

JUN 10 2024

CERTIFICATION

FILED

June 10, 2024

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

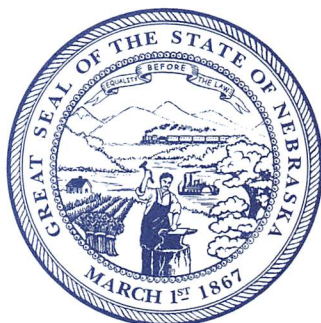
CAPITOL CASUALTY COMPANY

AS OF

DECEMBER 31, 2022

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.



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

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

CAPITOL CASUALTY COMPANY

130 SOUTH ST

LINCOLN, NE 68508

dated as of December 31, 2022, verified under oath by the examiner-in-charge on
May 1, 2024, and received by the company on May 22, 2024, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 7th day of June 2024.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read "L. Crawford", written in a cursive style.

Lindsay Crawford, CFE
Chief Financial Regulator

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

CAPITOL CASUALTY COMPANY

as of

December 31, 2022

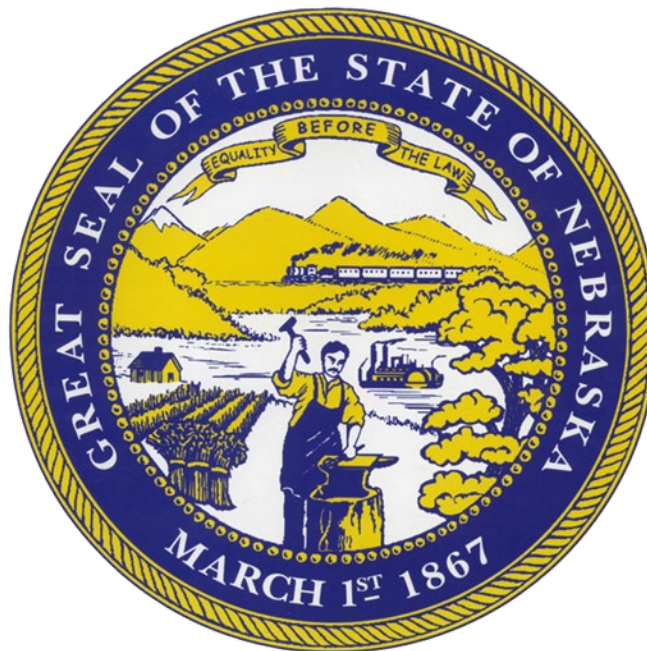


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Lincoln, Nebraska
May 7, 2024

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
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 State of Nebraska last examined the Company as of December 31, 2018. The current financial condition examination covers the intervening period to, and includes the close of business on December 31, 2022 and 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

The 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.

The Nebraska Department of Insurance made a general review 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 with the provisions of Section §44-5904(1) of the Nebraska Insurance Statutes. This included a review of workpapers prepared by FORVIS, LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2021 and 2022. 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 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 2022 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%)

Shareholders

Article VI of the Company’s Articles of Incorporation states 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, 2022, 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, 2022:

Name and Residence

Principal Occupation

Phyllis A. Acklie
Lincoln, Nebraska

Retired, former Vice President and Corporate
Secretary, Crete Carrier Corporation

Robert E. Caldwell, II
Lincoln, Nebraska

Vice President, NEBCO, Inc.

<u>Name and Residence</u>	<u>Principal Occupation</u>
Arthel E. Crump Lincoln, Nebraska	Retired former Council, University of Nebraska Central Administration
Michael S. Dunlap Lincoln, Nebraska	Chairman and Chief Executive Officer, Nelnet
Clark D. Froehlich Norfolk, Nebraska	President, BankFirst
Grant T. Schumacher Lincoln, Nebraska	Credit Analyst II, Union Bank & Trust
Jeffrey L. Schumacher Lincoln, Nebraska	President and Chief Executive Officer, Capitol Casualty Company
Christina L. Usher Lincoln, Nebraska	Attorney, Mattson Ricketts Law Firm

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, 2022:

<u>Name</u>	<u>Office</u>
Jeffrey Schumacher	Chairman of the Board, President, and Chief Executive Officer
Christina Usher	Treasurer

Name

Office

Grant Schumacher
Christina Chapman

Secretary
Senior Accountant 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, 2022:

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

The following persons were serving on the Investment Committee at December 31, 2022:

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

SERVICE AGREEMENTS

Personnel and Claims Administration Services Agreement

Effective November 23, 2021, the Company entered into a Personnel and Claims Administration Services Agreement with Crete Carrier Corporation (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 and other benefits, required payroll taxes and withholdings, and workers' compensation coverage.

IT Services Agreement

Effective June 4, 2020, the Company entered into an IT Services Agreement with Crete Carrier, whereby Crete Carrier will provide the network, applications, hardware, security services, and maintenance that the Company requires. Neither the Company nor Crete Carrier shall pay any fees or expenses for the services.

TERRITORY AND PLAN OF OPERATION

As evidenced by a current Certificate 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, or anyone else's, business.

