

JUN 01 2020

FILED

# CERTIFICATION

June 1, 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

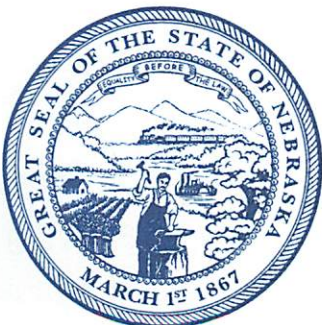
**Omaha National Insurance Company**

**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.



*Bruce R. Ramage*

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**OMAHA NATIONAL INSURANCE COMPANY**

**11128 JOHN GALT BLVD, SUITE 500**

**OMAHA, NE 68137**

dated as of December 31, 2018, verified under oath by the examiner-in-charge on  
April 24, 2020 and received by the company on May 7, 2020, has been adopted  
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 21<sup>st</sup> day of May 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**

**OMAHA NATIONAL INSURANCE COMPANY**

**as of**

**December 31, 2018**



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Omaha, Nebraska  
April 1, 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:

**OMAHA NATIONAL INSURANCE COMPANY**  
**11128 John Galt Blvd, Suite 500**  
**Omaha, Nebraska 68137**

(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 August 30, 2017 by the State of Nebraska as a qualifying examination. 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, 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.

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 Shareholder and Board of Directors 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. A 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".

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 BKD, 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 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 organized under the laws of the State of Nebraska as Omaha National Insurance Company on March 29, 2017. On August 28, 2017, the Company received a \$3,000,000 contribution from Omaha National Group, LLC, to purchase \$1,200,000 in capital stock and additional paid in of \$1,800,000 to meet the requirements to become authorized by the Nebraska Department of Insurance (Department). The Company received a Certificate of Authority to write property and casualty lines of business, including workers' compensation insurance, and began operations on September 8, 2017.

Upon the Company's incorporation, it was wholly owned by the Omaha National Group, LLC. Subsequent to incorporation of the Company, but prior to its receiving a Certificate of Authority, the Omaha National Group, LLC converted to general corporate form and is now known as Omaha National Group, Inc. (ONG).

## **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):

Howard Scott Silverman Gift Trust  
AP Omaha National, LLC  
Omaha National Group, Inc. (96% owned by AP Omaha National, LLC;  
4% allocated for management stock options)  
Omaha National Underwriters, LLC  
Omaha National Employer Services, LLC  
Omaha National Insurance Company

### **Shareholder**

According to the Articles of Incorporation, Article 3, "the aggregate number of shares which the Corporation shall have authority to issue is three hundred thousand (300,000) shares of voting common stock with a \$10 par value per share." The Company reported in the 2018 Annual Statement Notes to the Financial Statements they had authority to issue one hundred eighty thousand (180,000) shares of common stock in error. This error was corrected in the 2019 Annual Statement. The Company has 120,000 shares of stock that are issued and outstanding, all of which are owned by the Company's parent, ONG. The Company's capital structure as of



December 31, 2018 consisted of \$1,200,000 in common stock and \$3,300,000 in paid-in and contributed surplus.

The Company received a \$3,000,000 capital contribution from its parent, ONG on August 28, 2017, prior to the examination period, as part of its initial stock issuance – representing \$1,200,000 in capital stock and \$1,800,000 in additional paid in surplus. The company received additional capital contributions to surplus from ONG of \$1,000,000 on June 28, 2018 and of \$500,000 on December 18, 2018.

The Company paid no dividends during the period under examination.

Per Article II, Section 2.01 of the By-Laws, “such annual meeting shall be held on the second Friday of May at 10:00 a.m. (C.S.T.) of each year. At such annual meeting, the Board of Directors shall be elected, the shareholders shall receive the report of the Company’s Officers and Directors, and such other business shall be transacted as may properly come before said meeting.” No evidence was provided for the occurrence of a 2018 meeting of the Company’s Shareholder. Section §44-210 of the Nebraska Insurance Statutes requires each Nebraska domestic insurer to hold an annual meeting of its Shareholders on or before June 30 of each year to receive the report of its Officers and Directors and to elect Directors whose terms expire, and to transact such other business as may be lawful for it to do. The Company held a Shareholder meeting in accordance with its By-Laws in 2019.

