

Report of the Examination of
Unitrin Safeguard Insurance Company
Jacksonville, Florida
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

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May 27, 2020

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Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
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Commissioner:

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

UNITRIN SAFEGUARD INSURANCE COMPANY
Jacksonville, Florida

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Unitrin Safeguard Insurance Company (the company or Unitrin Safeguard) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018, 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 Kemper Group. The Illinois Department of Insurance acted in the capacity as the lead state for the coordinated examinations. Work performed by the Illinois Department of Insurance was reviewed and relied on where deemed appropriate.

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

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

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

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers,

alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation 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

Unitrin Safeguard Insurance Company is a Wisconsin-domiciled stock property and casualty insurance company licensed under ch. 611, Wis. Stat. The company was incorporated on January 25, 1982, as Milwaukee Safeguard Insurance Company (Milwaukee Safeguard), a wholly owned subsidiary of Milwaukee Mutual Insurance Company (MMIC), a Wisconsin-domiciled property and casualty insurer.

MMIC also organized Milwaukee Casualty Insurance Co. (Milwaukee Casualty, formerly known as Milwaukee Guardian Insurance Company) as a subsidiary insurer on September 28, 1973, and through year-end 1985 MMIC was the direct parent of Milwaukee Safeguard and Milwaukee Casualty. In 1985, MMIC established Milwaukee Insurance Holding Company, later renamed Milwaukee Insurance Group, Inc. (MIG), to serve as an intermediate holding company entity. Effective December 31, 1985, MMIC contributed 100% of its directly held insurance subsidiaries including Milwaukee Safeguard to MIG.

In November 1986, MIG issued additional shares of its common capital stock and conducted an initial public stock offering. Upon completion of the offering, approximately 65% of the common stock of MIG remained under the ownership of MMIC, and the remaining 35% was owned by public shareholders. Effective December 31, 1992, MIG acquired 100% of the capital stock of Alpha Property & Casualty Insurance Company (Alpha), a Wisconsin-domiciled property and casualty insurer. MIG conducted a second public offering of 1,000,000 newly issued shares of MIG common stock in 1993, resulting in the reduction of MMIC's ownership interest of MIG to approximately 49%.

Trinity Universal Insurance Company (Trinity Universal) acquired all of the capital stock of MIG effective October 2, 1995. Trinity Universal is a Texas-domiciled property and casualty insurer wholly owned by Unitrin, Inc. (now named Kemper Corporation). Upon the change of control of MIG to Trinity Universal, ownership and control of Milwaukee Casualty, Milwaukee Safeguard, and Alpha transferred to Trinity Universal Insurance Company. MIG was dissolved in 2001 and its assets and liabilities were merged into Trinity Universal. Upon the dissolution of MIG, Milwaukee Safeguard became a directly held, wholly owned subsidiary of Trinity Universal Insurance Company.

In 2008, Milwaukee Safeguard Insurance Company amended its articles and bylaws to change its name to Unitrin Safeguard Insurance Company. Also in 2008, Unitrin Safeguard sold a block of commercial lines business to AmTrust Financial Services, Inc., along with some insurance companies

that wrote commercial business including Milwaukee Casualty Insurance Company, which has since been renamed Milford Casualty Insurance Company.

Unitrin Safeguard does not have any employees, and all operating functions of the company are performed by affiliates within the Kemper holding company system pursuant to numerous intercompany agreements. Trinity Universal and affiliates in the Kemper holding company conduct all of Unitrin Safeguard's business operations, including insurance underwriting, marketing, policy issuance, claims administration and adjudication, investment management, and accounting and financial reporting. Further discussion of the Kemper holding company organization, description of the significant insurance affiliates of the company, and description of the company's affiliated agreements is included in the section of this report captioned "Affiliated Companies."

Unitrin Safeguard operates as part of the Kemper Personal and Commercial Lines business unit of Kemper. It offers personal lines policies, including auto, homeowners and package policies combining auto and homeowner's coverage, with a focus on standard and preferred markets.

