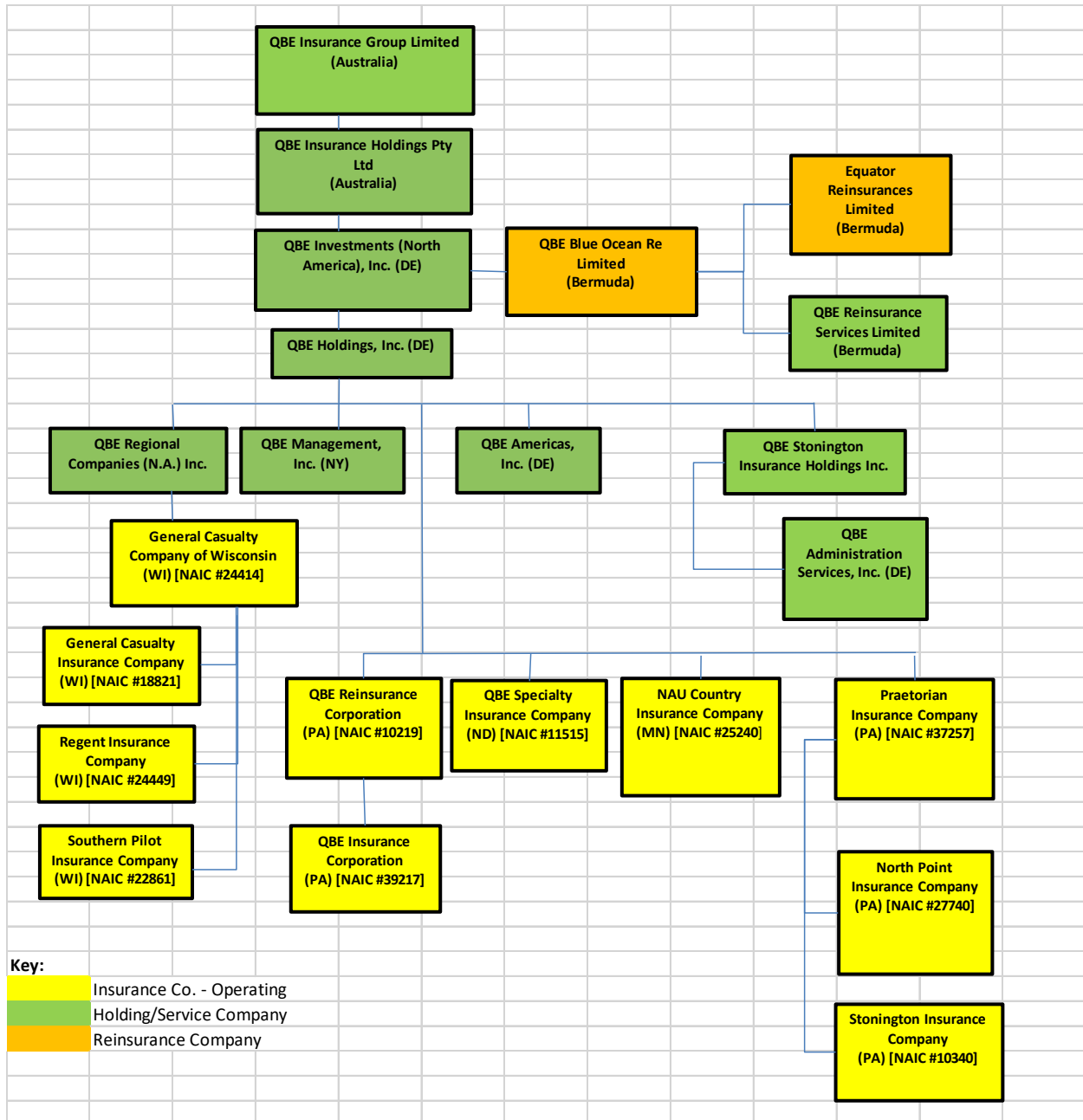
Risk & Capital Committee

Kristen Dodge Dauphinais, Chair
Laurie Lee Harris
Daniel Lawrence Jones
Shamla Thirupurasundrie Naidoo
Sharon Ann Ritchey

IV. AFFILIATED COMPANIES

Southern Pilot Insurance Company is a member of a holding company system. 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 the significant affiliates follows the organizational chart.

