

**STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
MONTGOMERY, ALABAMA**

**REPORT OF EXAMINATION OF**

**CENTENNIAL CASUALTY COMPANY**

**BIRMINGHAM, ALABAMA**

**AS OF DECEMBER 31, 2015**

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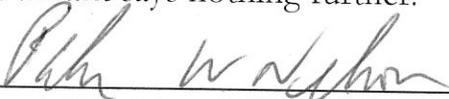
**EXAMINER'S AFFIDAVIT**

**STATE OF ALABAMA  
COUNTY OF JEFFERSON**

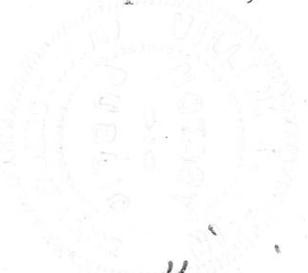
Palmer W. Nelson being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Centennial Casualty Company.
2. Alabama 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 Centennial Casualty Company was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

  
\_\_\_\_\_  
Palmer W. Nelson, CFE  
Examiner-in-charge

Subscribed and sworn before me by Palmer W. Nelson on this 2<sup>nd</sup> day of September, 2016.

  
  
\_\_\_\_\_  
(Signature of Notary Public)

My commission expires 6-12-2017



ROBERT BENTLEY  
GOVERNOR

JIM L. RIDLING  
COMMISSIONER

**STATE OF ALABAMA**  
**DEPARTMENT OF INSURANCE**  
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DEPUTY COMMISSIONER  
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CHIEF OF STAFF  
MARK FOWLER  
CHIEF EXAMINER  
RICHARD L. FORD  
STATE FIRE MARSHAL  
SCOTT F. PILGREEN  
GENERAL COUNSEL  
REYN NORMAN

Birmingham, Alabama  
September 2, 2016

Honorable Jim L. Ridling  
Commissioner of Insurance  
Alabama Department of Insurance  
Post Office Box 303351  
Montgomery, Alabama 36130

Dear Commissioner:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and condition of

Centennial Casualty Company  
Birmingham, Alabama

as of December 31, 2015, at its home office located at 2200 Woodcrest Place, Suite 200, Birmingham, Alabama 35209. The report of examination appears herewith.

Where the term "Company" appears herein without qualification, it will be understood to indicate Centennial Casualty Company.

## SCOPE OF EXAMINATION

We have performed an examination of Centennial Casualty Company, a multi-state company. The last examination covered the period of January 1, 2006 through December 31, 2010. The current examination covers the period of January 1, 2011 through December 31, 2015.

The examination was conducted in accordance with applicable statutory requirements of the Code of Alabama, 1975, as amended, the Alabama Insurance Department regulations, bulletins and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the *NAIC Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IT) was conducted concurrently with the financial examination. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider

controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims handling, advertising and marketing, policy forms and underwriting, policyholders' complaints, producers' licensing requirements, and privacy standards.

Warren Averett, LLC was the Company's certified public accountants (CPAs) for the years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2015.

## **ORGANIZATION AND HISTORY**

The Company was incorporated on September 25, 1975, as a stock insurance corporation, and commenced business on that same day.

The original Articles of Incorporation authorized 30,000 shares of \$10 par value common stock. The Company began with \$300,000 of capital and \$450,000 of paid in surplus contributed by the Company's parent, Auction Insurance Agency, in exchange for a surplus note, in the same amount, issued by the Company. The surplus note has since been paid off and Auction Insurance Agency has merged with Robinson-Adams Agency, Inc., and the name of the surviving corporation was changed to Robinson-Adams Insurance, Inc. (RAI). The Company's authorized capital stock was increased on January 4, 1982, to 50,000 shares of common stock.

On June 1, 2007 through a share exchange, the stockholders of RAI contributed all of its shares of RAI for an equal number of shares of Century Holding Company, Inc. (Century). On June 2, 2007, RAI distributed all of the Company's shares to Century Holding Company, Inc.

On September 30, 2007, the Company issued a stock dividend of two shares for every one share held was paid to each stockholder of record at the close of business on September 30, 2007.

On October 1, 2007, the Company increased the total amount of its authorized capital stock of \$500,000 consisting of 50,000 shares to \$1.5 million consisting of 150,000 shares.

On October 1, 2010, Century was merged into the Company pursuant to a Plan of Merger filed with the Alabama Secretary of State on August 16, 2010. The shares of Century were retired, and the Company's shares were issued to Century's eight shareholders equivalent to their percentage ownership in Century immediately preceding the merger. Century's eight shareholders were brothers, Richard M. Adams and Thomas J. Adams, Jr. along with their children.

On December 1, 2010, Richard M. Adams and Thomas J. Adams, Jr. transferred their shares (91% of the Company's outstanding shares) to two Grantor Retained Annuity Trust. These shares are not actively traded.

As of the examination date, the Company reported a capital structure of capital stock of \$1,500,000, gross paid in and contributed surplus of \$797,090, and unassigned funds of \$63,986,451.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

The common stock of the Company was 43.8% owned by Richard M. Adams and Thomas J. Adams, Jr., Grantor Retained Annuity Trusts, and a Generation Skipping Trust and 56.0% owned by the children of the brothers, Richard M. Adams and Thomas J. Adams, Jr., at December 31, 2015.

### **Board of Directors**

The Company's By-Laws stipulate that its business shall be managed and controlled by a Board of Directors who shall be elected by the stockholders. The number of directors shall not be less than three or more than seven directors.

The following directors were elected by the stockholder and were serving at December 31, 2015.

<u>Director and Place of Residence</u>	<u>Principal Occupation and Employer</u>
Thomas Jefferson Adams, Jr. Birmingham, Alabama	Insurance Management Woodcrest Services, Inc.
Richard Manly Adams Mountain Brook, Alabama	Insurance Management Woodcrest Services, Inc.
Robin McKinney Price* Hoover, Alabama	Controller Centennial Casualty Company
Charles Walton Redden Birmingham, Alabama	President AutoTec, LLC

\*Replaced by Charles Thomson Adams and Thomas Jefferson Adams III in 2016.