In 2018, the company wrote direct premium in the following states:

North Carolina	\$47,025,338	35.08%
Texas	35,804,566	26.71
Illinois	12,411,249	9.26
New York	12,060,472	8.99
All others	<u>26,761,021</u>	<u>19.96</u>
Total	<u>\$134,062,646</u>	<u>100.00%</u>

The company is licensed in 39 states and the District of Columbia. The states that Unitrin Safeguard is licensed in include: Alabama, Arizona, Arkansas, Colorado, Delaware, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, West Virginia, Wisconsin, and Wyoming. The major products are marketed through independent agents. The company cedes 100% of its net insurance risks to Trinity Universal Insurance Company and does not retain any policy-related risks net of reinsurance.

The following table is a summary of the net insurance premiums written by the company in 2018. 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
Homeowners multiple peril	\$61,922,688	\$0	\$61,922,688	\$0
Inland marine	1,613,950	0	1,613,950	0
Earthquake	31,795	0	31,795	0
Other liability – occurrence	2,669,270	0	2,669,270	0
Private passenger auto liability	39,392,793	0	39,392,793	0
Auto physical damage	<u>28,432,150</u>	<u>0</u>	<u>28,432,150</u>	<u>0</u>
Total All Lines	<u>\$134,062,646</u>	<u>\$0</u>	<u>\$134,062,646</u>	<u>\$0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The Unitrin board of directors consists of five members. Each director is elected annually by the company's sole shareholder to serve a one-year term. Each director of Unitrin is a senior executive officer of Kemper Corporation. As executive employees of the holding company system, the directors receive no compensation specific to their service on the Unitrin board. Kemper Corporation is a SOX-Compliant Entity, as defined in s. Ins 50.01 (7t), Wis. Adm. Code. Unitrin has elected to allow Kemper Corporation's audit committee to perform the duties of Unitrin's audit committee.

As of December 31, 2018, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Term Expires
John M. Boschelli Geneva, Illinois	Executive Vice President and Chief Investment Officer Kemper Corporation	2018
Robert F. Otis Glenview, Illinois	Senior Vice President, Kemper Personal Insurance Kemper Corporate Services, Inc.	2018
Maxwell T. Mindak Elmhurst, Illinois	Vice President and Chief Risk Officer Kemper Corporation	2018
Christopher L. Moses Chicago, Illinois	Vice President, Treasury Department Kemper Corporation	2018
Richard Roeske Naperville, Illinois	Assistant Treasurer Kemper Corporation and Vice President and Chief Accounting Officer Kemper Corporation and Kemper Corporate Services, Inc.	2018

Officers of the Company

The executive officers of the company are elected by the Unitrin board of directors at the board's annual meeting and serve a one-year term of office. Each senior officer of the company also serves as a senior officer of other companies within the holding company organization. The officers serving at the time of this examination are as follows:

Name	Office	2018 Compensation
John M. Boschelli	Chairman of the Board	\$ 2,834,566
Robert F. Otis	President	2,045,052
Andrew D. MacDonald	Senior Vice President	975,820
Nathan A. Smith	Treasurer	437,286
John M. Vrijmoet	Vice President and Secretary	753,131