Organizational Chart As of December 31, 2022



QBE Insurance Group Limited (QBE Limited)

QBE Limited was formed in 1886 in Townsville, Australia. The headquarters of QBE Limited is located in Sydney, Australia. QBE Limited is a publicly held company and is traded on the Australian Securities Exchange. The holding company group has operations in all the major insurance markets with insurance activities in 27 countries and operations in Australia, Europe, North America, Asia, and the Pacific. QBE's captive reinsurers, QBE Blue Ocean Re Limited and Equator Reinsurances Limited, provide reinsurance protection to its divisions in conjunction with the Group's external reinsurance programs.

QBE Limited's three operating segments are as follows:

North America

This segment writes general insurance, reinsurance, and crop business in the United States.

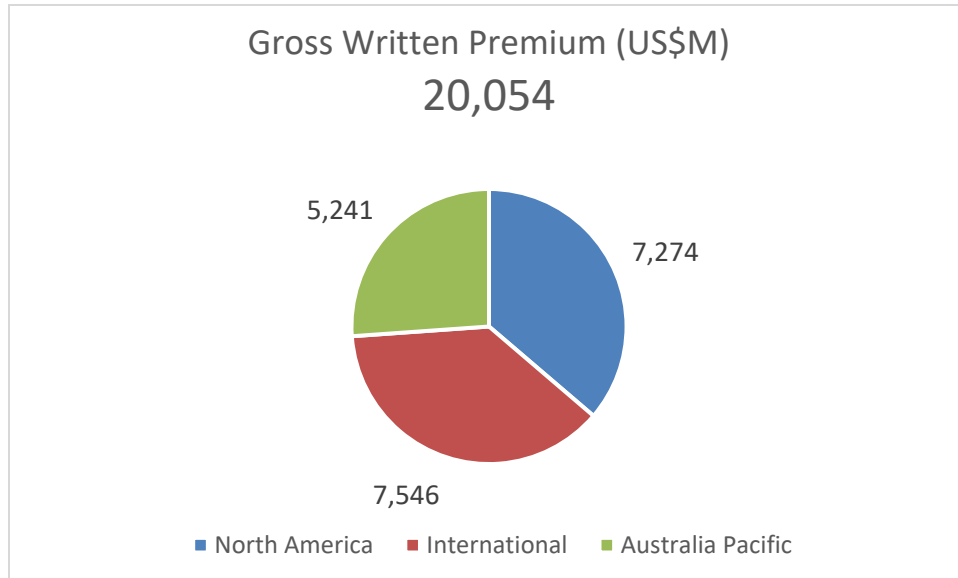
International

This segment writes general insurance business in the United Kingdom, Europe, Asia, and Canada. It also writes general insurance and reinsurance business through Lloyd's syndicates.

Australia Pacific

This segment primarily underwrites general insurance risks throughout Australia, New Zealand, and the Pacific region, providing all major lines of insurance for personal and commercial risks.

The following chart shows QBE Limited's 2022 gross premium written (GPW) by segment.



As of December 31, 2022, the audited financial statements of QBE Insurance Group Limited reported (in U.S. dollars) assets of \$49.5 billion, liabilities of \$40.5 billion, and total equity of \$9.0 billion. Operations for 2022 produced a total comprehensive income] of \$396 million.

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

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 QBE Blue Ocean Re Limited, Equator Reinsurances Limited, and QBE Strategic Capital Company Pty Limited (worldwide regulated insurance entities).

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

QBE Investments is an intermediate holding company for the North American segment. QBE Investments is the holding company to facilitate the U.S. federal income tax consolidation and includes not only all U.S. domiciled subsidiaries but also QBE Blue Ocean Re Limited and Equator Reinsurances Limited.

QBE Holdings, Inc. (QBE Holdings)

QBE Holdings is an intermediate holding company for the North American segment that is the parent for all U.S. domiciled companies.

QBE Americas, Inc. (QBE Americas)

QBE Americas, Inc., was incorporated in Delaware on September 11, 2009, to become an insurance services company. QBE Americas, Inc. owns and maintains business assets, and pays all operating expenses (direct expenses charged and shared expenses will be allocated to appropriate business units).

QBE Reinsurance Corporation (QBE Re)

QBE Re's principal business is underwriting property and casualty reinsurance business, which is primarily obtained through reinsurance intermediaries. As of December 31, 2022, the audited financial statements of QBE Re reported assets of \$1.2 billion, liabilities of \$332.8 million, and surplus of \$888.5 million. Operations for 2022 produced a net income of \$6.7 million.