BODY OF REPORT

GROWTH

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

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Bonds	\$ 8,023,229	\$ 4,115,915	\$ 6,431,124	\$13,339,385
Common stocks	23,664,561	31,661,040	35,763,364	27,900,251
Loss reserves	164,740	174,525	245,300	178,800
Total liabilities	3,255,182	3,970,203	4,804,278	3,858,692
Capital and surplus	34,666,960	38,148,283	44,432,093	42,627,495
Premiums earned	702,758	805,708	847,779	742,163
Net investment income	959,021	929,795	917,459	960,708
Losses incurred	162,184	243,685	206,067	164,511
Net income	501,512	839,976	3,324,496	1,594,681

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, 2022. 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, 2022

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$13,339,385		\$13,339,385
Common stocks	27,900,251		27,900,251
Real estate occupied by the company	350,057		350,057
Cash, cash equivalents, and short-term investments	767,417		767,417
Other invested assets	<u>3,432,547</u>		<u>3,432,547</u>
Subtotal, cash and invested assets	\$45,789,657		\$45,789,657
Investment income due and accrued	87,991		87,991
Uncollected premiums	57,420		57,420
Federal income tax recoverable	392,284		392,284
Guaranty funds receivable	280		280
Accounts receivable	5,000		5,000
Current state income tax recoverable	<u>153,555</u>		<u>153,555</u>
Totals	<u>\$46,486,187</u>		<u>\$46,486,187</u>
 <u>Liabilities, Surplus, and Other Funds</u>			
Losses			\$ 178,800
Loss adjustment expenses			1,200
Other expenses			44,904
Taxes, licenses, and fees			1,167
Net deferred tax liability			3,621,621
Unearned premium			<u>11,000</u>
Total liabilities			<u>\$ 3,858,692</u>
Common capital stock			\$ 500,000
Gross paid in and contributed surplus			1,000,000
Unassigned funds			<u>41,127,495</u>
Total capital and surplus			<u>\$42,627,495</u>
Totals			<u>\$46,486,187</u>

STATEMENT OF INCOME – 2022

Underwriting Income

Premiums earned	\$ 742,163
Losses incurred	\$ 164,511
Loss adjustment expenses incurred	901
Other underwriting expenses incurred	<u>596,991</u>
Total underwriting deductions	<u>\$ 762,403</u>
Net underwriting gain	<u>\$ (20,240)</u>

Investment Income

Net investment income earned	\$ 960,708
Net realized capital gain	<u>820,953</u>
Net investment gain	<u>\$1,781,661</u>
Net income before federal income taxes	\$1,761,421
Federal income taxes incurred	<u>166,740</u>
Net income	<u>\$1,594,681</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Capital and surplus, beginning	<u>\$29,799,959</u>	<u>\$34,666,960</u>	<u>\$38,148,283</u>	<u>\$44,432,093</u>
Net income	\$ 501,512	\$ 839,976	\$ 3,324,496	\$ 1,594,681
Change in net unrealized capital gains	4,223,248	2,628,204	2,965,425	(3,397,386)
Change in net deferred income tax	103,389	11,115	(6,111)	(1,893)
Change in nonadmitted assets	<u>38,852</u>	<u>2,028</u>	<u> </u>	<u> </u>
Net change for the year	<u>\$ 4,867,001</u>	<u>\$ 3,481,323</u>	<u>\$ 6,283,810</u>	<u>\$ (1,804,598)</u>
Capital and surplus, ending	<u>\$34,666,960</u>	<u>\$38,148,283</u>	<u>\$44,432,093</u>	<u>\$42,627,495</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$41,127,495, as reported in the Company's 2022 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:

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.”

Actions: The Company has complied with this recommendation.

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

Actions: The Company has complied with this recommendation.

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.

Actions: The Company has complied with this recommendation.

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.

Actions: The Company has complied with this recommendation.

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

Actions: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Conflict of Interest Statements

The Company did not obtain a Conflict of Interest Statement from Director Crump in 2022. It was noted that a Conflict of Interest Statement was provided by Director Crump for every other year under examination, and subsequent to the examination date in 2023. This finding was communicated to the Company and has been remediated.

Shareholder Consent

In 2020, the Company did not perform its normal process of documenting the annual Shareholder meeting through minutes or through a consent to action letter. This process was appropriately performed for all other years during the examination, with 2020 being the anomaly. This finding was communicated to the Company and has been remediated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGMENT

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

In addition to the undersigned, Gary Evans, CISA, AES, CFE, 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 black ink, appearing to read "Isaak Russell". The signature is fluid and cursive, with the first name "Isaak" and last name "Russell" clearly distinguishable.

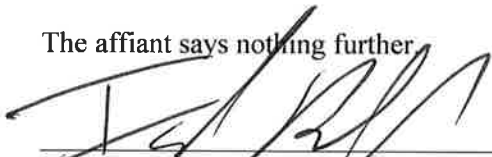
Isaak Russell, CFE
Examiner-in Charge
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

Isaak Russell, being duly sworn, states as follows:

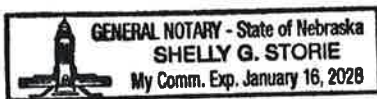
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Capitol Casualty Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Capitol Casualty 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 ISAIAK RUSSELL on this 1ST day of MAY, 2024.



(SEAL)



Notary Public

My commission expires 11/16/28 [date].