

NEBRASKA DEPARTMENT
OF INSURANCE

MAR 10 2020

FILED

CERTIFICATION

March 10, 2020

I, Bruce R. Ramage, 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

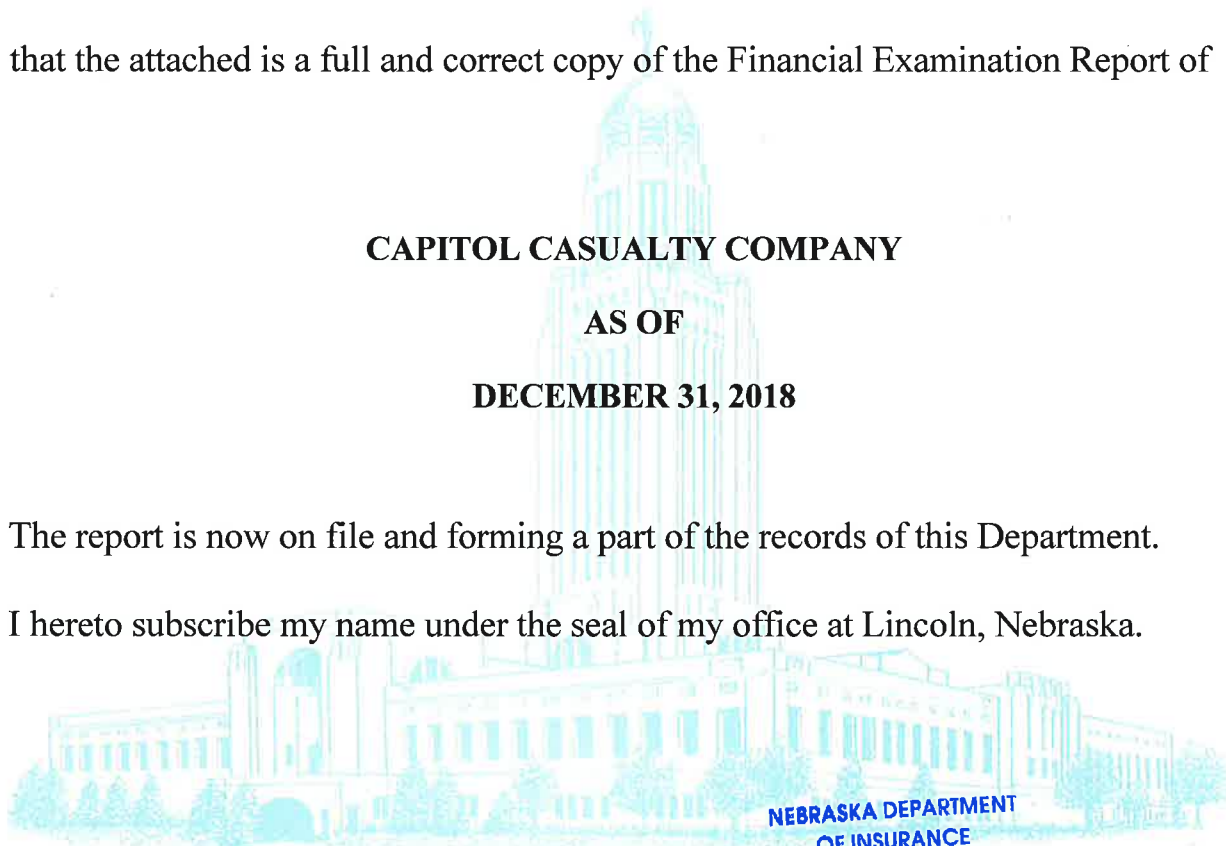
CAPITOL CASUALTY COMPANY

AS OF

DECEMBER 31, 2018

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.



NEBRASKA DEPARTMENT
OF INSURANCE

MAR 10 2020

FILED



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

CAPITOL CASUALTY COMPANY

130 SOUTH 13TH STREET, SUITE 200

LINCOLN, NEBRASKA 68508

dated as of December 31, 2018, verified under oath by the examiner-in-charge on January 3, 2020, and received by the company on February 11, 2020, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 3rd day of March 2020.

