

JAN 10 2022

FILED

# CERTIFICATION

January 10, 2022

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

**STONETRUST COMMERCIAL INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2020**

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".

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**STONETRUST PREMIER CASUALTY INSURANCE COMPANY**

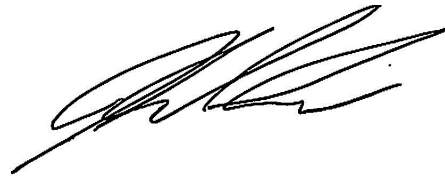
**5615 CORPORATE BOULEVARD, SUITE 800**

**BATON ROUGE, LOUISIANA 70808**

dated as of December 31, 2020, verified under oath by the examiner-in-charge on January 7, 2022, and received by the company on January 7, 2022, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 10<sup>th</sup> day of January 2022.

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**

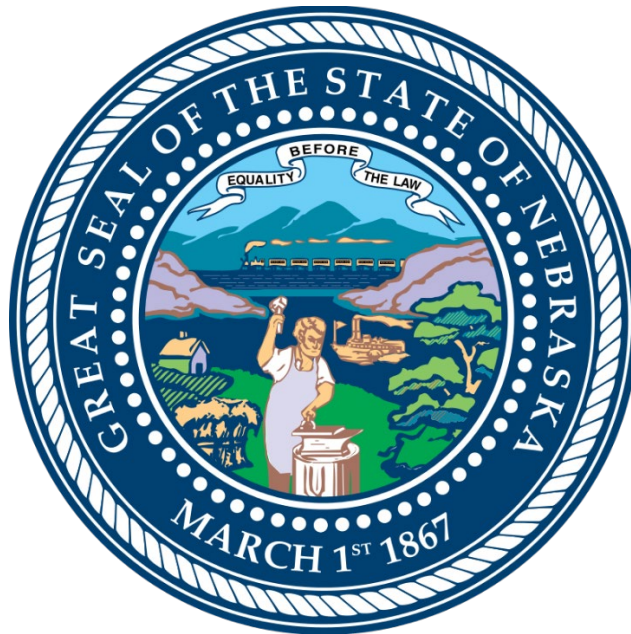
**EXAMINATION REPORT**

**OF**

**STONETRUST PREMIER CASUALTY INSURANCE COMPANY**

**as of**

**December 31, 2020**



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Baton Rouge, Louisiana  
January 5, 2022

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:

**STONETRUST PREMIER CASUALTY INSURANCE COMPANY**

which has its Statutory Home Office located at

**13810 FNB Pkwy, Suite 200  
Omaha, Nebraska 68154**

with its Principal Executive Office located at

**5615 Corporate Boulevard, Suite 800  
Baton Rouge, Louisiana 70808**

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

**INTRODUCTION**

This is the first full-scope examination of the Company. A qualifying examination was conducted as of March 6, 2019. The current financial condition examination covers the intervening period to, and includes the close of business on December 31, 2020 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.

The same examination staff conducted a concurrent financial condition examination of the Company’s parent, Stonetrust Commercial Insurance Company (Stonetrust Commercial).

## **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 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, Board of Directors, and committees 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. 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."

Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company has not had any claims or payment of incurred losses.

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 Postlethwaite & Netterville, Professional Accounting Corporation (P&N), the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2020. 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 as a Nebraska domestic stock insurance Company on November 30, 2018, receiving its Certificate of Authority to write workers' compensation insurance on May 3, 2019. The Company has not begun operations as of the date of this report.

The Company was formed as a wholly owned insurance company subsidiary of Stonetrust Commercial. The Company is authorized to issue 1,000 shares of common stock with a par value of \$2,500 per share, all of which are issued and owned by Stonetrust Commercial. Stonetrust Commercial purchased the Company's outstanding shares for \$5,500 per share on December 15, 2018 pursuant to a stock subscription agreement.

### 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 2020 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Francis Chou (Manager & Owner)

2665411 Ontario Inc (an Ontario Corporation)

Chou America Management Inc. (an Ontario Corporation)

Chou Associates Management Inc. (an Ontario Corporation)

Wintaai Holdings Ltd. (an Ontario Corporation) – 72.1% owned by Chou Associates Management Inc.; 12.4% by Francis Chou; 1.2% by 2665411 Ontario Inc.; and 14.3% by individual investors

Stonetrust Commercial Insurance Company (a Nebraska Corporation) – 99.6% owned by Wintaai Holdings Ltd. and 0.44% by certain Officers and Directors of Stonetrust Commercial

**Stonetrust Premier Casualty Insurance Company (a Nebraska Corporation)**



## **Shareholders**

Per Article V of the Articles of Incorporation, “the aggregate number of shares which the Corporation shall have the authority to issue is ONE THOUSAND (1,000) shares of common stock of Two Thousand Five Hundred Dollars (\$2,500.00) par value per share.” The number of shares of the Corporation outstanding was 1,000 shares of common stock.

