

JUN 05 2021

FILED

CERTIFICATION

June 5, 2021

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

ACCEPTANCE INDEMNITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.





DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

ACCEPTANCE INDEMNITY INSURANCE COMPANY

4200 SIX FORKS ROAD, SUITE 1400

RALEIGH, NORTH CAROLINA 27609

dated as of December 31, 2019, verified under oath by the examiner-in-charge on
May 11, 2021, and received by the company on May 12, 2021, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 26th day of May 2021.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', written in a cursive style.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

ACCEPTANCE INDEMNITY INSURANCE COMPANY

as of

DECEMBER 31, 2019

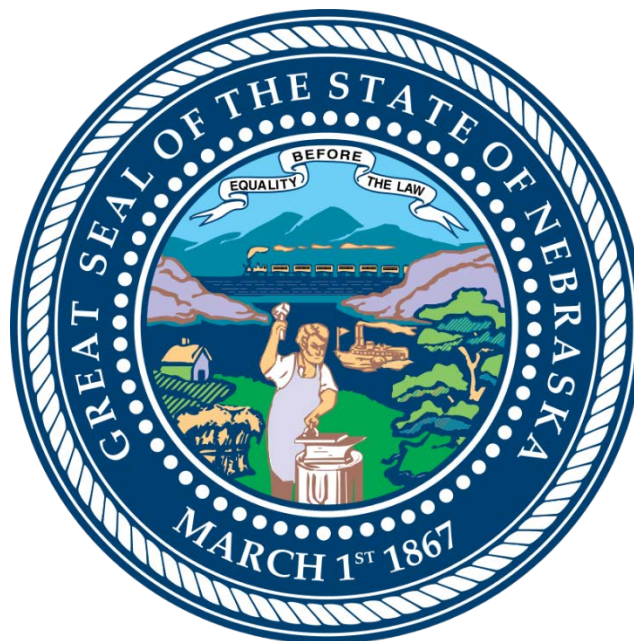


TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation	1
Introduction.....	1
Scope of Examination.....	2
Description of Company	4
History	4
Management and Control.....	5
Holding Company	5
Shareholder	6
Board of Directors.....	7
Officers	7
Committees	8
Transactions with Affiliates.....	9
Consolidated Master Cost Sharing Agreement.....	9
Group Master Hardware & Software Agreement	9
Federal Income Tax Allocation Agreement.....	10
Territory and Plan of Operation.....	10
Reinsurance.....	12
Assumed.....	12
Ceded	12
General	13
Body of Report.....	14
Growth	14
Financial Statements	14
Examination Changes in Financial Statements.....	18
Compliance with Previous Recommendations	18
Commentary on Current Examination Findings.....	19
Adverse Development Cover (SSAP 25 and SSAP 62R Non-compliance)	19
Subsequent Event.....	20
Change in Ultimate Controlling Person.....	20
Summary of Comments and Recommendations.....	20
Acknowledgment	21

Raleigh, North Carolina
April 16, 2021

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1135 M Street, Suite 300
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

ACCEPTANCE INDEMNITY INSURANCE COMPANY

which has its Statutory Home Office located at:

**12801 Pierce Street, Suite 200
Omaha, Nebraska 68144**

with its Principal Executive Office located at:

**4200 Six Forks Road, Suite 1400
Raleigh, North Carolina 27609**

(hereinafter also referred to as the “Company”), and the report of such examination is respectfully presented herein.

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2014. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2019, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, North Carolina, Florida, Illinois, New Jersey, and Texas participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company's affiliates:

Acceptance Casualty Insurance Company (ACIC)
Occidental Fire & Casualty Insurance Company of North Carolina (OFC)
Wilshire Insurance Company (WIC)
Harco National Insurance Company (Harco)
TransGuard Insurance Company of America, Inc. (TransGuard)
Service Insurance Company (SIC)
Commercial Alliance Insurance Company (CAIC)
Allegheny Casualty Company (ACC)
International Fidelity Insurance Company (IFIC)

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the North Carolina Department of Insurance as the coordinating state and the Nebraska Department of Insurance, Illinois Department of Insurance, New Jersey Department of Banking and Insurance, Florida Department of Financial Services, and the Texas Department of Insurance. The companies examined under this approach benefit to a large degree from common

management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Shareholders, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions, and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Johnson Lambert LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2019. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Minnesota on September 19, 1988 and was licensed to commence the business of insurance as a capital stock casualty company on that same date. Authorized capitalization of 100,000 shares of common stock were issued to Acceptance Insurance Company (AIC), a Nebraska property and casualty insurer.