QBE Insurance Corporation (QBEIC)

QBEIC writes primarily property and casualty lines and group accident and health lines of direct insurance business through program managers. As of December 31, 2022, the audited financial statements of QBEIC reported assets of \$3.7 billion, liabilities of \$2.9 billion, and surplus of \$795.6 million. Operations for 2022 produced a net income of \$51.5 million.

QBE Specialty Insurance Company (Specialty)

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, 2022, the audited financial statements of Specialty reported assets of \$836.8 million, liabilities of \$658.6 million, and surplus of \$178.2 million. Operations for 2022 produced a net income of \$8.0 million.

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

QBE Regional is the holding company for all Wisconsin domiciled insurance companies.

General Casualty Company of Wisconsin (GCWI)

GCWI provides personal and commercial property and casualty insurance coverages primarily for middle market business. As of December 31, 2022, the audited financial statements of GCWI reported assets of \$1.628 billion, liabilities of \$1.316 billion, and surplus of \$311.4 million. Operations for 2022 produced a net income of \$15.5 million.

General Casualty Insurance Company (GCIC)

As of December 31, 2022, GCIC was a property and casualty insurance company in run-off with 100% of its business ceded to its parent, GCWI. As of December 31, 2022, the audited financial statements of GCIC reported assets of \$9.8 million, liabilities of \$1.1 million, and surplus of \$8.7 million. Operations for 2022 produced net income of \$88 thousand.

Regent Insurance Company (Regent)

Regent provides personal and commercial property and casualty insurance coverages primarily for middle market business. As of December 31, 2022, the audited financial statements of Regent reported assets of \$40.4 million, liabilities of \$18.0 million, and surplus of \$22.4 million. Operations for 2022 produced a net income of \$0.5 million.

Praetorian Insurance Company (Praetorian)

Praetorian concentrates on writing specialty property and casualty coverage not generally emphasized by standard insurance carriers. As of December 31, 2022, the audited financial statements of Praetorian reported assets of \$483.0 million, liabilities of \$354.0 million, and surplus of \$129.0 million. Operations for 2022 produced net income of \$6.1 million.

North Pointe Insurance Company (North Pointe)

North Pointe provides commercial property and casualty insurance coverages primarily for middle market business. As of December 31, 2022, the audited financial statements of North Pointe reported assets of \$19.5 million, liabilities of \$2.7 million, and surplus of \$16.7 million. Operations for 2022 produced a net income of \$0.2 million.

Stonington Insurance Company (Stonington)

Stonington provides commercial property and casualty insurance coverages primarily for middle market business. As of December 31, 2022, the audited financial statements of Stonington reported assets of \$17.2 million, liabilities of \$1.5 million, and surplus of \$15.7 million. Operations for 2022 produced a net income of \$0.2 million.

QBE Administration Services, Inc. (QBEASI)

QBEASI is a legal entity registered under the law of the state of Delaware that primarily writes vehicle service contracts. QBEASI was formed on October 30, 2006.

NAU Country Insurance Company (NAU)

NAU provides property and casualty insurance coverages, with a specialization in crop insurance. As of December 31, 2022, the audited financial statements of NAU reported assets of \$1.4 billion, liabilities of \$1.1 billion, and surplus of \$299.0 million. Operations for 2022 produced a net income of \$19.2 million.

QBE Blue Ocean Re Limited (Blue Ocean Re)

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 was incorporated on February 8, 2018, and is domiciled in Bermuda. Blue Ocean Re is a wholly-owned subsidiary of QBE Investments (North America), Inc. The company replaced Equator Reinsurances Limited (Equator Re) as the captive reinsurer for the QBE North American operations. The reinsurance agreements with Equator Re were transferred to Blue Ocean Re, effective January 1, 2018.

Equator Reinsurances Limited (Equator Re)

Equator Re is a captive reinsurer based in Bermuda, that provides reinsurance protection to the majority of the operating entities in the holding company group.

QBE Reinsurance Services (Bermuda) Limited (QBE Reinsurance Services)

QBE Reinsurance 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.

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 agreements for QBENA.

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” will provide business referrals to the “Insurer” or “Servicing Offices”, and the Servicing Office will issue and service the local policies, in line with the requirements provided under 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, QBENA (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 January 1, 2010, the company entered into this service agreement with QBE Investments (North America) and its subsidiaries. In accordance with this agreement, QBE Americas and QBEIC provide actuarial, finance, accounting, legal, marketing, human resources, investment advice, internal audit, risk management, reinsurance management, underwriting, claims, senior management and staff, information systems, group insurances, and policy services for the actual cost of the services

performed. There have been several amendments to this agreement during the examination period that removed various QBENA entities due to their sale.