### Committees

The Company had no board committees during the examination period.

### Officers

The Company's By-Laws provide that its executive officers shall be a President, one or more Vice Presidents, a Secretary, and a Treasurer, each of whom shall be elected by the Board annually and shall hold office until their successors are elected and qualified. Other officers may be appointed as deemed necessary by the Board of Directors. Officers serving at December 31, 2015, were as follows.

<u>Name</u>	<u>Title</u>
Thomas Jefferson Adams, Jr.*	Chairman and President
Richard Manly Adams	Vice President
Tommy Steven DeMedicis	Vice President
Brandon Matthew Walton	Vice President
Charles Walton Redden	Vice President
Robin McKinney Price	Secretary/Treasurer
William Reed Cain	Chief Financial Officer

\*Replaced as President by Charles Walton Redden in 2016

### **Conflicts of Interest**

The Company's Conflict of Interest policy was adopted in March 1994. The policy states that the "Centennial Casualty Company ("Centennial") nor any of its officers, directors or stockholders ("Principals") will own an equity interest in, have a financial interests in, or serve as an officer or director of any agency or brokerage company through whom it writes insurance without disclosing such interest or position to the Company's Board of Directors and to the Alabama Department of Insurance." Signed Certifications for each officer and director serving during the examination period were provided. There were no disclosures of conflicts.

### **Management and Service Agreements**

The Company had several management and service agreements that were entered into with Robinson-Adams Insurance, Inc. (RAI). RAI has changed its name to Woodcrest Services, Inc. in August of 2011. At December 31, 2015, the Company had seven management and service or agency agreements to provide for the operations of the Company as follows.

#### Affiliated

Facilities, Systems, Operations and Investment Services Agreement between the Company and Robinson-Adams Insurance, Inc. (Manager, now Woodcrest Services, Inc.) as of January 1, 2010

1. Manager agreed to provide all non underwriting management, secretarial, accounting and clerical services needed for the efficient operation of the Company.

2. Manager agreed to supply all office equipment, telephone service including long-distance service, and office facilities necessary for the Company's operations.
3. Manager agreed to provide information systems services suitable for the Company and to retain all electronic data records for a minimum of 7 years. It is mutually agreed that the Manager may subcontract information systems activities to an affiliate or an outside firm, however, Manager shall remain responsible for ensuring the quality of the services and the retention of the data.
4. Manager shall have the responsibility to manage the Company's investment portfolio; however, all investment decisions shall be approved by a Company officer.
5. The Company is to pay \$350,000 annually in 12 monthly payments.

Loss Adjustment Agreement between the Company and Robinson-Adams Insurance, Inc. (Agent, now Woodcrest Services, Inc.) effective January 1, 2010

1. The Company appointed Agent as its exclusive loss adjusting agent.
2. Agent shall perform the following functions:
  - a. Coordinate and make all claim payments.
  - b. Supervise and monitor outside attorneys.
  - c. Supervise all repossession activities.
  - d. Act in the capacity of General Counsel.
3. The Company agreed to allow and pay and Agent agrees to accept 7% of all premiums on check and title policies as compensation for its services.
4. Agent's operation shall be at its own expense.
5. This contract applies to all existing policies in force at January 1, 2010 and all policies issued after this date.

Loss Prevention, Salvage and Subrogation Agreement between the Company and Robinson-Adams Insurance, Inc. (Agent, now Woodcrest Services, Inc.) effective January 1, 2010

1. The Company appoints Agent as its agent for loss prevention, salvage and subrogation. Agent shall take all steps to prevent losses and to salvage and minimize losses.
2. Agent agrees to give notice to the insureds of the names of dealers with whom transactions are unacceptable to the Company for coverage under the policies issued, adding and deleting the names of dealers whose transactions with the insureds are unacceptable to the Company for coverage as may from time to time be deemed by Agent in the best

- interest of the operation of this program of insurance. Agent shall see to it that all insureds are properly advised of any additions or deletions from the names of automobile dealers with whom insureds' transactions will not be covered under the policies issued.
3. The Company agrees to allow and pay and Agent agrees to accept as compensation for its services \$350,000 annually plus 30% of all recoveries made by Agent on losses reported to the Company by its insureds.

General Sales Agency Agreement between the Company and Robinson-Adams Insurance, Inc. (Agent, now Woodcrest Services, Inc.) effective January 1, 2010

1. The Company employed Agent as its sales agent for Check and Title Insurance Policies, other policies of insurance and surety bonds.
2. Agent shall provide all necessary sales representatives, secretarial, accounting, clerical, data processing and telephone services necessary for the efficient production of insurance premium. The Company agrees that the Agent may subcontract with others to provide services, equipment and facilities.
3. The Agent shall have no underwriting authority but shall recommend applicants for policies to the Company or other underwriting managers designated by the Company giving full information about such applicants.
4. The Company or its delegated underwriting manager has complete authority to accept or reject risks.
5. Agent shall give a detailed accounting to the Company on any material transaction, including information necessary to support all commissions, charges, and other fees received by or owing to Agent.
6. All funds are to be submitted at least on a monthly basis. Premiums or any installment collected by Agent are to be remitted no later than 90 days after the effective date of any policy. Premiums are also collectible directly by the Company from the insured.
7. Any funds collected for the Company's account shall be held by Agent in a fiduciary capacity in one or more appropriately identified bank accounts in a Federal Reserve System bank.
8. Separate identifiable records of the Company's written business shall be maintained by Agent.
9. The rates and terms of the commissions, charges and other fees payable to Agent shall be no greater than those applicable to comparable business placed with the Company by producers other than Agent. The Company may establish a different limit for each line or sub-line of

business written by the Agent. The Company shall notify Agent when the limit is approached and shall not accept business from Agent if the limit is reached. The initial limit under this contract is established at one times of policyholders surplus as of the preceding December 31.