Effective June 1, 1991, the Company transferred its State of Domicile to Nebraska. Simultaneous with the re-domestication to Nebraska, the Company became a foreign insurer admitted to transact insurance in the State of Minnesota and continued to be a foreign insurer in all other states in which it was authorized to write business.

On August 9, 2001, the McM Corporation (McM), a North Carolina insurance holding company, acquired the Company. Controlling interest in McM was acquired by IAT Reinsurance Company, Ltd. (IAT), domiciled in Bermuda, in 2002. Peter R. Kellogg, an individual, owns controlling interest in IAT.

In accordance with the provisions of the Company's Restated Articles of Incorporation, its period of duration shall be perpetual. Under the provisions of its current charter and in conformity with Nebraska Statutes, the Company is authorized to write the kinds of insurance prescribed by §44-201 Subsection (5), (7), (8), (9), (10), (11), (12), (13), (14), (16), (18), and (19) of the Nebraska Insurance Code.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person", as reported in the 2019 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations and, unless otherwise indicated, all subsidiaries are 100% owned):

- Peter R. Kellogg
- Goose Creek Capital Inc.
- Equity Holdings, Inc.
- Equity American Financial Service, Inc.
- Berkshire Investments LLC
- PPS Berkshire Solar LLC
- IAT Reinsurance Company, Ltd.
- IAT Insurance Group, Inc.

Harco National Insurance Company
CAIC Holding Company, Inc.
Commercial Alliance Insurance Company
Safe Insurance Management Group, Inc.
Housemax Servicios S de R.L. de C.V.
Occidental Fire & Casualty Co. of NC
Wilshire Insurance Company
Acceptance Indemnity Insurance Company
Acceptance Casualty Insurance Company
TransGuard Insurance Company of America, Inc.
Claimguard, Inc.
IFIC Surety Group, Inc.
International Fidelity Insurance Company
IAT CCM Ltd
Equity American General Agency, Inc.
Bay Area Insurance Services, Inc.
Service Insurance Company
Bay Area Claims Service, Inc.
Pillar Insurance Agency, Inc.
Insight Catastrophe Group, LLC
Vanguard Insurance Agency, Inc.
TransGuard General Agency, Inc.
National Association of Independent Truckers LLC
The Chestnut Group
Allegheny Casualty Company
Access Holdco, LLC

Shareholder

The Company's Articles of Incorporation state that "the aggregate number of shares which the corporation shall have authority to issue shall be 500,000 shares of common stock at a par value of Twenty Dollars (\$20.00) per share." At the date of this examination, 250,000 shares were issued and outstanding to IAT Insurance Group, Inc. A dividend of \$18,150,000 was paid to the parent in 2018.

The Company's By-Laws state that "the annual meeting of the Shareholders shall be held on the date and time, and at such place, as determined by resolution of the Board of Directors, for the purpose of electing Directors and for the transaction of such other business as may come before the meeting."

Board of Directors

The Company's By-Laws state that "the business and affairs of the corporation shall be managed by its Board of Directors... the number... shall be not less than seven (7) nor more than thirteen (13)... Each Director shall hold office until the next annual meeting of Shareholders and until his successor shall have been elected and qualified. At least one Director must be a resident of the State of Nebraska."

The following persons were serving as Directors at December 31, 2019:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Todd E. Bateson Cumming, Georgia	Executive Vice President IAT Insurance Group, Inc.
Michael D. Blinson Clayton, North Carolina	Secretary IAT Reinsurance Company, Ltd.
Kenneth C. Coon Omaha, Nebraska	Senior Vice President IAT Insurance Group, Inc.
William E. Cunningham Cheshire, Connecticut	Chief Executive Officer & Chairman of the Board IAT Reinsurance Company, Ltd.
Gregory M. Even Wethersfield, Connecticut	Chief Underwriting Officer IAT Insurance Group, Inc.
Alisa L. Miller Raleigh, North Carolina	Chief Human Resources Officer IAT Insurance Group, Inc.
David G. Pirrung Wake Forest, North Carolina	Chief Financial Officer IAT Reinsurance Company, Ltd.