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

CAPITOL CASUALTY COMPANY

as of

December 31, 2018



TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation	1
Introduction.....	1
Scope of Examination.....	1
Description of Company:	
History.....	3
Management and Control:	
Holding Company.....	3
Shareholders.....	4
Board of Directors.....	5
Officers	6
Committees	6
Service Agreement:	
Personnel and Claims Administration Services Agreement	7
Territory and Plan of Operation.....	8
Body of Report:	
Growth	8
Financial Statements	9
Examination Changes in Financial Statements.....	11
Compliance with Previous Recommendations	11
Commentary on Current Examination Findings:	
Unearned Premium	12
Investment Income.....	12
IT Services Agreement	13
Personnel and Claims Administration Services Agreement	13
General Interrogatory.....	13
Summary of Comments and Recommendations.....	14
Acknowledgment	15

Lincoln, Nebraska
January 6, 2020

Honorable Bruce R. Range
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:

CAPITOL CASUALTY COMPANY
130 South 13th Street, Suite 200
Lincoln, Nebraska 68508

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

INTRODUCTION

The Company was last examined as of December 31, 2014 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2018, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

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, and identifying and assessing inherent risks within the Company. 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.

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, and Board of Directors, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. The Certificate of Authority to conduct the business of insurance in the State of Nebraska was 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".

All accounts and activities of the Company were considered in accordance when assessing risks and material line items. This included a review of workpapers prepared by RSM US LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2018. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners. 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 Nebraska on March 23, 1987, as a capital stock property and casualty insurer and commenced business on March 27, 1987. The Company's Articles of Incorporation provide for the perpetual existence of the corporation. On December 29, 1987, the Company's sole shareholder, LRC, Inc., sold its interest in the Company to the current owners.

Under provisions of its charter and in conformity with Nebraska Statutes, the Company is presently authorized to write those lines of business usual to a multiple line property and casualty insurance company.

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 2018 Annual Statement, is represented by the following (subsidiaries are denoted

through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Grant Thomas Schumacher Irrevocable Trust
Capitol Casualty Company (44.41%)

Andrew Blake Schumacher Irrevocable Trust
Capitol Casualty Company (40.13%)

Phyllis Acklie
Capitol Casualty Company (11.63%)
Electronic Contracting Company (49%)

Shareholders

Article VI of the Company's Articles of Incorporation state that, "the aggregate number of shares which the Company shall have the authority to issue is 10,000, consisting only of common stock, with a par value of \$100.00 per share." At December 31, 2018, the Company had issued 5,000 shares which were outstanding as follows:

<u>Name</u>	<u>Shares</u>
Grant Thomas Schumacher Irrevocable Trust	2,220.56
Andrew Blake Schumacher Irrevocable Trust	2,006.36
Phyllis Acklie	581.64
Laura Acklie Schumacher	61.22
Jeffrey Lee Schumacher	61.22
Andrew Blake Schumacher	34.50
Grant Thomas Schumacher	<u>34.50</u>
TOTAL	<u>5,000.00</u>

The Company's capital stock and paid in surplus accounts have been unchanged since the initial transaction on March 24, 1987, where \$500,000 of capital stock was issued and \$1,000,000 of paid in surplus was added. No dividends were paid during the exam period.

Article II, Section 1 of the Company's By-Laws states that, "all annual meetings of the shareholders shall be held at the office of the Company in Lincoln, Nebraska, or at such other

place as determined by the Board of Directors and stated in the notice to shareholders. Such annual meetings shall be held as declared by the Board of Directors and stated in the notice to shareholders but in no event shall the annual meeting of shareholders be held later than May 31st of each and every calendar year.”

Board of Directors

Article III, Section 1 of the Company’s By-Laws states that, “the property and business of this Company shall be managed by its Board of Directors of not less than five nor more than nine. At the first annual meeting of the shareholders and at each annual meeting thereafter, the shareholders shall elect Directors to hold office until the next succeeding meeting.” Article III, Section 2 of the By-Laws also states that, “a regular meeting of the Board of Directors shall be held without other notice than these By-Laws, immediately after and on the same date as the annual meeting of shareholders.”