### **Board of Directors**

The Company’s By-Laws, Section 3.01 provides that, “the Board of Directors shall consist of not less than five nor more than nine members with the exact number to be fixed and determined from time to time by resolution of a majority of the full Board of Directors. At least one Director shall be a resident of Nebraska.” The By-Laws further provide that, “the Board of

Directors of the Company shall be elected annually by the Shareholders at the annual meeting. The term of office for each Director shall be one year, and each such Director shall hold office only until the expiration of such one-year period unless otherwise determined by the Board of Directors.” Article III, Section 3.06 of the By-Laws provides that, “the Board of Directors shall meet as frequently as the dispatch of business shall require and in any event at least four times in each calendar year. The annual meeting of the Board of Directors shall be held without notice in the Home Office of the Company or at such other place as determined by the Board of Directors on the same day as the annual meeting of the members.

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

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
Geoffrey R. Banta Dahlonega, GA	Self-Employed Consultant
David V. Brueggen <sup>1</sup> Naples, FL	Retired Corporate Executive
Reagan R. Pufall Omaha, NE	Chief Executive Officer and President of the Company
Howard S. Silverman Chicago, IL	Chief Executive Officer Agman Partners
Jeremy T. Smith Elkhorn, NE	Principal, Agman Partners

<sup>1</sup> Dennis Chookaszian replaced David V. Brueggen as a Director during the May 29, 2019 Shareholder meeting.

No evidence was provided that the Board of Directors received a presentation of actuarial activities in 2018 in violation of the NAIC Annual Statement Instructions, which require the annual presentation by the appointed actuary, either in writing or in person, of the actuarial report and opinion.

No evidence was provided that in 2017 and 2018 the Board of Directors was responsible for the appointment, compensation, and oversight of the external auditors work for the purpose of preparing or issuing the Audited Financial report or related work in violation of Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 014.01.

### **Officers**

Article IV, Section 4.01 of the Company's By-Laws provides that the Executive Officers of the Company would include a Chairman of the Board, a Chief Executive Officer, a President, a Chief Operating Officer, a Chief Legal Officer, a Chief Financial Officer, such Vice Presidents as may be chosen by the Board, a Secretary, a Treasurer, and other Executive Officers with powers that would be delegated and defined by the Board. Article IV, Section 4.01 of the By-Laws also states that, "one person may hold more than one Executive Office at the same time, except that the Chairman of the Board or the President cannot also hold the office of Vice President, Secretary or Treasurer." The Company did not have a Chief Legal Officer during the examination period as required by the By-Laws, however, the By-Laws were revised in 2019 and no longer allow for a Chief Legal Officer. Article IV, Section 4.05 of the By-Laws provides that, "at each annual meeting, the Board of Directors shall elect the Executive Officers named above and may elect or appoint any other Officers which it shall deem appropriate, assign the official titles to each, fix and authorize payment of the compensation of each such Officer and provide to the duties of such office." The Company did not elect Officers in 2018. The Company amended its By-Laws subsequent to the examination period, removing the requirement for annual election of Officers.

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

**Name**

Reagan Pufall  
Naomi Wilson  
Bryan Connolly  
Christopher Lamantia

**Office**

President and Chief Executive Officer  
Secretary and Chief Operating Officer  
Treasurer and Chief Financial Officer  
Chief Marketing Officer

**Committees**

Article V of the Company's By-Laws provides for the following committees: Compensation Committee, Compliance and Audit Committee, and Investment Committee; and provide that Standing Committees may be established from time to time by the Board of Directors. As of the examination date, all Board members served on each committee but committee chairman varied by committee.

**TRANSACTIONS WITH AFFILIATES**

**Cost Sharing Agreement**

Effective September 8, 2017, the Company entered into a cost sharing agreement with its parent and affiliates including, Omaha National Underwriters, LLC (ONU), and Omaha National Employer Services, LLC (ONES). The anticipated service provider for other members of the group was to be ONU, with the allocated amounts to be established in conformity with customary insurance accounting principles. Costs allocated from ONU to the Company totaled \$108,936 for 2018.