Directors do not receive compensation as Board members.

Officers

The Company's By-Laws state that "the Officers of the corporation shall include the Chairman of the Board, the President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), the Treasurer, and the Secretary. Any two or more offices

may be held by the same person. Such Officers shall be elected from time to time by the Board of Directors, each to hold office until the meeting of the Board of Directors following the next annual meeting of the Shareholders, or until his successor shall have been duly elected, and shall have qualified, or until his death, or until he shall have resigned, or have been removed, as hereinafter provided by the By-Laws.”

The following is a partial listing of Senior Officers elected and serving the Company at December 31, 2019:

<u>Name</u>	<u>Office</u>
David G. Pirrung	President
John M. Mruk	Treasurer
Michael D. Blinson	Secretary
Todd E. Bateson	Senior Vice President
Julie A. Brown	Senior Vice President
Kenneth C. Coon	Senior Vice President
Christopher A. Dowler	Senior Vice President
Alisa L. Miller	Senior Vice President
William A. Teed II	Senior Vice President
Krista L. Glenn	Senior Vice President
Gregory M. Even	Senior Vice President
Coy R. Rudd Jr.	Senior Vice President
Joseph A. Tracy	Senior Vice President
John K. Passaro	Senior Vice President

Committees

The Company’s By-Laws state that “The Board of Directors may appoint from its number an Executive Committee, which during the intervals between the meetings of the Board of Directors, shall process and exercise all the powers of the Board of Directors in the management and direction of all the business and affairs of the corporation (except the power to alter or amend the By-Laws or to fill vacancies on the Board or on the Executive Committee) in such a manner as the Executive Committee shall deem best for the interests of the corporation, in all cases in which specific directions shall not have been given by the Board of Directors. In

addition to such general powers, but subject to the limitation above and hereafter expressed, the Executive Committee shall have special and general charge of all financial affairs of the corporation including investments, banking relations, and fiscal policies.”

The following persons were serving on the Executive Committee at December 31, 2019:

William E. Cunningham	David G. Pirrung
Michael D. Blinson	Todd E. Bateson

TRANSACTIONS WITH AFFILIATES

Consolidated Master Cost Sharing Agreement

This agreement, effective March 10, 2008, is between the Company and its affiliates, OFC, WIC, ACIC, Harco, and TransGuard. Since the cost structure of these companies is virtually the same, the costs of these companies are effectively combined and allocated to each company based on net premiums written. This agreement includes the financial, investment, underwriting, claims, administrative, other support, and operational services that are shared between the insurance companies. Management believes this methodology provides the most equitable allocation of costs among these companies. The agreement was amended effective January 1, 2015 to add SIC and CAIC to the agreement.

Group Master Hardware & Software Agreement

This agreement, effective March 10, 2008, is between the Company and its parent IAT, as well as its affiliates OFC, WIC, ACIC, Harco, and TransGuard. The companies agreed to combine the efforts of the group by coordinating the purchases and development of all hardware and software for all of the companies. All system hardware and software purchases and the internal development costs of all systems are funded by IAT for all the companies.

Federal Income Tax Allocation Agreement

The Company's taxable income was consolidated with McM, the Company's parent, and its subsidiaries through April 30, 2002 in accordance with the tax sharing agreement in effect in 2001 and prior. The Company's taxable income earned subsequent to May 1, 2002 is consolidated with IAT and its subsidiaries in accordance with the current tax sharing agreement. Taxes are allocated among the consolidated companies based upon their separate return calculation with current credit for any operating losses or other items utilized in the consolidated return.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in the following states:

Alaska	California	Florida
Hawaii	Kansas	Minnesota
Montana	Nebraska	Nevada
New Jersey	Oregon	Pennsylvania
South Carolina	Washington	

The Company is also approved or not disapproved for surplus lines in the District of Columbia, Puerto Rico, and the following states:

Alabama	Arizona	Arkansas
Colorado	Connecticut	Delaware
Georgia	Idaho	Illinois
Indiana	Iowa	Kentucky
Louisiana	Maine	Maryland
Massachusetts	Michigan	Mississippi
Missouri	New Hampshire	New Mexico
New York	North Carolina	North Dakota
Ohio	Oklahoma	Rhode Island
South Dakota	Tennessee	Texas
Utah	Vermont	Virginia
West Virginia	Wisconsin	Wyoming

The Company underwrites specialty classes of business on an admitted as well as surplus lines basis. Business is produced exclusively through general agents. Each agent has limited underwriting authority with the home office providing final review and approval. Policies are issued on standard forms with limiting endorsements in accordance with the type of specialty coverage being written.