The following persons were serving as Directors at December 31, 2018:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Phyllis A. Acklie Lincoln, Nebraska	Vice President and Corporate Secretary, Crete Carrier Corporation
Robert E. Caldwell, II Lincoln, Nebraska	Director of Corporate Development, NEBCO, Inc.
Arthel E. Crump Lincoln, Nebraska	Council, University of Nebraska Central Administration
Michael S. Dunlap Lincoln, Nebraska	Chairman and Chief Executive Officer, Nelnet
Clark D. Froehlich Norfolk, Nebraska	President and Chief Executive Officer, North Central Bancorp, Inc.
Jeffrey L. Schumacher Lincoln, Nebraska	President and Chief Executive Officer, Capitol Casualty Company

<u>Name and Residence</u>	<u>Principal Occupation</u>
Christina L. Usher Lincoln, Nebraska	Attorney

Officers

Article IV, Section 1 of the Company’s By-Laws states that, “the Officers of the Company shall be a Chairman of the Board; a President; a Treasurer; and Secretary; or other Officers as may be elected or appointed by the Board of Directors. Any two (2) or more offices may be held by the same person, except that the President and the Secretary shall not be the same person.” Article IV, Section 2 of the By-Laws also states that, “the Officers of the Company shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of shareholders or as soon thereafter as convenient and vacancies may be filled at any meeting of the Board of Directors.”

The following is a listing of Officers elected and serving the Company at December 31, 2018:

<u>Name</u>	<u>Office</u>
Jeffrey L. Schumacher	Chairman of the Board, President, and Chief Executive Officer
Christina L. Usher	Treasurer
Laura L. Provorse	Secretary
Lynette Lewis	Controller and Assistant Secretary

Committees

Article VI of the Company’s By-Laws states that, “the Board of Directors shall designate from their own number an Executive Committee and such other committees as in their sole discretion they shall deem necessary and appropriate.”

The following persons were serving on the Executive Committee at December 31, 2018:

Jeffrey L. Schumacher, Chair Robert E. Caldwell, II Arthel E. Crump

The following persons were serving on the Investment Committee at December 31, 2018:

Jeffrey L. Schumacher, Chair Michael S. Dunlap Clark D. Froehlich

SERVICE AGREEMENT

Personnel and Claims Administration Services Agreement

The Company participates in a Personnel and Claims Administration Agreement with Crete Carrier Corporation (Crete Carrier), and its operating division, Transportation Claims, Inc. (TCI). TCI has since been absorbed by Crete Carrier. Under the terms of the agreement, Crete Carrier agrees to provide sufficient personnel as required and directed by the Company to enable it to transact all business to further the purpose for which the Company was formed and to also provide claims administration services as required and directed by the Company in connection with property and casualty exposures insured or assumed by the Company. Such claims administration services shall include, but shall not necessarily be limited to, receiving, evaluation, investigation, processing, defending and settling claims; establishing and adjusting claims reserves; and providing legal representations (including retaining outside counsel) on behalf of the Company. In return, the Company shall pay Crete Carrier a monthly fee for its provision of personnel and claim administration services, which equals Crete Carrier's actual cost for the leased employees, including but not limited to the full cost of wages, payroll taxes, benefits, and administration.

The agreement became effective January 1, 2010, and shall continue in effect until terminated by either party upon thirty days prior written notice to the other party. This agreement supersedes and replaces any and all agreements between TCI and the Company regarding personnel and claims administration services.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in the State of Nebraska.

The Company specializes in providing insurance coverages to the motor carrier industry. These coverages include non-trucking use liability and physical damage insurance for owners of truck-tractors who are independent contractors, and who are leasing to a motor carrier on an exclusive basis. The Company also writes one surety bond on an annual basis to Crete Carrier.

Substantially all of the Company's business derives through market leads provided by Crete Carrier and its affiliated companies. Physical damage and non-trucking use liability insurance is written for the independent contractors who are leasing with the affiliated companies. Non-trucking use is the period of time the truck-tractor is not being used to carry property in the motor carrier's, or anyone else's, business.

Crete Carrier and its affiliates self-insure or insure a portion of their bodily injury and property damage liability losses sustained as a result of their motor carrier operation.