No dividends were paid during the period under examination.

Per Article II of the By-Laws, “the annual meeting of Shareholders shall be held on or before the 30<sup>th</sup> day of June in each and every calendar year for the purpose of receiving the report of its Officers and Directors, electing Directors, and for the transaction of such other business as may come before the meeting.” The 2020 joint meeting of the Company and Stonetrust Commercial was held on June 4, 2020 at the Company’s home office.

## **Board of Directors**

Per Article III of the By-Laws, “the business and affairs of the Corporation shall be managed by its Board of Directors.” The Company’s By-Laws also provide, “the number of Directors of the Corporation shall be no fewer than five (5), the exact number to be determined by the Shareholders. Each Director shall hold office until the next annual meeting of Shareholders, and until his or her successor shall have been elected and qualified, or until his or her death, resignation or removal. Each Director shall qualify as a Director of the Corporation under applicable insurance laws of the State of Nebraska and at least one Director shall be a resident of the State of Nebraska. Subject to the laws of the State of Nebraska, the permissible number of Directors may be increased or decreased from time to time by amendment to these By-Laws, but no decrease shall have the effect of shortening the term of any incumbent Director.” In addition,

the By-Laws state, “a regular meeting of the Board of Directors shall be held without other notice than this By-Law immediately after and at the same place as the annual meeting of Shareholders.”

The following persons were serving as Directors at December 31, 2020:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
Francis Chou Toronto, ON Canada	President, Chief Executive Officer, Chou Associates Management Inc.
Michael Dileo Baton Rouge, LA	President, Chief Executive Officer, Stonetrust Commercial Insurance Company, and Stonetrust Premier Casualty Insurance Company
David A. Fluker Port Allen, LA	President/Owner, Fluker’s Farm
Lawrence Harr Omaha, NE	Attorney, Lamson Dugan & Murray LLP
Grady R. Hazel, Chairman Baton Rouge, LA	Certified Public Accountant, Grady R. Hazel CPA

**Officers**

Article IV of the By-Laws provides that, “the Officers of the Corporation shall be a President, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other Officers and assistant Officers as may be deemed necessary, including Chair of the Board or one or more Vice Presidents, may be elected or appointed by the Board of Directors. All executive Officers shall be persons who are known to be capable of running the affairs of an insurance company and who otherwise qualify as executive Officers of an insurance company under Nebraska insurance law. Any two (2) or more offices may be held by the same person except as may otherwise be required by law.”

The following is a listing of Officers elected and serving the Company at December 31, 2020:

<u>Name</u>	<u>Office</u>
Michael G. Dileo	President, Chief Executive Officer, and Chairman
Michael Shane Treigle	Treasurer and Chief Financial Officer
Cathy B. Gauthier*	Assistant Treasurer and Controller
Melanie J. Forbes	Secretary and Vice President of Claims
Robert F. Wolf	Vice President and Appointed Actuary
Jeffrey Skaggs Sr.	Senior Vice President of Underwriting and Marketing

\* Cathy Gauthier resigned on March 5, 2021, and had not been replaced as of the date of this report.

### **Committees**

The Company's Articles of Incorporation and By-Laws do not address required or allowed Board Committees. As of the examination date, the Company had an Audit Committee and Investment Committee.

The following persons were serving on the Audit Committee at December 31, 2020:

David A. Fluker	Grady R. Hazel
Lawrence Harr	

The following persons were serving on the Investment Committee at December 31, 2020:

Michael G. Dileo	Francis Chou
Michael Shane Treigle	

### **TRANSACTIONS WITH AFFILIATES**

#### **Investment Management Agreement**

Effective July 1, 2019, the Company became a participant in an agreement with Chou Associates Management Inc., whereby Chou Associates Management Inc. provides investment supervision and direction for all investments to the Company. The agreement was not disapproved by the Nebraska Department of Insurance on July 17, 2019. The Company reported investment management expenses of \$958 in 2020.

### **Intercompany Management Cost Sharing and Cost Allocation Agreement**

Effective January 1, 2020, Stonetrust Commercial and the Company entered into a Cost Sharing Agreement. Under the agreement, Stonetrust Commercial provides certain goods, third party services, management, and other direct services to the Company since it has no employees. The Company is charged for its allocable share of Stonetrust Commercial's actual costs, and a monthly Management Services charge. The charge is based on the greater of monthly direct gross earned premium times net expense ratio plus 5% or \$5,000. The agreement was not disapproved by the Nebraska Department of Insurance on October 30, 2019. The Company reported expenses under the agreement of \$45,000 in 2020.