**RBC Maintenance Agreement**

Effective September 8, 2017 the Company entered into an RBC Maintenance Agreement with the Howard Scott Silverman Gift Trust (Trust). The agreement was entered into effective with the initial authorization and licensing of the Company by the Nebraska Insurance Department. The Trust is to contribute, or cause to be contributed, additional capital to the Company anytime its RBC ratio falls below 300 percent, measured quarterly. Management

received additional paid in capital periodically, as noted under the caption “Shareholder,” during the exam period as deemed necessary by management to maintain RBC above 300 percent. The initial term of the agreement is three years but renews automatically annually unless termination is agreed to by the Department.

### **Tax Allocation Agreement**

Effective January 1, 2018, the Company’s federal income tax return was consolidated with ONG, ONU, and ONES. Under terms of the agreement, ONG filed consolidated federal tax returns for the consolidated group. The consolidated tax liability is allocated among affiliates on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return.

### **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 is a mono-line reinsurer with no direct premium but assumes workers’ compensation insurance through a fronting arrangement with Preferred Professional Insurance Company, (PPIC), an unaffiliated Nebraska domiciled insurer. All premiums assumed were written in California by PPIC, utilizing ONU, a Managing General Agent affiliated with the Company. ONU receives premium and pays broker commissions, claims, claims adjustment expenses and certain other expenses on behalf of PPIC, as the direct writer, and on behalf of the Company and other participating reinsurers. Gross premium for the Company grew rapidly from 2017 to 2018 as this program expanded in the first full year of operations for the Company.

## **REINSURANCE**

### **Assumed**

The Company assumes reinsurance through participation in a fronting Quota Share Reinsurance Agreement with PPIC. The Company is obligated to cover 25% of the first million dollars per loss with PPIC retaining 5% of the first million dollars per loss. The assumed liabilities are collateralized using a trust account. The amount held in trust on behalf of the ceding company, PPIC, is to be at least 110% of the sum of unearned premium and the total of actuarially determined loss and loss adjustment reserves, less premium funds held in the fiduciary premium account. The amount held in trust as of the examination date was in compliance with these provisions.

### **Ceded**

The Company did not have ceded reinsurance.

### **General**

The contract reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. The contract 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>2017</u>	<u>2018</u>
Bonds	\$ 1,599,806	\$ 1,499,184
Cash and short-term investments	1,376,934	4,945,815
Admitted assets	3,732,235	8,017,231
Loss reserves	82,331	1,973,350
Unearned premiums	734,223	2,523,029
Total liabilities	879,643	4,786,931
Capital and surplus	2,852,592	3,230,300
Premium earned	127,246	3,246,142
Net investment income	9,591	32,909
Losses incurred	86,279	2,172,757
Net income	(147,916)	(1,121,677)

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department 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**

<b><u>Assets</u></b>	<b><u>Assets</u></b>	<b><u>Assets Not Admitted</u></b>	<b><u>Net Admitted Assets</u></b>
Bonds	\$1,499,184		\$1,499,184
Cash and cash equivalents	<u>4,945,815</u>	<u>                    </u>	<u>4,945,815</u>
Subtotal, cash and invested assets	\$6,444,999		\$6,444,999
Investment income due and accrued	8,576		8,576
Uncollected premiums and agents' balances in the course of collection	253,311		253,311
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,310,345		1,310,345
Prepaid expenses	<u>108</u>	<u>\$ 108</u>	<u>                    </u>
Totals	<u>\$8,017,339</u>	<u>\$ 108</u>	<u>\$8,017,231</u>
 <b><u>Liabilities, Surplus, and Other Funds</u></b>			
Losses			\$ 1,973,350
Reinsurance payable on paid losses on loss adjustment expenses			45,310
Loss adjustment expenses			190,169
Other expenses			5,168
Current federal income taxes			2,540
Unearned premiums			2,523,029
Payable to parent, subsidiaries and affiliates			<u>47,365</u>
Total liabilities			<u>\$ 4,786,931</u>
Common capital stock			\$ 1,200,000
Gross paid in and contributed surplus			3,300,000
Unassigned funds			<u>(1,269,700)</u>
Total capital and surplus			<u>\$ 3,230,300</u>
Totals			<u>\$ 8,017,231</u>