10. Agent may negotiate but may not bind reinsurance on the Company's behalf.
11. The Company shall provide Agent with its underwriting standards, rules and procedures, and manuals setting forth the rates to be charged, and the conditions for the acceptance or rejection of risks, which the Agent shall adhere to. These should be the same as those applicable to comparable business placed with the Company by a producer other than Agent.
12. Compensation for the Agent's services:
  - a. 20% of all premiums on Check and Title Policies
  - b. A contingent commission equal to the earned premium on all Check & Title premiums produced by Agent less 45% for the Company's expenses, less losses times 25%; however, said calculation shall not be made and no payment issued until one year after premiums are earned and until the adequacy of the Company's reserves on remaining claims has been independently verified as outlined in Chapter 6B of the Alabama Insurance Code. Settlements under this contingent commission provision shall be made each April 1 thereafter with any deficit carried forward to subsequent collections.
  - c. 30% of all premiums on surety bonds
  - d. 20% of all premiums on all other property and liability insurance excluding long term professional and general liability insurance, which is covered in a separate agreement; however, the Company and Agent may agree to a larger compensation for larger policies (not to exceed 25%) and may also agree to a smaller compensation for specific policies where the size of the risk and amount of work required to produce the business warrants a different commission level.
13. This contract applies to all existing in force contracts and all policies issued after its effective date.

Agreement to Provide Accounting Services between Centennial Casualty Company and Woodcrest Services, Inc.

Woodcrest Services, Inc. agreed to provide Centennial Casualty Company accounting services for the operation of the Woodcrest Place building including the compilation of all reports to reflect income, expenses, and other

operational cost. Woodcrest Services, Inc. will receive consideration of \$500 per month for the services. The agreement became effective January 1, 2013 and shall continue until terminated by either party by giving the other 30 days advance notice.

Agreement to Provide Building Management Services between Centennial Casualty Company and Woodcrest Services, Inc.

Woodcrest Services, Inc. agreed to provide Centennial Casualty Company building management services for the operation of the Woodcrest Place building. Centennial shall pay Woodcrest Services, Inc. \$500 per month for such services. The agreement became effective April 1, 2014 and shall continue until terminated by either party giving the other 30 days advance notice.

All affiliated agreements were approved by the Alabama Department of Insurance.

Unaffiliated

Long Term Care Professional and General Liability Insurance Sales Agency Agreement between Centennial Casualty Company (Company) and Robinson-Adams Insurance, Inc. (Agent, now assigned to Arthur J. Gallagher Risk Management Services, Inc., an unaffiliated entity)

The Agent has a contract with Associated Long Term Care Insurance Company, Inc. (ALTC) of the Cayman Islands to arrange for a fronting carrier for their Long Term Care Professional and General Liability Insurance Program. Via this agreement, the Agent is arranging for the Company to provide such fronting services effective January 1, 2010.

1. The Company employed the Agent as its sales agent for Long Term Care Professional and General Liability Insurance (as a fronting company for ALTC).
2. This is not an exclusive appointment, which gives the Company authority to appoint other agents as it sees fit.
3. Agent shall provide all necessary sales representatives, secretarial, accounting, clerical, data processing and telephone services necessary for the efficient production of insurance premium. The Company agrees that Agent may subcontract with others to provide services, equipment and facilities.

4. Agent shall have no underwriting authority but shall recommend applicants for policies to the Company or other underwriting managers designated by the Company giving full information about such applicants.
5. Agent shall give a detailed accounting to the Company on any material transaction, including information necessary to support all commissions, charges, and other fees received by or owing to Agent.
6. All funds are to be submitted at least on a monthly basis. Premiums or any installment collected by Agent are to be remitted no later than 90 days after the effective date of any policy. Premiums are also collectible directly by the Company from the insured.
7. Any funds collected for the Company's account shall be held by Agent in a fiduciary capacity in one or more appropriately identified bank accounts in a Federal Reserve System bank.
8. Separate identifiable records of the Company's written business shall be maintained by Agent.
9. The contract may not be assigned in whole or in part by either party.
10. The rates and terms of the commissions, charges and other fees payable to Agent shall be no greater than those applicable to comparable business placed with the Company by producers other than Agent. The Company may establish a different limit for each line or sub-line of business written by the Agent. The Company shall notify Agent when the limit is approached and shall not accept business from Agent if the limit is reached. The initial limit under this contract is established at 60% of policyholders surplus as of the preceding December 31.
11. Agent may negotiate but may not bind reinsurance on the Company's behalf.
12. The Company shall provide Agent with its underwriting standards, rules and procedures, and manuals setting forth the rates to be charged, and the conditions for the acceptance or rejection of risks, which the Agent shall adhere to. These should be the same as those applicable to comparable business placed with the Company by a producer other than Agent.
13. Compensation for the Agent's services is 2% of all premiums on Long Term Care Professional and General Liability Insurance for which the Company is acting as a fronting company.

By amendment to the agreement, the Company appointed the Agent as its sales agent for Dental Insurance for compensation of 15% of all premiums on Dental Insurance on June 1, 2010.

A January 1, 2010 amendment amended the agreement to allow for the agreement to be assigned. On August 1, 2011, the agreement was assigned to Arthur J. Gallagher Risk Management Services, Inc., a subsidiary of Arthur J. Gallagher & Company.

### **CORPORATE RECORDS**

The Company's Articles of Incorporation and By-Laws were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations.