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

John M. Boschelli, Chair
Maxwell T. Mink
Robert T. Otis

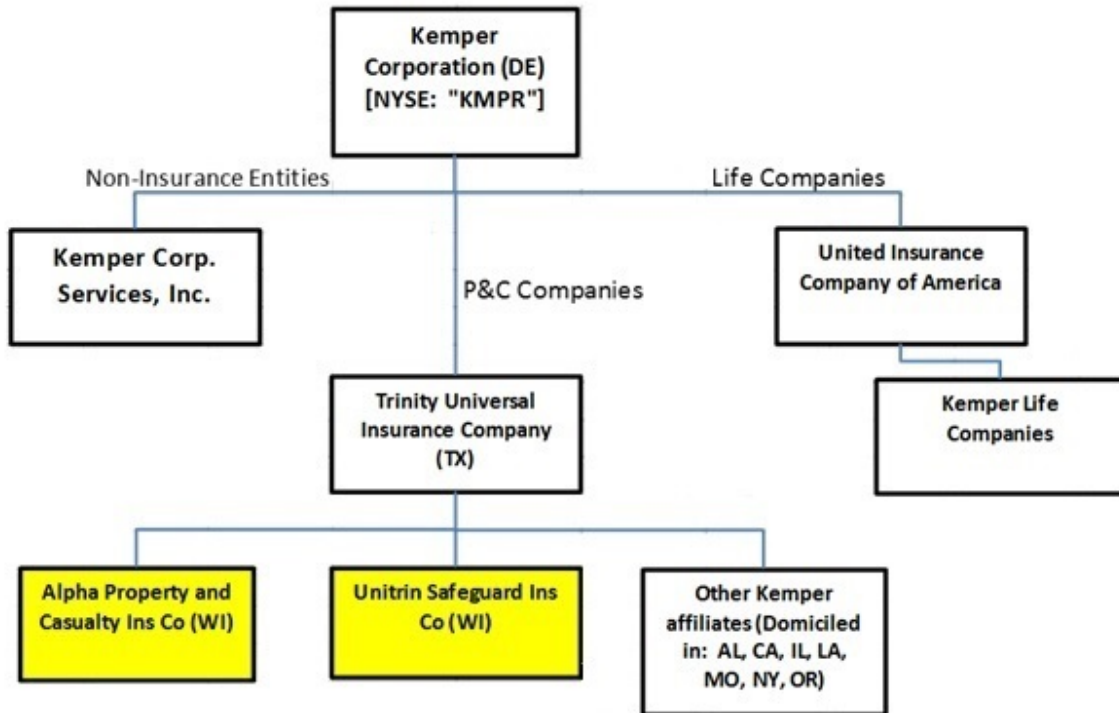
Investment Committee

John M. Boschelli, Chair
Maxwell T. Mindak
Christopher L. Moses

IV. AFFILIATED COMPANIES

Unitrin Safeguard is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant to the examination follows the organizational chart.

**Organizational Chart
As of December 31, 2018**



Kemper Corporation

Kemper Corporation, formerly Unitrin, Inc., is a publicly traded holding company incorporated in the state of Delaware in February 1990. Unitrin, Inc., was established to hold all of the insurance and finance business subsidiaries of Teledyne, Inc., which spun off all of its remaining insurance and finance subsidiaries on April 20, 1990. The name was changed to Kemper Corporation in August 2011. Through its operating subsidiaries, Kemper Corporation offers property and casualty insurance, life and health insurance, and other insurance products to individuals and businesses.

Kemper Corporation's Property & Casualty Insurance segment mostly distributes its products through independent agents and brokers who are paid commissions for their services. The Property & Casualty Insurance segment provides automobile, homeowners, renters, fire, umbrella, and other types of property and casualty insurance to individuals and commercial automobile insurance to businesses.

As of December 31, 2018, Kemper Corporation's GAAP (Generally Accepted Accounting Principles) basis audited financial statements reported total assets of \$11,544,900,000, total liabilities of \$8,494,800,000, and total shareholders' equity of \$3,050,100,000.

Kemper Corporate Services, Inc.

Kemper Corporate Services, Inc., provides various general services to all of the operating companies within the Kemper Group. Services provided include executive management, investment management, analysis and accounting, financial accounting and reporting, tax accounting and tax return preparation, internal audit, financial planning, capital project evaluation, real estate management, and computer equipment and processing services. The costs of the executive services rendered by Kemper Corporate Services, Inc., are allocated to the respective affiliates in accordance with general services agreements established between Kemper Corporate Services, Inc., and its affiliates.

Trinity Universal Insurance Company

Trinity Universal is a multi-line insurance company, organized under the laws of Texas in 1932 from the merger of Trinity Fire Insurance Company and Universal Automobile Insurance Company. Trinity Universal is Kemper Corporation's largest property and casualty insurance subsidiary and is the holding company's leading insurer in the multi-line insurance business segment. Trinity Universal and its subsidiary insurers operate in 47 states and offer preferred risk and standard risk automobile, commercial automobile, homeowner's, fire, and related insurance products. Trinity Universal is the immediate parent of two Wisconsin-domiciled insurers, Unitrin Safeguard Insurance Company and Alpha Property & Casualty Insurance Company.

As of December 31, 2018, Trinity Universal's statutory basis audited financial statements reported total admitted assets of \$3,675,261,634, total liabilities of \$2,678,379,114, and surplus as regards policyholders of \$996,882,521.