Tax Sharing Agreement

Effective January 1, 2008, QBE Investments and listed affiliated companies entered into a tax-sharing agreement. The agreement has since been amended to include acquired entities or to terminate former entities. In accordance with this agreement, the group allocates tax among its members specifically on the basis of the tax. A member would be liable 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 ten business days after parent receipt of a refund or at least five 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 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.

2022 Revision of the 1976 QBE North America Pooling Agreement

Effective January 1, 2022, GCWI, GCIC, RIC, and SPIC entered into an intercompany pooling arrangement whereby the entire net business in force and produced as of that date was ceded to QBEIC and then redistributed between the participants on a pro rata basis. The 2022 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 revise the pooling percentages.

Pool participants have entered into certain quota share and/or loss portfolio agreements in which cessions are made prior to participation in the pooling arrangement. These reinsurance agreements are discussed below, as applicable to the company. Aside from these cessions, 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 January 1, 2022:

Company Name	Percentage
QBE Insurance Corporation	43.0%
General Casualty Company of Wisconsin	20.0
NAU Country Insurance Company	17.0
QBE Reinsurance Corporation	5.0
QBE Specialty Insurance Company	10.0
Praetorian Insurance Company	5.0
General Casualty Insurance Company	0.0
North Pointe Insurance Company	0.0
Regent Insurance Company	0.0
Southern Pilot Insurance Company	0.0
Stonington Insurance Company	0.0

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.

Assuming Contracts

Loss Portfolio Transfer and Quota Share Reinsurance Agreements

During the current examination period, Unigard Indemnity Company, Southern Fire & Casualty Company, and Unigard Insurance Company were sold to unaffiliated parties. As a result of the sales, the companies entered into a loss portfolio transfer arrangement and a 100% quota share arrangement with various members of the intercompany pooling arrangement. The assuming companies agree to pay or perform or otherwise satisfy the obligations and liabilities of the sold entities. The sold affiliates, effective dates, and assuming companies are as follows:

Unigard Indemnity Company	January 1, 2018	Unigard Insurance Company
Southern Fire & Casualty Company	November 1, 2020	QBE Insurance Corporation
Unigard Insurance Company	November 1, 2020	QBE Insurance Corporation

GCWI entered into quota share reinsurance contracts with its subsidiaries, SPIC, RIC, and GCIC, effective July 1, 2021. The subsidiaries will cede to GCWI and GCWI will accept and reinsure on a 100% quota share basis all losses incurred on or after July 1, 2021, under policies in force as of July 1, 2021, and policies written or renewed by the subsidiaries or assumed by the subsidiaries after such effective date. GCWI shall assume 100% of the net liability of the subsidiaries under such policies. GCWI will allow the subsidiaries to deduct a ceding commission from the premium due to GCWI. The existing Pooling Agreement by and among GCWI, the subsidiaries, and other affiliates of GCWI will remain in place.

GCWI has also entered into loss portfolio reinsurance contracts with SPIC, RIC, and GCIC, effective July 1, 2021, whereby the subsidiaries cede to GCWI, and GCWI accepts and reinsures 100% of the Ultimate Net Liability and any Extra Contractual Obligations and Losses in Excess of Policy Limits on losses occurring on or prior to June 30, 2021.

Affiliated Ceding Contracts

Blue Ocean Re 2nd 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 (QBENA companies) entered into a quota share agreement with 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 Wisconsin domiciled companies and certain listed companies. Effective January 1, 2016, the agreement was amended a second time to change the terms of the agreement from a calendar year basis to 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, as respects all QBENA Wisconsin domiciled companies and certain listed companies. 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, 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' (GCWI, GCIC, RIC, BlueInd, SGty, SPIC, SFire, National Farmers Union Property and Casualty Company, UnigardIns, Unigard Indemnity Company, QBE Specialty Insurance Company, QBE Reinsurance Corporation, QBE Insurance Corporation, Praetorian Insurance Company, North Pointe Insurance Company, Stonington Insurance Company, Hoosier Insurance Company, and NAU Country Insurance Company'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, GCWI, North Pointe, Praetorian, QBEIC, 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 Re 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 Equator Re trust account to Blue Ocean Re trust account. This amount equals to the unearned premium from reinsured policies as of January 1, 2018. Additional reinsurance premium equals 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: (1) 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 (2) the date on which this agreement is terminated by the mutual written consent of the parties.