## STATEMENT OF INCOME – 2018

### Underwriting Income

Premiums earned	\$ 3,246,142
Losses incurred	\$ 2,172,757
Loss adjustment expenses incurred	203,478
Other underwriting expenses incurred	<u>2,024,492</u>
Total underwriting deductions	<u>\$ 4,400,727</u>
Net underwriting gain	<u>\$(1,154,586)</u>

### Investment Income

Net investment income earned	\$ <u>32,909</u>
Net investment gain	\$ <u>32,909</u>
Net income before federal income taxes	\$(1,121,677)
Federal income taxes incurred	<u>                    </u>
Net income	<u>\$(1,121,677)</u>

## CAPITAL AND SURPLUS ACCOUNT

	<u>2017</u>	<u>2018</u>
Capital and surplus, beginning	\$ <u>0</u>	\$ <u>2,852,592</u>
Net income	\$ (147,916)	\$(1,121,677)
Change in net deferred income tax	32,098	(32,098)
Change in nonadmitted assets	(31,590)	31,482
Change in capital paid in	1,200,000	
Change in surplus paid in	1,800,000	1,500,000
Net change for the year	<u>\$2,852,592</u>	<u>\$ 377,707</u>
Capital and surplus, ending	<u>\$2,852,592</u>	<u>\$3,230,300</u>

## **EXAMINATION CHANGES IN FINANCIAL STATEMENTS**

Unassigned funds (surplus) in the amount of \$(1,269,700), as reported in the Company's 2018 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**

This is the first examination of the Company, and as such, there are no previous recommendations.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

There are no additional current examination findings as a result of this examination.

## **SUBSEQUENT EVENT**

## **AMENDMENT TO THE BY-LAWS**

The By-Laws were amended effective February 12, 2019, and subsequent to the examination date. Numerous changes were made to the amended By-Laws, including the "annual meetings of the Shareholders shall be held at a place determined by the Board and stated in the notice to Shareholders and shall be held before June 30 of each year." The requirement for the Board to meet at least four times in each calendar year was removed, as was the requirement for a Chief Legal Officer. The requirement for annual election of Officers was removed. The name of the Compliance and Audit Committee was changed to the Audit Committee. Only the Audit Committee is required under the amended By-Laws; the Board may elect other committees.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Actuarial Report and Opinion** – It is recommended the Board of Directors receive a presentation of actuarial activities as required by the NAIC Annual Statement Instructions and document the occurrence and related discussions and activities in the Board of Directors meeting minutes.

**Audit Committee** – It is recommended the Board of Directors perform responsibilities as required by Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 014.01 and document performance and related discussions and activities in the Board of Directors meeting minutes.

## ACKNOWLEDGMENT

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

In addition to the undersigned, Robin Roberts, CFE, and Steven Kilgore, CFE, Financial Examiners; and Michael Nadeau, AES, CFE, Information Systems Specialist; all with the firm Eide Bailly LLP; and Gordon Hay, MAAA, CPCU, with the Department, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



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James W. Menck, CFE  
Examiner-in-Charge  
Department of Insurance  
State of Nebraska



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

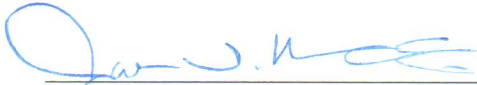
State of Texas,

County of Tarrant,

James W. Menck, 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 Omaha National 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 Omaha National Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

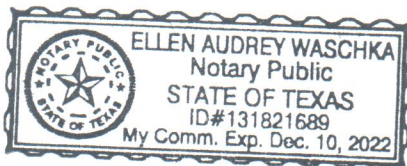
The affiant says nothing further.



Examiner-in-Charge's Signature

Subscribed and sworn before me by James Menck on this 24 day of April, 2020.

(SEAL)



Ellen Audrey Waschka  
Notary Public

My commission expires 12/10/2022 [date].