Unitrin Direct Insurance Company

Unitrin Direct Insurance Company (Unitrin Direct) is an Illinois-domiciled property and casualty insurance company subsidiary of Trinity Universal Insurance Company. Unitrin Safeguard is party to multiple general services agreements with Unitrin Direct whereby Unitrin Direct provides information technology services to the Kemper Group property and casualty insurers.

As of December 31, 2018, Unitrin Direct's statutory basis audited financial statements reported total admitted assets of \$11,981,919, total liabilities of \$3,369,707, and surplus as regards policyholders of \$8,612,212.

Merastar Insurance Company

Merastar Insurance Company (Merastar) is an Illinois-domiciled property and casualty insurance company subsidiary of Trinity Universal Insurance Company. Merastar provides mainly auto and homeowners insurance coverages through employer-sponsored voluntary benefit accounts. Merastar primarily utilizes its own sales and service staff.

On January 1, 2009, Unitrin Safeguard entered into a general services agreement with Merastar, whereby Merastar provides marketing, underwriting, claim adjusting and reinsurance reporting, facilities, supplies and staffing, and accounting services. Unitrin Safeguard is also party to an assignment

and consent, whereby Merastar agrees to perform all administrative services on business reinsured under the company's 100% Quota Share Reinsurance Agreement with Trinity Universal.

As of December 31, 2018, Merastar's statutory basis audited financial statements reported total admitted assets of \$42,080,503, total liabilities of \$34,264,465, and surplus as regards policyholders of \$7,816,038.

Unitrin Direct Property & Casualty Company

Unitrin Direct Property & Casualty Company (UDPCC) is an Illinois-domiciled property and casualty insurance company subsidiary of Trinity Universal Insurance Company. UDPCC provides multi-line property and casualty individual insurance coverage.

Effective January 1, 2009, Unitrin Safeguard entered into an Information Technology Services Agreement with UDPCC whereby UDPCC provides information technology services to the Kemper Group property and casualty insurers.

As of December 31, 2018, UDPCC's statutory basis audited financial statements reported total admitted assets of \$14,222,859, total liabilities of \$3,582,399, and surplus as regards policyholders of \$10,640,460.

Agreements with Affiliates

1. **Federal Income Tax Allocation Agreement**—In 1995 a federal income tax allocation agreement was established between Unitrin, Inc. (now the Kemper Corporation) and various affiliates, including Alpha. The agreement provides the basis for the method of settlement of federal income tax payments and refunds within the group. The Kemper Corporation files a consolidated federal income tax return for the Kemper Group. The respective affiliates pay the Kemper Corporation the tax that the affiliates would have paid on a separate company basis. Each affiliate's federal income tax liability or refund is limited to the separate company basis amount, and final settlements of federal income tax amounts due between the Kemper Corporation and the affiliates are required to be made within 30 days of the filing of the consolidated tax return or within 30 days of receipt of a tax refund. The tax allocation agreement was effective for tax years ending on or after December 31, 1995.
2. **General Services Agreement with Merastar Insurance Company**—Effective January 1, 2009, Alpha entered into a General Services Agreement with Merastar, whereby Merastar

provides Unitrin Safeguard with marketing, underwriting, claim adjusting and reinsurance reporting, facilities, supplies and staffing, and accounting services.

3. **Assignment and Consent with Merastar Insurance Company**—Pursuant to an Assignment and Consent effective January 1, 2009, Alpha and Trinity Universal assigned the administration of the business reinsured under its 100% Quota Share Reinsurance Agreement to Merastar. Under the Consent, Trinity Universal pays Merastar for performing these services.
4. **Information Technology Services Agreement with Unitrin Direct Property & Casualty Company**—Effective January 1, 2009, Unitrin Safeguard entered into an Information Technology Services Agreement with UDPCC, whereby UDPCC provides information technology services, such as IT applications and consulting services for technology shared among the Kemper property and casualty affiliates. The agreement is in effect continuously unless terminated by 90 days' notice by either party.
5. **Service Agreement with Kemper Corporate Services, Inc.**—Effective December 21, 2012, Unitrin Safeguard entered a Service Agreement with Kemper Corporate Services, Inc. (KCS) where KCS agrees to provide a variety of general services to Alpha as well as computer and information technology services. As consideration, Unitrin Safeguard agrees to pay KCS for its share of all fair and reasonable corporate expenses incurred by KCS. This agreement was amended and restated on December 30, 2015.