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>
Bonds	\$ 4,764,681	\$ 6,465,270	\$ 6,262,438	\$ 6,947,664
Common stocks	15,883,224	16,981,104	19,328,488	19,606,682
Loss reserves	167,068	174,715	169,775	162,175
Total liabilities	2,984,589	3,073,752	2,473,015	2,214,767
Capital and surplus	24,378,794	25,984,394	29,804,291	29,792,509
Premiums earned	448,822	521,805	665,098	672,110
Net investment income	836,149	742,475	858,433	872,314
Losses incurred	200,879	135,421	103,564	191,943
Net income	1,226,646	1,191,049	1,150,096	539,048

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, 2018. 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, 2018**

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 6,947,664		\$ 6,947,664
Common stocks	19,606,682		19,606,682
Real estate occupied by the company	399,875		399,875
Cash, cash equivalents, and short-term investments	880,031		880,031
Other invested assets	<u>4,054,960</u>		<u>4,054,960</u>
Subtotal, cash and invested assets	\$31,889,212		\$31,889,212
Investment income due and accrued	47,380		47,380
Uncollected premiums	54,321		54,321
Federal income tax recoverable	12,067		12,067
Guaranty funds receivable	150		150
Furniture and equipment	5,338	\$ 5,338	
Truck tractors	35,542	35,542	
Accounts receivable	<u>4,146</u>	<u> </u>	<u>4,146</u>
Totals	<u>\$32,048,156</u>	<u>\$40,880</u>	<u>\$32,007,276</u>

Liabilities, Surplus, and Other Funds

Losses	\$ 162,175
Loss adjustment expenses	325
Other expenses	21,204
Taxes, licenses, and fees	1,939
Net deferred tax liability	2,021,674
Unearned premium	<u>7,450</u>
Total liabilities	<u>\$ 2,214,767</u>
Common capital stock	\$ 500,000
Gross paid in and contributed surplus	1,000,000
Unassigned funds	<u>28,292,509</u>
Total capital and surplus	<u>\$29,792,509</u>
Totals	<u>\$32,007,276</u>

STATEMENT OF INCOME – 2018**Underwriting Income**

Premiums earned	\$672,110
Losses incurred	\$191,943
Loss adjustment expenses incurred	11,176
Other underwriting expenses incurred	<u>526,873</u>
Total underwriting deductions	<u>\$729,992</u>
Net underwriting gain	<u>\$ (57,882)</u>

Investment Income

Net investment income earned	\$872,314
Net realized capital gain	<u>(36,031)</u>
Net investment gain	<u>\$836,283</u>
Net income before federal income taxes	\$778,401
Federal income taxes incurred	<u>239,353</u>
Net income	<u>\$539,048</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus, beginning	\$24,051,957	\$24,378,791	\$25,984,394	\$29,804,291
Net income	\$ 1,226,646	\$ 1,191,049	\$ 1,150,096	\$ 539,048
Change in net unrealized capital gains	(968,850)	547,149	1,343,185	(615,442)
Change in net deferred income tax	75,218	(96,022)	1,283,423	96,845
Change in nonadmitted assets	<u>(6,180)</u>	<u>(36,573)</u>	<u>43,193</u>	<u>(32,233)</u>
Net change for the year	\$ <u>326,834</u>	\$ <u>1,605,603</u>	\$ <u>3,819,897</u>	\$ <u>(11,782)</u>
Capital and surplus, ending	<u>\$24,378,791</u>	<u>\$25,984,394</u>	<u>\$29,804,291</u>	<u>\$29,792,509</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$28,299,959, as reported in the Company's 2018 Annual Statement, has been reduced to \$28,292,509 as result of examination adjustments noted below:

	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>
<u>Liabilities</u>			
Unearned premium	\$0	\$7,450	\$ <u>(7,450)</u>
<u>Net Increase (Decrease) to Surplus</u>			\$ (7,450)
Surplus as regards policyholders, December 31, 2018, per Company			<u>28,299,959</u>
Surplus as regards policyholders, December 31, 2018, per Examination			<u>\$28,292,509</u>

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:

Safekeeping Agreement – It was recommended that the Company amend its safekeeping agreement to include all provisions of Nebraska Regulation Title 210, Chapter 81.