Per Endorsement No. 1 to the (40%) Quota Share Reinsurance Contract effective January 1, 2019, UnigardInd assigns, transfers, conveys, and sets over to UnigardIns its rights pursuant to the Quota Share Reinsurance Contract and UnigardIns agrees to perform all of the obligations and liabilities of UnigardInd pursuant to the contract, due to the sale of UnigardInd.

Per Endorsement No. 2 and Addendum 2 to the Quota Share Reinsurance Contract effective July 1, 2020, all companies ceded to the Reinsurer (subject to the Loss Occurrence Cap) a 100% quota share of the companies' net liability under its policies. The purpose of this transaction is to improve the alignment of QBE North America reinsurance terms with our affiliated divisional Group reinsurance terms.

Per Endorsement 3 to the (40%) Quota Share Reinsurance Contract effective November 1, 2020, Southern Fire & Casualty Company assigns, transfers, conveys, and sets over to QBEIC 100% of its rights pursuant to the Contract, and (ii) QBEIC assumes and agrees to pay or perform, or otherwise satisfy, when and as due, 100% of the obligations and liabilities of SFire pursuant to the Contract, due to the sale of SFire.

Per Endorsement 4 to the (40%) Quota Share Reinsurance Contract effective November 1, 2020, UnigardIns assigns, transfers, conveys and sets over to QBEIC 100% of its rights pursuant to the Contract, and (ii) QBEIC assumes, and agrees to pay or perform, or otherwise satisfy, when and as due, 100% of the obligations and liabilities of UnigardIns pursuant to the Contract, due to the sale of UnigardIns.

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" only with respect to Property Catastrophe in development of their ceded reinsurance portfolio. The catastrophic and excess of loss coverages purchased encompasses 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 as respects to Property Catastrophe due to the centralization of reinsurance procurement. Exhibit A summarizes the company's ceded reinsurance portfolio for catastrophic and excess of loss coverages.

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

Effective June 1, 2019, GCWI, GCIC, RIC, and SPIC (Beneficiary) created single beneficiary trusts and reinsurance trust agreements with Equator Re (Grantor) and Citibank, N.A. (the Trustee) to replace the multi-beneficiary reinsurance trust agreement between the Grantor, GCWI, its subsidiaries, and the Trustee. The change is pursuant to the April 12, 2019, Stipulation and Order between the Beneficiary and OCI in return for OCI’s acceptance of credit for reinsurance ceded to the Grantor. The multi-beneficiary reinsurance trust agreement and the associated trust were terminated effective June 30, 2019.

Effective June 1, 2019, GCWI, GCIC, RIC, and SPIC (Beneficiary) created single beneficiary trusts and reinsurance trust agreements with QBE Blue Ocean Re Limited (Grantor) and Citibank, N.A. (the Trustee) to replace the multi-beneficiary reinsurance trust agreement between the Grantor, GCWI, its subsidiaries, and the Trustee. The change is pursuant to the April 12, 2019, Stipulation and Order between the Beneficiary and OCI in return for OCI’s acceptance of credit for reinsurance ceded to the Grantor. The multi-beneficiary reinsurance trust agreement and the associated trust were terminated effective June 30, 2019.

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 liability for losses covered under a cyber risk coverage form attached 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
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 liability for losses covered under a data compromise coverage form attached to its policies, subject to certain exclusions.
- Limit: \$250,000 annual aggregate per policy for response expenses; \$250,000 annual aggregate per policy for defense and liability
- 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: As respects 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
- As respects 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
- 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

Effective date: October 1, 2017

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

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 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.

Effective date: October 1, 2017

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

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, 2022, 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 Pilot Insurance Company
Assets
As of December 31, 2022

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$3,847,846	\$0	\$3,847,846
Cash, cash equivalents, and short-term investments	729,561		729,561
Receivables for securities	2,660,041		2,660,041
Investment income due and accrued	51,886		51,886
Receivable from parent, subsidiaries, and affiliates	<u>64,585</u>	—	<u>64,585</u>
Total Assets	<u>\$7,353,920</u>	<u>\$0</u>	<u>\$7,353,920</u>