Minutes of the Stockholder and Board of Directors meetings that took place during the examination period were reviewed. The minutes appeared complete and adequately documented the actions of the respective governing bodies with one exception. In November 2012, the Company was granted permission to pay an extra ordinary dividend in the amount of \$1.5 million. To pay the dividend, the Company executed a promissory note in the amount of \$1.5 million with an affiliate, Woodcrest Capital, Inc. Management stated their consideration of various alternatives to fund the dividend and it was decided to borrow the funds on a short term basis to avoid selling liquid assets. Action of the Promissory Note was not recorded in the minutes of the Board of Directors meeting.

The Company has not complied with ALA. CODE §10A-2-16.01 (a) (1975) which states:

A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

### **HOLDING COMPANY AND AFFILIATE MATTERS**

As of December 31, 2015, the Company was subject to the Alabama Insurance Company Regulatory Act of 1973 as defined in ALA CODE §27-29-1 (1975). The review of the holding company filings made during the examination period indicated that appropriate disclosures were made regarding the Company.

### Dividends to Stockholders

The Company paid the following dividends to its Stockholder for each year under examination:

2011	\$	0
2012	\$	5,500,000
2013	\$	0
2014	\$	2,000,000
2015	\$	0

Payments of all dividends were approved by the Commissioner.

### Organizational Chart

The following chart presents the identities and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2015.



The Company did not complete the Organizational Chart in the Annual Statement Schedule Y correctly. The Organizational Chart did not include the NAIC Company Code and the State of Domicile as required by the *NAIC Annual Statement Instructions*, which states:

...The NAIC company code and two-character state abbreviation of the state of domicile should be included for all domestic insurers. The relationships of the holding company group to the ultimate controlling person (if such person is outside the reported holding company) should be shown. Only those companies that were a member of a holding company group at the end of the reporting period should be shown on Schedule Y - Part 1, Organizational Chart.

## **PENSIONS AND STOCK OWNERSHIP**

At December 31, 2015, the Company had two employees. It outsourced several of its day-to-day operations. The Company did handle underwriting, accounting functions, financial statement filings, and compliance issues. Day-to-day claims activities, administration operations, and agency services (including customer service) were handled by Woodcrest Services, Inc. via management and service agreements, which are found on page 6. Also, the Company had a Managing General Agent, Arthur J. Gallagher Risk Management Services, Inc., that administered the claims handling and underwriting for the professional medical liability and dental programs.

The Company has no retirement plan, deferred compensation plan, post-employment benefits and compensated absences or other post-retirement benefit plans. Employees participate in a 401K plan sponsored by an affiliate, Woodcrest Services, Inc. The Company has no required provisions for benefits.

### **Section 1033 Title 18 Compliance**

The Company was asked how it determined if those working on its behalf were not in conflict with Section §1033 of Title 18 of the U.S. CODE, and ALA. ADMIN CODE 482-1-146-.11 (2009), which prohibits certain persons from participating in the business of insurance. Company management indicated that the Company officers and directors are required to certify that they were not in conflict with Section §1033 of Title 18 of the U.S. CODE, and ALA.

ADMIN CODE 482-1-146-.11 (2009) annually and that criminal checks was not performed on employees of the Company.

The examination determined that the Company did not perform criminal background checks on current employees or those contracted with the Company. The Company also did not have an internal procedure for determining existing employees and those seeking employment with the Company had been convicted of a Section §1033 offense. The Company was not in compliance with ALA. ADMIN CODE 482-1-146-.11 (2009) which states:

- (1) A section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
  - (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.
  - (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.
  - (c) Requires an internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.
- (2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.

A similar recommendation was noted during the previous examination. See Compliance with Previous Recommendations section, Page 36.

### **STATUTORY DEPOSITS**

At December 31, 2015, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows.

<u>State</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Alabama	\$200,000	\$213,587	\$211,382
Oklahoma	\$100,000	\$100,000	\$100,000

## FINANCIAL CONDITION/GROWTH OF THE COMPANY

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Admitted Assets	\$110,216,628	\$109,324,123	\$106,857,868	\$90,773,928	\$85,329,802
Liabilities	43,933,087	45,382,351	44,953,641	42,075,059	37,952,685
Common Capital Stock	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Paid in and Contributed Surplus	797,090	797,090	797,090	797,090	797,090
Unassigned Funds	63,986,451	61,644,682	59,607,137	46,401,779	45,080,027
Gross Written Premium	21,360,708	18,972,364	17,036,430	15,247,521	14,646,504
Net Losses Incurred	4,100,411	4,323,718	3,894,866	2,943,541	1,734,619
Net Loss Adjustment Expenses Incurred	280,936	443,517	498,582	359,629	242,732

## MARKET CONDUCT ACTIVITIES

### Plan of Operation

The Company's principal line of business was check and title insurance, which insured wholesale automobile auctions against payment risk and title losses produced by the Company's in-house producers. An independent producer Arthur J. Gallagher & Co. wrote the Company's professional medical liability insurance to Alabama nursing homes and dental coverage to residents of the nursing homes via a fronting arrangement with Associated Long Term Care Company. Other lines business that the Company engaged in included surety bond coverage and general liability coverage for vacant land. During 2013, the Company began writing livestock auction payment risk insurance.

### Territory

The Company was properly licensed and held a certificate of authority in Alabama. The Company wrote surplus lines business in the following states and countries: Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas,

Vermont, Virginia, Washington, West Virginia, Wisconsin, Canada and Switzerland.

### **Policy Forms and Underwriting**

The examiner reviewed Alabama samples to determine compliance with Alabama statutes and regulations for the following: 2015 policy issuance and premium calculation, rejected applications and policy cancellations. The Company's policy premiums were calculated in accordance with the Company's underwriting guidelines and policies were issued in a timely manner. The examiner reviewed all of the Company's Alabama rejected applicants and determined that the applications were properly rejected in a nondiscriminatory manner. The Company properly cancelled its policies in accordance with its policy provisions without an excessive amount of paperwork.