The specialty lines of property and casualty business are written in six distinct lines of business. A description of each program follows:

1. Commercial Automobile program providing commercial automobile liability and physical damage coverage for local and intermediate trucking including contractor and service risks, wreckers, dump trucks, delivery vehicles, non-trucking liability, miscellaneous local public auto including shuttles, vans, limousines, and social services and school buses.
2. Garage Program unit which targets used car dealers and repair shops for private passenger automobiles.
3. Umbrella/Excess unit providing excess and umbrella coverage up to \$5,000,000 in limits over the first layer of primary coverage. Umbrella coverage is written for small and medium sized businesses, and principal exposures covered are retail and wholesale stores and artisan contractors.
4. Preferred General Agency provides commercial multiple peril, general liability, property, and automobile coverages to businesses in Western states.
5. Excess and Surplus Lines unit provides specialty, and property and casualty lines including liquor liability for businesses that do not qualify for standard lines treatment.
6. Unique programs for specialized underwriting niches such as a liability program for Nebraska farmers.

Business is produced through independent agents that receive supervision from a Senior Vice President who is assisted by other supervisory personnel in the Home Office. Each agent solicits business from local brokers who are in direct contact with the insurance buying public.

REINSURANCE

Assumed

Excluding the Intercompany Pooling Agreement discussed in the “Ceded” section below, the Company does not assume any material amount of reinsurance.

Ceded

Intercompany Pooling Arrangement

Effective January 1, 2016, Harco (the “Pool Leader”) and six of its affiliates (collectively the “Pool Members”) are participants in an intercompany pooling arrangement whereby the Pool Leader and each Pool Member pool their net underwriting results proportionately among pool participants. Listed below is each participant’s participation percentage in the pool.

- Harco National Insurance Company – 23.0%
- TransGuard Insurance Company of America – 22.3%
- Wilshire Insurance Company – 16.5%
- Acceptance Indemnity Insurance Company – 13.1%
- Occidental Fire and Casualty Company of North Carolina – 9.6%
- Acceptance Casualty Insurance Company – 9.0%
- Commercial Alliance Insurance Company – 6.5%

The Pool Leader and each Pool Member (collectively the “Pool Participants”) desire to pool their net underwriting results proportionately among the Pool Participants, reducing administrative and management expenses and providing the Pool Participants with a broader distribution of risk by line of insurance and territory. Reinsurance is ceded to external reinsurers by the Pool Participants prior to pooling for certain reinsurance agreements. Each pool participant has a contractual right of direct recovery from its own external reinsurers. Additionally, each Pool Participant establishes the provision for reinsurance and the write-off of uncollectible reinsurance for its own external reinsurance. The only external reinsurance the Company has

entered into includes facultative agreements, which are immaterial, and then ceded on a net basis to the Pool.

Adverse Development Cover

December 31, 2018, the Company, ACIC, Harco, CAIC, OFC, TransGuard, and WIC (the “Group”) entered into an Adverse Development Cover (“ADC”) agreement with IAT. The ADC relates to all business, providing the Group with reinsurance protection against unfavorable development arising from existing and/or newly reported claims for accident years 2018 and prior. In exchange for a total premium of \$500,000, the Group has up to \$100,000,000 in protection against unfavorable development for those accident years. The Group remains obligated to policyholders for amounts ceded to reinsurers in the event that any reinsurer does not meet their obligation to the Group. As of December 31, 2019, the Group had a net reinsurance recoverable of \$100 million, including reserve credits, related to this agreement. It was determined that the ADC agreement does not represent an arms-length transaction in accordance with SSAP No. 25, paragraphs 13-19. In addition, the Group was not accounting for the agreement using retroactive reinsurance accounting in accordance with SSAP No. 62R, paragraph 37.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Bonds	\$ 31,290,106	\$ 36,268,748	\$ 55,290,791	\$ 59,116,781	\$ 83,616,246
Common stocks	190,582,163	208,444,894	236,040,479	206,130,858	244,071,931
Admitted assets	257,638,410	297,366,846	330,637,515	299,149,945	360,256,345
Loss reserves	52,234,750	53,168,752	58,887,024	67,087,823	75,390,785
Total liabilities	133,869,096	157,533,927	149,006,910	151,535,870	179,131,711
Capital and surplus	123,769,314	139,832,919	181,630,605	147,614,075	181,124,634
Premiums earned	63,498,442	68,007,992	79,425,837	111,170,352	132,565,081
Net investment income	3,523,567	4,267,901	5,591,324	6,517,461	7,299,124
Losses incurred	35,759,703	32,502,087	48,161,479	64,856,616	73,995,136
Net income	(6,864,078)	7,267,021	7,270,026	5,983,618	772,095