### **Tax Sharing and Allocation Agreement**

Effective January 1, 2019, the Company's federal income tax return was consolidated with Stonetrust Commercial and Stonetrust Realty, LLC. Stonetrust Realty, LLC was dissolved effective July 18, 2019. Under terms of the agreement, Stonetrust Commercial files 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. The agreement was not disapproved by the Nebraska Department of Insurance on July 1, 2019.

### **TERRITORY AND PLAN OF OPERATION**

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

Arkansas	Missouri	Tennessee
Louisiana	Nebraska	Texas
Mississippi	Oklahoma	

The Company is a mono-line insurer writing workers' compensation insurance. As of the date of this examination, the Company has not begun writing business.

## **REINSURANCE**

### **Assumed**

The Company had no assumed reinsurance during the period under examination.

### **Ceded**

#### **Intercompany Quota Share Reinsurance Contract**

Effective April 1, 2020, the Company and Stonetrust Commercial are parties to an Intercompany Quota Share Reinsurance Contract. The Company will cede 100% of its gross premium, losses and expenses to Stonetrust Commercial when it starts writing business. The agreement was not disapproved by the Nebraska Department of Insurance on February 18, 2020.

### **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>2019</u>	<u>2020</u>
Bonds	\$ 926,370	\$ 926,975
Cash and short-term investments	4,550,345	4,490,440
Admitted assets	5,485,783	5,436,245
Total liabilities	1,956	4,812
Capital and surplus	5,483,827	5,431,433
Net investment income	32,544	15,655
Net income	(16,173)	(52,394)

### 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, 2020. 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, 2020**

<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	\$ 926,975		\$ 926,975
Cash	<u>4,490,440</u>	<u>                    </u>	<u>4,490,440</u>
Subtotal, cash and invested assets	\$5,417,415		\$5,417,415
Investment income due and accrued	4,788		4,788
Current federal income tax receivable	<u>14,042</u>	<u>                    </u>	<u>14,042</u>
Totals	<u>\$5,436,245</u>	<u>                    </u>	<u>\$5,436,245</u>

**Liabilities, Surplus, and Other Funds**

Other expenses	\$ 834
Taxes, licenses and fees	3,020
Payable to parent, subsidiaries and affiliates	<u>958</u>
Total liabilities	<u>\$ 4,812</u>
Common capital stock	\$2,500,000
Gross paid in and contributed surplus	3,000,000
Unassigned funds	<u>(68,567)</u>
Total capital and surplus	<u>\$5,431,433</u>
Totals	<u>\$5,436,245</u>

**STATEMENT OF INCOME – 2020**

**Underwriting Income**

Other underwriting expenses incurred	<u>\$ 82,091</u>
Total underwriting deductions	<u>\$ 82,091</u>
Net underwriting gain	<u>\$ (82,091)</u>

**Investment Income**

Net investment income earned	<u>\$ 15,655</u>
Net investment gain	<u>\$ 15,655</u>
Net income before federal income taxes	<u>\$ (66,436)</u>
Federal income taxes incurred	<u>(14,042)</u>
Net income	<u>\$ (52,394)</u>

**CAPITAL AND SURPLUS ACCOUNT**

	<b><u>2019</u></b>	<b><u>2020</u></b>
Capital and surplus, beginning	<u>\$ 0</u>	<u>\$5,483,827</u>
Net income	\$ (16,173)	\$ (52,394)
Capital changes		
Paid in	2,500,000	
Surplus adjustments	<u>3,000,000</u>	<u>                    </u>
Net change for the year	<u>\$5,483,827</u>	<u>\$ (52,394)</u>
Capital and surplus, ending	<u>\$5,483,827</u>	<u>\$5,431,433</u>



## **EXAMINATION CHANGES IN FINANCIAL STATEMENTS**

Unassigned funds (surplus) in the amount of \$(68,567), as reported in the Company's 2020 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**

No recommendations were made as a result of the previous examination.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Custodial Agreements**

The Company did not obtain Board or Committee authorization for custodial agreements as required by Title 210, Chapter 81, Section 003.02 of the Nebraska Rules and Regulations. It is recommended that the Company's Board of Directors or Investment Committee authorize the custodial agreements by resolution.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

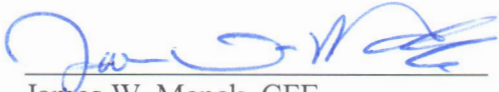
**Custodial Agreements** - It is recommended that the Company's Board of Directors or Investment Committee authorize the custodial agreements by resolution.

**ACKNOWLEDGMENT**

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

In addition to the undersigned, Jamesia Burford, CFE, Brian Sewell, CFE, David Habony, CFE, Financial Examiners with the firm Eide Bailly LLP; Michael Nadeau, AES, CFE, Information Systems Specialist, all with the firm Eide Bailly LLP; and Gordon Hay, MAAA, CPCU; with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



James W. Menck, CFE  
Examiner-in-Charge  
Eide Bailly LLP  
Representing the Department of Insurance  
State of Nebraska



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