### **Advertising and Marketing**

The Company did not have a formal marketing and sales program during the examination period. The Company's management indicated that the Company was the only Company in its niche market; therefore, it did not have a need to market payment and title insurance to auction companies. The Company had a web site which was owned and maintained by its affiliated Company, Woodcrest Services Inc., [www.auctioninsurance.com](http://www.auctioninsurance.com). The Company also used brochures, which described the risks associated with its payment and title insurance and the benefits of coverage. The Company also wrote Professional Medical Liability Coverage and Dental Insurance that was 100% produced by A. J. Gallagher & Co, which used brochures to market policies to medical professionals.

### **Claims Handling**

The Company reported 16 Alabama paid and closed claims during the year 2015. The examiners reviewed all of the Alabama claims. The examiners completed a time study of the Alabama paid claims. The claims were paid and acknowledged in a timely manner. The examiners also reviewed the Company's denied and closed-without payment claims during the examination period, a total of 18. The denied claims were properly denied in accordance with the Company's policy provisions. The Company provided the examiners with the Alabama population of litigated claims during the examination period, a total of 55. The review did not indicate any problematic claim handling practices. All of the Alabama claims were properly documented to support the

ultimate claim settlement determination. No issues were noted during the review.

### **Policyholder Complaints**

The Company did not have any complaints during the examination period from the Alabama Department of Insurance. However, the Company received four consumer direct complaints from the Better Business Bureau listed on its complaints register. None of those complaints were from Alabama residents or businesses.

### **Producers' Licensing Requirements**

#### **Producer Licensing**

The Company had fifteen appointed producers as of December 31, 2015. All were properly licensed and appointed to solicit business on behalf of the Company.

#### **Terminated Producers**

It was determined that the Company sent notifications of terminations to the ALDOI, but did not send notifications of terminations to the producers in accordance with ALA. CODE § 27-7-30.1(a) (1975), which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

### **Privacy Standards**

The Company's privacy standards were reviewed to determine compliance with ALA. ADMIN. CODE 482-1-122 (2001). Section 2 of this regulation states, in part: "This regulation does not apply to information about companies or about individuals who obtain or seek to obtain products or services for business, commercial or agricultural purposes ...". Based on the aforementioned, the Company was not subject to compliance with this regulation regarding its

check and title, surety bond, medical malpractice, general or professional liability lines of business as these products were for business or commercial use, not personal.

In 2010, the Company began offering dental coverage to residents of facilities for which professional liability coverage was provided. Because dental coverage was for personal use, the Company was subject to the provisions of this regulation regarding this line of business. However, the Company did not disclose any personal nonpublic financial information regarding any of its insureds, who were provided dental coverage; therefore, it did not have to comply with the privacy notice or opt out requirements found in Section 5 of this regulation. The Employee Handbook, which included the privacy procedures in place, was reviewed and was determined to contain the Company's methods utilized to safeguard confidential information such as: applications, customer lists, contracts, and loss records.

## **REINSURANCE**

The Company's reinsurance agreements were examined and found to include the proper safeguards and the required clauses such as an insolvency clause, an entirety clause, an errors and omissions clause, and termination clause, as well as defined the particular terms of premiums, loss, and commission payments and the rights and responsibilities of both parties.

### **Reinsurance Assumed**

#### **Marketplace Insurance, Inc. 50% Quota Share Reinsurance Agreement**

The Company entered into a 50% quota share reinsurance agreement with Marketplace Insurance, Inc. effective September 1, 2014, and automatically renewable each successive annual period until either party provides the other at least 30 days advance notice of termination. The cedant cedes 50% of the premiums and 50% of the cedant's ultimate net loss arising from the ultimate net losses paid by the cedant under the terms of the underlying policy. The cedant is a Hawaii domesticated captive insurer of eBay, Inc., an internet retailer and auction. The ceding commission is \$10 per eligible vehicle sold. The agreement was amended to indicate that the ceding commission will be \$12 per vehicle for certain types of vehicles sold.

## Universal International Insurance, Ltd. Reinsurance Agreement

The Company entered into an assumed reinsurance agreement effective November 15, 2015, with Universal International Insurance, Ltd. The agreement cedes the ultimate net loss of the underlying policies of South Florida Auto Auction of Fort Lauderdale, LLC, Orlando-Longwood Auto Auction, Music City Auction of Nashville, LLC, and Speedway Auto Auction of Charlotte. The agreement terms indicate that the agreement will renew annually until cancelled by either party. The cedant's retention is \$150 times the number of vehicles sold by the subject business automobile auctions. The aggregate loss limit of the assuming company is \$100,000. The annual reinsurance premium is \$1 times the number of automobiles sold by the subject automobile auctions.

## Reinsurance Ceded

### General Reinsurance Corporation Excess of Loss Reinsurance Agreement

The agreement became effective August 1, 2013, and will continue until cancelled by 120 days advance notice by either party. The agreement involves coverage provided under three exhibits identifying the business covered and terms associated with the different types of business covered. The business ceded under Exhibit A is new and renewal payment and title and floor plan financing insurance. The business ceded under Exhibit B and Exhibit C is livestock market payment insurance issued by the Company.

### Exhibit A

The business covered is new and renewal check and title insurance and floor plan financing insurance in the territory of the United States, Puerto Rico, and Canada.

The retention is \$100,000 any one occurrence. An occurrence is losses from any one dealer in any one policy year except Adesa Canada where it is losses from any one policy during any one policy year resulting from transactions at any one insured location with one dealer. The floor plan retention is \$120,000.

The aggregate limit of loss to the reinsurer is \$4.5 million which applies to reinsurance under each exhibit, A, B, and C. The limit for any one occurrence is \$880,000 for floor plan financing, \$2.9 million for Southern Auto, and \$2

million for GMAC Smart Auction. The limits involve a reinstatement premium to reinstate the limits.

The minimum reinsurance premium is \$200,000. The reinsurance premium is 20% of the Company's subject written premium of the subject business. The reinsurance premium is subject to a 25% ceding commission to the Company.