V. REINSURANCE

The company has only one treaty, an affiliated ceded reinsurance contract described below. The contract contained proper insolvency provisions.

Affiliated Ceded Reinsurance

Effective January 1, 2009, Trinity Universal and Unitrin Safeguard entered into a 100% Quota Share Reinsurance Agreement (which replaced a 100% Quota Share Reinsurance Agreement that was entered into on January 1, 1997). Pursuant to this agreement, Unitrin Safeguard cedes, and Trinity Universal assumes a 100% quota share participation in the ultimate net loss of Unitrin Safeguard with respect to its existing and new business. In return, Trinity Universal is entitled to the full net premiums on the reinsured policies written on and after January 1, 2009, and payment equal to the gross reserves assumed by Trinity Universal on the existing business written before January 1, 2009. The agreement also provides for the administration of the business by Trinity Universal, unless Trinity Universal assigns all or part of its administrative responsibilities to one or more of its affiliates.

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, 2018, 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.

Unitrin Safeguard Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$13,893,794		\$13,893,794
Stocks:			
Common stocks	33,145		33,145
Cash, cash equivalents, and short-term investments	1,598,009		1,598,009
Investment income due and accrued	124,284		124,284
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	14,387,336	\$ 10,058	14,377,278
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	19,148,353		19,148,353
Accrued retrospective premiums and contracts subject to redetermination			
Reinsurance:			
Amounts recoverable from reinsurers	194,617		194,617
Net deferred tax asset	435		435
Guaranty funds receivable or on deposit	12,819		12,819
Write-ins for other than invested assets:			
Premium tax receivable	2,672		2,672
Prepaid other	61,257	61,257	
Miscellaneous Receivable	<u>51,211</u>	<u>51,211</u>	
Total Assets	<u>\$49,507,932</u>	<u>\$122,526</u>	<u>\$49,385,406</u>

Unitrin Safeguard Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Reinsurance payable on paid loss and loss adjustment expenses		\$ 558,664
Commissions payable, contingent commissions, and other similar charges		2,475,057
Other expenses (excluding taxes, licenses, and fees)		358,708
Taxes, licenses, and fees (excluding federal and foreign income taxes)		1,209,137
Current federal and foreign income taxes		92,866
Advance premium		1,292,473
Ceded reinsurance premiums payable (net of ceding commissions)		33,650,889
Payable to parent, subsidiaries, and affiliates		1,539,896
Write-ins for liabilities:		
Obligation to North Carolina Reinsurance Facility		<u>134,443</u>
 Total Liabilities		 41,312,133
 Common capital stock	 \$3,000,000	
Gross paid in and contributed surplus	6,721,267	
Unassigned funds (surplus)	<u>(1,647,994)</u>	
 Surplus as Regards Policyholders		 <u>8,073,273</u>
 Total Liabilities and Surplus		 <u>\$49,385,406</u>

**Unitrin Safeguard Insurance Company
Summary of Operations
For the Year 2018**

Underwriting Income

Deductions:

Loss adjustment expenses incurred	\$ 1	
Total underwriting deductions		<u>\$ 1</u>
Net underwriting gain (loss)		(1)

Investment Income

Net investment income earned	441,707	
Net realized capital gains (losses)	<u>27,912</u>	
Net investment gain (loss)		469,620
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		469,619
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		469,619
Federal and foreign income taxes incurred		<u>85,171</u>
Net Income		<u><u>\$384,448</u></u>

Unitrin Safeguard Insurance Company
Cash Flow
For the Year 2018

Premiums collected net of reinsurance		\$ 232,380
Net investment income		<u>539,449</u>
Total		771,829
Benefit- and loss-related payments	\$ 10,928	
Commissions, expenses paid, and aggregate write-ins for deductions	(1,196,569)	
Federal and foreign income taxes paid (recovered)	<u>94,235</u>	
Total deductions		<u>(1,091,406)</u>
Net cash from operations		1,863,236
Proceeds from investments sold, matured, or repaid:		
Bonds	3,489,452	
Cost of investments acquired (long-term only):		
Bonds	<u>5,211,193</u>	
Net cash from investments		(1,721,741)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>1,053,412</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		1,194,906
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>403,104</u>
End of Year		<u>\$1,598,010</u>