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2019

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 83,616,246		\$ 83,616,246
Preferred stocks	2,264,218		2,264,218
Common stocks	\$244,071,931		244,071,931
Cash	10,516,271		10,516,271
Other invested assets (Schedule BA)	<u>2,376,143</u>		<u>2,376,143</u>
Subtotal, cash and invested assets	\$342,844,809		\$342,844,809
Investment income due and accrued	1,254,075		1,254,075
Uncollected premiums and agents balances	12,778,460	\$ 211,661	12,566,799
Deferred premiums	599,251		599,251
Amounts recoverable from reinsurers	2,786,663		2,786,663
Funds held by or deposited with reinsured companies	8,757		8,757
Furniture and equipment	90,979	90,979	
Receivables from parent, subsidiaries and affiliates	195,991		195,991
Prepaid expenses	<u>765,086</u>	<u>765,086</u>	
Totals	<u>\$361,324,071</u>	<u>\$1,067,726</u>	<u>\$360,256,345</u>

Liabilities, Surplus, and Other Funds

Losses	\$ 75,390,785
Loss adjustment expenses	18,004,319
Commissions payable	3,074,299
Other expenses	419,224
Taxes, licenses and fees	108,691
Current federal and foreign income taxes	1,184,708
Net deferred tax liability	11,676,533
Unearned premium	55,901,714
Ceded reinsurance premiums payable	1,216,010
Funds held by company under reinsurance treaties	3,644,962
Provision for reinsurance	191,777
Payable to parent, subsidiaries and affiliates	7,498,894
Surcharge charges payable	1,150
Payable to third party claims administrator	576,315
Assumed reinsurance payable	11,675
Recoupment – CA & NJ	82,250
Miscellaneous other liabilities	<u>148,405</u>
Total liabilities	<u>\$179,131,711</u>
Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	13,613,145
Unassigned funds	<u>162,511,489</u>
Total capital and surplus	<u>\$181,124,634</u>
Totals	<u>\$360,256,345</u>

STATEMENT OF INCOME – 2019

Underwriting Income

Premiums earned	\$132,565,081
Losses incurred	\$ 73,995,136
Loss adjustment expenses incurred	22,801,290
Other underwriting expenses incurred	46,915,620
Miscellaneous other expenses	<u>4,190</u>
Total underwriting deductions	<u>\$143,716,236</u>
Net underwriting gain	<u>\$(11,151,155)</u>

Investment Income

Net investment income earned	\$ 7,299,124
Net realized capital gain	<u>3,999,316</u>
Net investment gain	<u>\$ 11,298,440</u>

Other Income

Net gain from agents' or premium balances charged off	\$ 140,218
Aggregate write-ins for miscellaneous income	<u> </u>
Total other income	<u>\$ 140,218</u>
Net income before dividends to policyholders and federal income taxes	\$ 287,503
Federal income taxes incurred	<u>(484,592)</u>
Net income	<u>\$ 772,095</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus, beginning	\$129,181,693	\$123,769,314	\$139,832,919	\$181,630,605	\$147,614,075
Net income	\$ (6,864,078)	\$ 7,267,021	\$ 7,270,026	\$ 5,983,618	\$ 772,095
Change in net unrealized capital gains	(767,626)	12,057,402	35,616,276	(23,568,578)	32,513,332
Change in net deferred income tax	2,000,271	(1,250,530)	(2,577,382)	1,329,292	884,116
Change in non-admitted assets	219,054	(2,010,288)	1,488,766	389,138	(467,207)
Change in provision for reinsurance				(191,777)	
Dividends to Stockholders	_____	_____	_____	(18,150,000)	_____
Net change for the year	<u>\$ (5,412,379)</u>	<u>\$ 16,063,605</u>	<u>\$ 41,797,686</u>	<u>\$ (34,016,530)</u>	<u>\$ 33,510,559</u>
Capital and surplus, ending	<u>\$123,769,314</u>	<u>\$139,832,919</u>	<u>\$181,630,605</u>	<u>\$147,614,075</u>	<u>\$181,124,634</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$162,511,489, as reported in the Company's 2019 Annual Statement, has been accepted for examination purposes. Examination findings in the aggregate were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Multi-Cedent Reinsurance Allocation Agreements - It is again recommended that the Company refile the Multi-Cedent Reinsurance Allocation Agreement with the Director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, Section §44-2133(2) of the Nebraska Insurance Statutes.