#### Exhibits B and C

The business covered is a new and renewal livestock payment insurance policies issued in the United States, Puerto Rico, District of Columbia, and Canada issued by the Company.

The retention under Exhibit B is \$100,000, any one occurrence. An occurrence is losses from any one policy in any one policy year. The Exhibit B reinsurance limit is \$900,000, any one occurrence. Under Exhibit C, the retention is \$300,000 and the reinsurance limit is \$1,000,000, any one occurrence.

#### Associated Long Term Care Insurance Company, Inc. 100% Quota Share Agreement

The Company had a claims-made 100% quota share reinsurance agreement with Associated Long Term Care Insurance Company, Inc. that became effective June 1, 2007. The agreement is automatically renewed annually until either party provides the other at least 120 days advance notice. There is no retention. All risk under the policies is ceded. The business covered is General liability including Employee Benefits Legal Liability and Professional Liability with respect to the Associated Long Term Care Insurance Company, Inc. Program and dental insurance. The subject business is administered by Arthur J. Gallagher Risk Management Services, Inc, a subsidiary of Arthur J. Gallagher & Company.

#### MGA License

The examination indicated that Arthur J. Gallagher & Co.(AJGC) produced 100% of the Company's Medical professional liability and Dental Insurance. For the business produced, AJGC paid claims, and underwrote policies. The Company's business written by AJGC was more than 5% of the Company's surplus; therefore, AJGC should have been licensed as a MGA in accordance with ALA. CODE § 27-6A-2(b)(1975), which states in part to define a MGA:

Acts as a producer for an insurer whether known as a managing general agent, manager, or other similar term, who, with or without the authority, either separately or together with affiliates, produces, directly or indirectly, and underwrites an amount of gross direct written premium equal to or more than five percent of the policyholder surplus as reported in the last annual statement of the insurer in any one quarter or year together... .

The Company did not have a proper contract with A.J. Gallagher & Co. that was in compliance with ALA. CODE § 27-6A-4(a-k)(1975), which states in part,

No person, firm, association, or corporation acting in the capacity of a managing general agent shall place business with an insurer unless there is in force a written contract between the parties that sets forth the responsibilities of each party and where both parties share responsibility for a particular function, specifies the division of such responsibilities... .

The contract must include all of the required elements of the referenced code section.

The Company did not conduct on-site reviews of the underwriting and claims processing operations of its Managing General Agent. ALA. CODE § 27-6A-5 (1975) states, in part “(3) The insurer shall periodically, and at least semi-annually, conduct an on-site review of the underwriting and claims processing operations of the managing general agent.”

## **ACCOUNTS AND RECORDS**

The Company's principal accounting records were maintained primarily on electronic data processing equipment with some records maintained manually.

The Company was audited by Warren Averett, LLC, Birmingham, Alabama for the examination period.

Paul M. Merlino, FCAS, MAAA of Merlino & Associates, Inc., Norcross, Georgia, prepared the Actuarial Reports and Statements of Opinion for the examination period.

The Company has obtained two permitted practice letters from the Alabama Department of Insurance allowing the Company to recognize its earned premiums for check and title business in a manner that deviates from statutory accounting principles. The first letter, dated September 10, 1992, granted

permission to the Company to earn one half of its premiums for check and title business over a five month period and earn the remaining half over a four year period. A subsequent letter, dated January 17, 2002, granted permission to the Company to earn half of its premiums over a one month period and earn the remaining half of the premiums over a six month period for business assumed from one specific significant check and title writer. The September 10, 1992 letter stated "If the vehicle sold through the auction is later discovered to be stolen or mortgaged, losses on these auctioned vehicles do not occur until the authorities identify and seize stolen cars during the four-year coverage period as provided in the policy." Also, the letter stated "The booking of your loss reserves should be consistent with the previous earnings assumptions." The Company does not record incurred but not reported loss reserves with respect to its check and title core business. Claims are incurred when the claims are discovered.

### Annual Statement

The Company did not accurately complete the 2015 Annual Statement Schedule A - Part 1. The Company did not report the Book/Adjusted Carrying Value Less Encumbrances in column 9 as required. The 2015 *NAIC Annual Statement Instructions* states:

Column 9 - Book/Adjusted Carrying Value Less Encumbrances. Include: The actual cost plus capitalized improvements, less depreciation, less encumbrances and net adjustments. For properties held for sale, the net adjustment to book value shall include the estimated costs to sell the property, in accordance with SSAP No. 90, Impairment or Disposal of Real Estate Investments.

The Company did not complete the Annual Statement Schedule D Part – 1 correctly. In the 2011 – 2014 Schedule D - Part 1, column 7, the Company listed the Book/Adjusted Carrying Value of each bond rather than the Actual Cost, as should have been reported in column 7. Also, the Company did not accurately complete the Annual Statement Schedule D - Part 1, column 17 in the 2011 - 2015 Annual Statements. The Company did not report the correct Effective Rate of, as required. The Company reported the stated bond rate in both columns 16 and 17. The effective rate of interest is to be reported in column 17 in accordance with the *NAIC Annual Statement Instructions* which state relating to how to complete the Schedule: "Column 17 - Effective Rate of Interest: For issuer obligations, include the effective rate at which the purchase was made... ."

The Company filed an amended 2015 Annual Statement to correct the issues identified in the Annual Statement exhibits and schedules.

### Actuarial Opinion

The opining actuary obtained the necessary data and communicated with the Company's Secretary and Treasurer. The Treasurer was also a Board member. The opining actuary indicated that the reserve report was presented to the Secretary and Treasurer. The Board minutes reflect that the Board acknowledged the receipt of the Actuarial Opinion, but was silent with respect to the Actuarial Report. The *NAIC Annual Statement Instructions* state:

The Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors or the Audit Committee and that the Actuarial Opinion and the Actuarial Report were made available.

The Board minutes should record the receipt of the Statement of Actuarial Opinion and the Reserve Report.