Action: The Company has complied with this recommendation.

Compliance with By-Laws – It was recommended that the Company elect or appoint a Chairman of the Board and one or more Vice Presidents at its annual Board of Directors meeting, or amend its By-Laws to remove the Vice President requirement. It was also recommended that the Company document this in its minutes in order to verify compliance with its By-Laws.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Unearned Premium

During the exam period, the Company wrote one surety policy to Crete Carrier, with an effective date of May 1, 2018. The 2018 annual premium of \$22,350 was received June 12, 2018 and reported completely as earned premium. The Company reported \$0 in unearned premium at December 31, 2018. The exam team noted that approximately four months of the annual premium should be unearned, which amounts to \$7,450. It is recommended that the Company report unearned premium in compliance with NAIC Statement of Statutory Accounting Principle 53. Specifically paragraph 6 which states, “upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired.” Also, the company’s earned premium for 2018 has been reduced by \$7,450.

Investment Income

During 2018, the Company reported investment income of \$872,347. Through discussions with the Company, it was noted that a \$33 litigation settlement was double-booked which overstated investment income. It is suggested that the Company accurately report its investment income collected during the year.

IT Services Agreement

It was noted that Crete Carrier performs information technology services for the Company. There is no existing service agreement regarding the services provided by Crete Carrier, nor the compensation paid by the Company. It is recommended that the Company draft a service agreement with Crete Carrier that, at a minimum, documents the responsibilities and services provided by Crete Carrier, fee and settlement arrangements, and the term of the agreement.

Personnel and Claims Administration Services Agreement

During review of the existing Personnel and Claims Administration Services Agreement, it was noted that the leased employees on Exhibit 1 do not coincide with the current employees leased from Crete Carrier to the Company. It is recommended that the Company amend Exhibit 1 to remove Lynette Lewis, and add Christina Chapman to properly document the current employees leased by the Company.

General Interrogatory

Per General Interrogatory #14.1, the Company acknowledges that its current Code of Ethics does not contain verbiage regarding the compliance with applicable governmental laws, rules, and regulations. During the examination, the Company agreed to bolster its existing Code of Ethics by amending its Conflict of Interest Statement to address compliance with governmental laws, rules, and regulations. This will allow the Company to answer General Interrogatory #14.1 in the affirmative in future annual statement filings. It is recommended that that Company utilize the new Conflict of Interest Statement for its next annual review.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Unearned Premium – It is recommended that the Company report unearned premium in compliance with NAIC Statement of Statutory Accounting Principle 53. Specifically paragraph 6 which states, “upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired.”

Investment Income – It is suggested that the Company accurately report its investment income collected during the year.

IT Services Agreement – It is recommended that the Company draft a service agreement with Crete Carrier that, at a minimum, documents the responsibilities and services provided by Crete Carrier, fee and settlement arrangements, and the term of the agreement.

Personnel and Claims Administration Services Agreement – It is recommended that the Company amend Exhibit 1 to remove Lynette Lewis, and add Christina Chapman to properly document the current employees leased by the Company.

General Interrogatory – It is recommended that that Company utilize the new Conflict of Interest Statement for its next annual review.

ACKNOWLEDGMENT

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

In addition to the undersigned, Linda Scholl, CFE, CISA, APIR, Financial Examiner and Information Systems Specialist with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Isaak Russell", is written over a horizontal line.

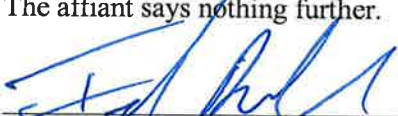
Isaak Russell, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

Isaak Russell, being duly sworn, states as follows:

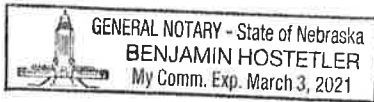
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Capitol Casualty Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Capitol Casualty 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 ISAAK RUSSELL on this 3rd day of JANUARY, 20 20.



(SEAL)



Notary Public

My commission expires 3-3-21 [date].