Action: The Company has complied with this recommendation.

Written Investment Plan - It is recommended that the Board annually review the written investment plan and review the investment transactions for compliance with the requirements of the written investment plan as stated in Section §44-5105(1) of the Nebraska Insurance Statutes.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Adverse Development Cover (SSAP 25 and SSAP 62R Non-compliance)

Review of the Adverse Development Cover (ADC) effective December 31, 2018 between Harco National Pool and IAT revealed the following non-compliance issues:

- I. NAIC SSAP No. 25 - The agreement does not represent an arms-length transaction. Specifically, the terms of the agreement are not “fair and reasonable” in accordance with Paragraphs 13-19 (March of 2020 Manual). The coverage provided (\$100 million) was acquired for \$500,000 which is well below market value per the pricing study performed by the examination consulting actuary.
- II. NAIC SSAP No. 62R - The Company is currently following the guidance of paragraph b, article 7 of the Adverse Development Cover:
*“The Company and the Reinsurer shall account for this Contract as a **prospective** reinsurance agreement for statutory accounting purposes in accordance with Statement of Statutory Accounting Principles (SSAP) No. 62R, paragraph 31. d., as this Contract is an intercompany reinsurance agreement among companies 100% owned by a common parent or ultimate controlling person and there is **no gain in surplus** as a result of the transaction.”*

However, there was a gain in surplus as a result of this transaction due to the discounted premium noted in the NAIC SSAP No. 25 non-compliance (Item #I above). The ADC paragraph referencing SSAP No. 62R shown above is an entity-level instruction. It is recommended that the Company comply with the requirements of SSAP No. 25, paragraphs 13-19 and SSAP No. 62R, paragraph 37.

SUBSEQUENT EVENT

CHANGE IN ULTIMATE CONTROLLING PERSON

On April 29, 2020, the North Carolina Department of Insurance approved the Form A filed by IAT to transfer the ultimate control of IAT and its subsidiaries, from Peter Kellogg to his son, Charles Kellogg. The transaction was completed through execution of a stock purchase agreement between the parties for all the issued and outstanding Class A voting preferred stock of Goose Creek Capital, Inc. Effective April 29, 2020, Charles Kellogg became the ultimate controlling person of IAT and its subsidiaries, including the Company.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Adverse Development Cover (SSAP 25 and SSAP 62R Non-compliance) - It is recommended that the Company comply with the requirements of SSAP No. 25, paragraphs 13-19 and SSAP No. 62R, paragraph 37.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Gordon Hay, FCAS, MAAA, Property and Casualty Actuarial Examiner, with the Nebraska Department of Insurance and Financial Examiners, Information Systems Specialists, and Actuarial Examiners with or contracted by the Florida Department of Financial Services, Illinois Department of Insurance, New Jersey Department of Banking and Insurance, North Carolina Department of Insurance, and the Texas Department of Insurance participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Brian Menard, CFE, CISA
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the Department of Insurance
State of Nebraska



Andrea Johnson, CFE
Assistant Chief Examiner - Field
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Brian Menard, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Acceptance Indemnity Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Acceptance Indemnity Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

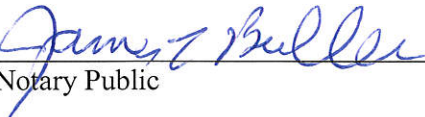
The affiant says nothing further.



Examiner-in-Charge's Signature

Subscribed and sworn before me by Brian Menard on this 11th day of May, 2021.

(SEAL)



Notary Public

JAMES L. BULLEN
BAR ROLL NO. 22010
NOTARY NO. 40090
LAFAYETTE PARISH, LOUISIANA
COMMISSION EXPIRES AT DEATH

My commission expires _____ [date].