**Unitrin Safeguard Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2018**

Assets	\$49,385,406
Less liabilities	<u>41,312,133</u>
Adjusted surplus	8,073,273
Compulsory surplus (subject to a minimum of \$2 million)	<u>(2,000,000)</u>
Compulsory Surplus Excess (Deficit)	<u>\$6,073,273</u>
Adjusted surplus (from above)	\$8,073,273
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>\$5,273,273</u>

**Unitrin Safeguard Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2018**

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

	2018	2017	2016	2015	2014
Surplus, beginning of year	\$7,805,183	\$7,517,235	\$7,296,769	\$7,035,692	\$6,853,233
Net income	384,448	251,222	235,772	222,367	227,672
Change in net unrealized capital gains/losses	(54,592)	41,002	(3,168)	(13,306)	8,026
Change in net deferred income tax	4,266	(2,675)	1,927	2,977	294
Change in nonadmitted assets	<u>(66,032)</u>	<u>(1,601)</u>	<u>(14,065)</u>	<u>49,039</u>	<u>(53,533)</u>
Surplus, End of Year	<u>\$8,073,273</u>	<u>\$7,805,183</u>	<u>\$7,517,235</u>	<u>\$7,296,769</u>	<u>\$7,035,692</u>

**Unitrin Safeguard Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2018**

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

Ratio	2018	2017	2016	2015	2014
#1 Gross Premium to Surplus	1,661%*	1,206%*	1,108%*	1,025%*	1,053%*
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	1	1	1	1
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	3.1	2.8*	2.9*	3.1	3.2
#7 Gross Change in Surplus	3	4	3	4	3
#8 Change in Adjusted Surplus	3	4	3	4	3
#9 Liabilities to Liquid Assets	142*	62	56	58	57
#10 Agents' Balances to Surplus	178*	35	31	33	31
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

In each year of the exam period (except 2015), ratio #1 increased. This increase was caused by steady increases in the Gross Premiums Written, combined with much smaller increases in Policyholders' Surplus. In two years, 2016 and 2017, ratio #6, Investment Yield returned an exceptional value. This was due to small changes in the investment returns and net investment income earned on

both a current year and a prior year basis. Ratios #9 and #10 spiked in 2018 mostly due to an increase in Ceded Reinsurance Premiums Payables.

Growth of Unitrin Safeguard Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	\$49,385,406	\$41,312,133	\$8,073,273	\$384,448
2017	31,821,490	24,016,307	7,805,183	251,222
2016	26,944,131	19,426,896	7,517,235	235,772
2015	25,936,683	18,639,914	7,296,769	222,367
2014	25,878,769	18,843,077	7,035,692	227,672
2013	27,190,756	20,337,523	6,853,233	243,974

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	\$134,062,646	\$0	\$0	0.0%	0.0%	0.0%
2017	94,127,880	0	0	0.0	0.0	0.0
2016	83,301,856	0	0	0.0	0.0	0.0
2015	74,760,742	0	0	0.0	0.0	0.0
2014	74,080,572	0	0	0.0	0.0	0.0
2013	78,506,293	0	0	0.0	0.0	0.0

Surplus has increased about 18% over the five-year examination period. In addition, Unitrin Safeguard's assets (82%) and liabilities (103%) have both increased over that same time period. Net income has fluctuated somewhat but has trended higher ending up 58% higher at the end of the exam period. Gross Premium Written has increased 71% in the exam period.

The company cedes 100% of its net insurance risks to Trinity Universal Insurance Company and does not retain any policy-related risks net of reinsurance. Therefore, the company has no significant underwriting results and its income is derived from investment income. Unitrin Safeguard did not pay any dividends to Trinity Universal during the exam 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, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two 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. Write-in Liability—It is recommended that in future annual and quarterly statements the company title its write-in liability for the North Carolina Reinsurance Facility as “Obligation to the North Carolina Reinsurance Facility.”

Action—Compliance.