## FINANCIAL STATEMENTS

The financial statements included in this report were based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

	<u>Page</u>
Statement of Assets	27
Statement of Liabilities, Capital and Surplus	28
Statement of Revenue and Expenses	29
Statement of Reconciliation of Capital and Surplus	30

**CENTENNIAL CASUALTY COMPANY**  
**STATEMENT OF ASSETS**  
For the Year Ended December 31, 2015

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
<b>ASSETS</b>			
Bonds	\$14,287,810		\$ 14,287,810
Stocks:			
Common stocks <b>(Note 1)</b>	54,530,646		54,530,646
Real estate:			
Properties occupied by the company	1,573,032		1,573,032
Properties held for the production of income	3,258,585		3,258,585
Cash (\$4,875,454 Sch. E-Part 1), cash equivalents (\$0 Sch. E – Part 2) & short-term investments (\$5,817,008, Sch. DA)	10,692,462	54,096	10,638,366
Contract loans			
Other invested assets (Schedule BA) <b>(Note 1)</b>	<u>1,156,956</u>	<u>509,452</u>	<u>647,504</u>
<b>Subtotals, cash and invested assets</b>	<b>\$ 85,499,491</b>	<b>\$ 563,548</b>	<b>\$ 84,935,943</b>
Investment income due and accrued	\$ 165,083		\$ 165,083
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	714,820		714,820
Deferred premiums, agents' balances & installments booked but deferred & not yet due			
Amounts recoverable from reinsurer			
Other amounts receivable under reinsurance contract			
Current federal and foreign income tax recoverable and interest thereon	135,424		135,424
Net deferred tax asset			
Guaranty funds receivable or on deposit			
Electronic data processing equipment and software			
Furniture and equipment, including health care delivery assets			
Receivable from parent, subsidiaries and affiliates			
Aggregate write-ins for other than invested assets:	<u>24,302,830</u>	<u>37,472</u>	<u>24,265,358</u>
<b>TOTALS</b>	<b><u>\$ 110,817,648</u></b>	<b><u>\$ 601,020</u></b>	<b><u>\$ 110,216,628</u></b>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS  
IN THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**CENTENNIAL CASUALTY COMPANY**  
**STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS**  
**For the Year Ended December 31, 2015**

**LIABILITIES**

Losses (Part 2A, Line 35, Column 8)	\$ 1,131,335
Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	47,806
Loss adjustment expenses (Part 2A, Line 35, Column 9)	101,070
Commission payable, contingent commissions and other similar charges	
Other expenses (excluding taxes, license and fees)	89,856
Taxes, license and fees (excluding federal and foreign income taxes)	33,198
Net deferred tax liability	9,355,614
Unearned premiums (Part 1A, Line 38, Column 5) (after deducting unearned premiums for ceded reinsurance of \$4,581,000 and including warranty reserves of \$... and accrued accident and health experience rating refunds including \$... for medical loss rebate per the Public Health Service Act) <b>(Note 2)</b>	7,722,590
Advance premium	22,174
Ceded reinsurance premiums payable (net of ceding commissions)	403,971
Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	
Amounts withheld or retained by company for account of others	297,137
Remittances and items not allocated	
Provision for reinsurance (including \$...certified) (Schedule F, Part 8)	
Payable to parent, subsidiaries and affiliates	417,806
Derivatives	45,760
Payable for securities	
Liability for amounts held under uninsured plans	
Capital notes \$... and interest thereon \$...	
Aggregate write-ins for liabilities	<u>24,264,770</u>
<b>Total Liabilities</b>	<b><u>\$ 43,933,087</u></b>
<b>CAPITAL AND SURPLUS</b>	
Common capital stock	\$ 1,500,000
Gross paid in and contributed surplus	797,090
Aggregate write-ins for special surplus funds	
Unassigned funds (surplus)	<u>63,986,451</u>
<b>Total Surplus</b>	<b><u>\$ 64,783,541</u></b>
<b>Total Capital and Surplus</b>	<b><u>\$ 66,283,541</u></b>
<b>TOTAL LIABILITIES, CAPITAL AND SURPLUS</b>	<b><u>\$ 110,216,628</u></b>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS  
IN THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**CENTENNIAL CASUALTY COMPANY  
STATEMENT OF REVENUE AND EXPENSES**

**For the Years Ended December 31, 2015, 2014, 2013, 2012, and 2011**

<b>UNDERWRITING INCOME</b>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Premiums earned (Part 1 Line 35, Column 4)	\$10,463,102	\$9,229,764	\$7,892,808	\$7,186,795	\$7,209,642
<b>DEDUCTIONS</b>					
Losses incurred (Part 2, Line 35, Column 7)	4,100,411	4,323,718	3,894,866	2,943,541	1,734,619
Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	280,936	443,517	498,582	359,629	242,732
Other underwriting expense incurred (Part 3, Line 25, Column 2)	2,478,955	2,713,038	2,456,049	2,310,690	2,208,929
Total underwriting deductions	<u>\$6,860,302</u>	<u>\$7,480,273</u>	<u>\$6,849,497</u>	<u>\$5,613,860</u>	<u>\$4,186,280</u>
Net underwriting gain (loss)	\$3,602,800	\$1,749,491	\$1,043,311	\$1,572,935	\$3,023,362
<b>INVESTMENT INCOME</b>					
Net investment income earned (Exhibit of Net Investment Income, Line 17)	\$1,818,060	\$2,037,243	\$1,794,298	\$1,436,030	\$1,071,809
Net realized capital gains (losses) less capital gains tax of \$158,603 (Exhibit of Capital Gains (Losses))	<u>307,875</u>	<u>1,145,788</u>	<u>2,214,111</u>	<u>987,119</u>	<u>(479,163)</u>
Net investment gain (loss)	<u>\$2,125,935</u>	<u>\$3,183,031</u>	<u>\$4,008,409</u>	<u>\$2,423,149</u>	<u>\$592,646</u>
<b>OTHER INCOME</b>					
Net gain (loss) from agents' or premium balances charged off (amount recovered \$ ..., amount charged off...)	58	(40)	(3)	(77)	(1)
Aggregate write-ins for miscellaneous income	<u>677,600</u>	<u>799,599</u>	<u>778,290</u>	<u>788,393</u>	<u>738,738</u>
Total other income	<u>677,658</u>	<u>799,559</u>	<u>778,287</u>	<u>788,316</u>	<u>738,737</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	6,406,393	5,712,081	5,830,007	4,784,400	4,354,745
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	6,406,393	5,712,081	5,830,007	4,784,400	4,354,745
Federal and foreign income taxes incurred	<u>1,874,183</u>	<u>1,169,264</u>	<u>903,556</u>	<u>1,160,681</u>	<u>1,339,295</u>
Net Income	<u>\$4,532,210</u>	<u>\$4,542,817</u>	<u>\$4,926,451</u>	<u>\$3,623,719</u>	<u>\$3,015,450</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS  
IN THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**CENTENNIAL CASUALTY COMPANY**  
**STATEMENT OF CHANGES IN CAPITAL AND SURPLUS**  
For the Years Ended December 31, 2015, 2014, 2013, 2012, and 2011