Southern Pilot Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2022

Amounts withheld or retained by company for account of others	\$ (34,011)	
Payable to parent, subsidiaries, and affiliates	66,369	
Payable for securities	<u>10</u>	
Total Liabilities		\$ 32,368
Common capital stock	2,500,000	
Preferred capital stock	60,000	
Gross paid in and contributed surplus	9,140,000	
Unassigned funds (surplus)	<u>(4,378,447)</u>	
Surplus as Regards Policyholders		<u>7,321,553</u>
Total Liabilities and Surplus		<u>\$7,353,920</u>

Southern Pilot Insurance Company
Summary of Operations
For the Year 2022

Investment Income

Net investment income earned	\$116,300	
Net realized capital gains (losses)	<u>(96,817)</u>	
Net investment gain (loss)		<u>\$19,483</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		<u>19,483</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		19,483
Federal and foreign income taxes incurred		<u>25,174</u>
Net Income (Loss)		<u>\$(5,691)</u>

Southern Pilot Insurance Company
Cash Flow
For the Year 2022

Net investment income		\$ 87,895
Proceeds from investments sold, matured, or repaid:		
Bonds	\$4,664,624	
Net gains (losses) on cash, cash equivalents, and short-term investments	(2,005)	
Miscellaneous proceeds	<u>10</u>	
Total investment proceeds		\$4,662,629
Cost of investments acquired (long- term only):		
Bonds	2,283,455	
Miscellaneous applications	<u>2,660,041</u>	
Total investments acquired		<u>4,943,497</u>
Net cash from investments		(280,867)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>(397)</u>
Net cash from financing and miscellaneous sources		<u>(397)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(193,369)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>922,930</u>
End of Year		<u>\$729,561</u>

**Southern Pilot Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2022**

Assets	\$7,353,920
Less liabilities	<u>32,368</u>
Adjusted surplus	7,321,552
Compulsory surplus (subject to a minimum of \$2 million)	<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)	<u>\$5,321,552</u>
Adjusted surplus (from above)	\$7,321,552
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>\$4,521,552</u>

**Southern Pilot Insurance Company
Analysis of Surplus
For the 5-Year Period Ending December 31, 2022**

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

	2022	2021	2020	2019	2018
Surplus, beginning of year	\$7,327,244	\$7,397,400	\$7,227,610	\$7,012,182	\$6,943,600
Net income	<u>(5,691)</u>	<u>(70,156)</u>	<u>169,791</u>	<u>215,428</u>	<u>68,582</u>
Surplus, End of Year	<u>\$7,321,553</u>	<u>\$7,327,244</u>	<u>\$7,397,400</u>	<u>\$7,227,610</u>	<u>\$7,012,182</u>

Growth of Southern Pilot Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2022	\$7,353,920	\$ 32,368	\$7,321,553	\$ (5,691)
2021	7,456,294	129,051	7,327,244	(70,156)
2020	7,452,546	55,146	7,397,400	169,791
2019	7,250,803	23,194	7,227,610	215,428
2018	9,621,996	2,609,814	7,012,182	68,582
2017	7,060,057	116,457	6,943,600	37,803

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2022	\$ 440	\$0	\$0	0.0%	0.0%	0.0%
2021	28,115	0	0	0.0	0.0	0.0
2020	24,743	0	0	0.0	0.0	0.0
2019	849,092	0	0	0.0	0.0	0.0
2018	5,361,109	0	0	0.0	0.0	0.0
2017	9,677,456	0	0	0.0	0.0	0.0

The company's surplus increased by 5% during the examination period, due entirely to investment income (as the company cedes 100% of its underwriting results to the QBENA Pool). Direct premiums written have steadily decreased over the 5-year period.

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, 2022 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. The actions taken by the company as a result of the comments and recommendations were as follows:

1. Management and Control—It is recommended that the company continue to have all officers and directors complete an annual conflict of interest disclosure.

Action—Compliance.

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

Action—Compliance.

3. Actuarial Report Documentation—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.
- 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.

Action—Compliance.

Summary of Current Examination Results

There were no recommendations made as a result of this examination.

VIII. CONCLUSION

Southern Pilot Insurance Company is a property and casualty insurer licensed in 13 states. The company is one of 11 companies comprising the QBE North America (QBENA) Pool (participation rate: 0%). 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 independent agents, brokers, and program managers.

During the period under examination, the company's surplus increased by 5%, due entirely to investment income (as the company cedes 100% of its underwriting results to the QBENA Pool). Direct premiums written have steadily decreased over the five-year period.

The company complied with all three prior exam recommendations. There were no recommendations made as a result of this examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

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
Joshua Daggett	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Nicholas Hartwig, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Gregory Mielke
Examiner-in-Charge