2. Reinsurance Reporting—It is recommended that the company report the reinsurance balance sheet items related to losses under the intercompany quota share arrangement as a “Receivable/Payable from/to Parent, Subsidiaries and Affiliates,” separately to be in accordance with SSAP No. 62R and the NAIC *Annual Statement Instructions – Property/Casualty*.

Action—Noncompliance. Further comment is contained in the section of this report captioned, “Annual Statement Reporting.”

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.

Annual Statement Reporting

A review of the company's transactions with affiliates was performed by the lead state and reviewed by this examination team. It was noted that balances for the quota share agreement with Trinity Universal were included in the related party receivable or payable annual statement balances. It is the company's policy to settle reinsurance transactions with affiliates through inter-company accounts. However, the NAIC *Annual Statement Instructions – Property/Casualty* requires segregation of reinsurance-related receivable and payable balances for reporting on the annual statement. It is again recommended that the company report the reinsurance balances of the intercompany quota share arrangement in the appropriate lines of the annual statement in accordance with SSAP No. 62R and the NAIC *Annual Statement Instructions – Property/Casualty*.

VIII. CONCLUSION

Unitrin Safeguard Insurance Company is a Wisconsin-domiciled stock property and casualty insurance company. The company was originally incorporated as Milwaukee Safeguard Insurance Company in 1982, as a directly owned subsidiary of Milwaukee Mutual Insurance Company. In 1985, Milwaukee Mutual Insurance Company contributed all of the capital stock of the company to its holding company subsidiary, Milwaukee Insurance Group, Inc. Effective October 2, 1995, Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc. (now known as Kemper Corporation), purchased all of the capital stock of Milwaukee Insurance Group, Inc., and thereby acquired ownership and control of Milwaukee Safeguard Insurance Company. In 2001, MIG was dissolved and Milwaukee Safeguard became a directly held, wholly owned subsidiary of Trinity Universal. In 2008, the company changed its name to Unitrin Safeguard Insurance Company.

Unitrin Safeguard operates as part of the Preferred segment of the Property and Casualty Insurance Business of Kemper Corporation. It offers personal lines policies, including auto, homeowners, and package policies combining auto and homeowners coverage, with a focus on standard and preferred markets. Unitrin Safeguard does not have any employees, and all operations of the company are performed by other affiliates within the Kemper holding company system pursuant to intercompany services and reinsurance agreements. The company cedes 100% of its net insurance risks to Trinity Universal and does not retain any policy-related risks for its own account.

The current examination resulted in one recommendation. The recommendation was regarding the proper reporting of related party receivable and payable balances. No reclassifications of account balances or adjustments to surplus were made by the examination to the year-end 2018 statutory financial statements. At December 31, 2018, the company had admitted assets of \$49,385,406, liabilities of \$41,312,133, and policyholders' surplus of \$8,073,273.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 Annual Statement Reporting—It is again recommended that the company report the reinsurance balances of the intercompany quota share arrangement in the appropriate lines of the annual statement in accordance with SSAP No. 62R and the NAIC *Annual Statement Instructions – Property/Casualty*.

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
Terry Lorenz, CFE	Workpaper Specialist
Eleanor Lu	IT Specialist

Respectfully submitted,



John A. Coyle
Examiner-in-Charge

XI. REVIEW OF SUBSEQUENT EVENTS

On November 30, 2018, Kemper Corporation Services, Inc. (KCS) provided a "Notice of Termination" to all affiliates that had entered into various service agreements and amendments by and between KCS. KCS provided notice to Affiliates that it was terminating the Service Agreements and any and all amendments, effective as of February 1, 2019, the "Termination Date." The KCS Service Agreements were not renewed. Services provided by KCS are now provided by Merastar and Infinity. Services that cannot be provided by Merastar or Infinity may be subcontracted or outsourced to KCS on an as-needed basis.

On March 11, 2020, the World Health Organization (WHO) declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. This office is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. OCI and all insurance regulators with the assistance of the National Association of Insurance Commissioners are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. OCI has been in communication with Unitrin Safeguard Insurance Company regarding the impact of COVID-19 on business operations and the financial position of Unitrin Safeguard Insurance Company and no immediate action was deemed necessary at the time of this report.