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Capital and surplus, December 31, prior year</b>	<u>\$63,941,772</u>	<u>\$61,904,227</u>	<u>\$48,698,869</u>	<u>\$47,377,117</u>	<u>\$45,156,334</u>
Net income	4,532,210	4,542,817	4,926,451	3,623,719	3,015,450
Change in net unrealized capital gains or (losses) less capital gains tax of \$...	(3,515,724)	(545,330)	11,580,593	4,718,124	(658,660)
Change in net deferred income tax	1,275,083	99,350	(3,891,844)	(1,481,310)	(168,706)
Change in nonadmitted assets (Exhibit of Nonadmitted Assets)	50,200	(59,292)	582,391	(67,909)	11,079
Change in surplus notes					
Surplus adjustment:					
Paid in					
Dividend to stockholders		(2,000,000)		(5,500,000)	
Aggregate write-ins for gains and losses in surplus			7,767	29,128	21,620
Net change in capital and surplus for the year	<u>\$2,341,769</u>	<u>\$2,037,545</u>	<u>\$13,205,358</u>	<u>\$1,321,752</u>	<u>\$2,220,783</u>
<b>Capital and surplus, December 31, current year</b>	<u>\$ 66,283,541</u>	<u>\$ 63,941,772</u>	<u>\$ 61,904,227</u>	<u>\$ 48,698,869</u>	<u>\$47,377,117</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS  
IN THIS REPORT ARE AN INTEGRAL PART THEREOF.**

## NOTES TO FINANCIAL STATEMENTS

<b><u>Note 1 – Common stocks</u></b>	<b><u>\$54,530,646</u></b>
<b><u>Other invested assets</u></b>	<b><u>\$ 1,156,956</u></b>

The Company classified its investments in publicly traded Master Limited Partnerships (MLPs) as Other Invested Assets on the Annual Statement Assets Page and exhibited the investments in Schedule BA. These investments in publicly traded MLPs should be included and reported with the investments in common stocks on the Annual Statement Assets Page and included in Schedule D Part 2 in accordance with SSAP No. 30 paragraph 3 of the *NAIC Accounting Practices and Procedures Manual*, which states:

Common stocks (excluding investments in affiliates) are securities which represent an investment in a residual ownership in a corporation and shall include: ... (b) Master limited partnerships trading as common stock and American deposit receipts only if the security is traded on the New York, American, or NASDAQ exchanges ... .

<b><u>Note 2 – Unearned premiums</u></b>	<b><u>\$7,722,590</u></b>
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The Company had a permitted practice allowing it to earn the portion of the premium allocable to payment risk for auto auction business over a five month period. The permitted practice is specific to auto auction business. The Company began writing payment risk insurance for livestock auctions during the exam period and calculated its unearned premiums in the same manner for the livestock business as it did for the auto auction business involving a five month exposure period. The Company did not have a permitted practice for doing so because the existing permitted practice explicitly indicates that the permitted practice is for auto auction business. SSAP No. 53, paragraph 7 of the *NAIC Accounting Practices and Procedures Manual* states:

The exposure to insurance risk for most property and casualty insurance contracts does not vary significantly during the contract period. Therefore, premiums for those types of contracts shall be recognized in the statement of income, as earned premium, using either the daily pro-rata or monthly pro-rata methods.

The examiners determined that, due to no permitted practice for the livestock payment risk insurance, the unearned premiums should have been calculated over an annual exposure period. Discussions held during the course of the

examination in connection with this account resulted in the Company requesting and receiving approval of a permitted practice to recognize earned income for livestock auction payment risk over a five month exposure period.

<b>Analysis of Changes to Surplus</b>			
Capital and Surplus at Dec. 31, 2015 per Annual Financial Statement			\$66,283,541
	<b><u>Increase</u></b>	<b><u>Decrease</u></b>	
Net increase (or decrease)	\$0	\$0	\$ <u>0</u>
Capital and Surplus at Dec. 31, 2015 after adjustment			<u>\$66,283,541</u>

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Corporate Records – Page 12**

**It is recommended** that the Company maintain the minutes of all meetings and comply with ALA. CODE §10A-2-16.01 (a) (1975) which states:

A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

### **Schedule Y – Organizational Chart – Page 13**

**It is recommended** that the Company include the NAIC company code and the two character state abbreviation of the state of domicile for each domestic insurer in the Annual Statement Schedule Y - Organizational Chart in accordance with the *NAIC Annual Statement Instructions* which states:

The NAIC company code and two-character state abbreviation of the state of domicile should be included for all domestic insurers. The relationships of the holding company group to the ultimate controlling person (if such person is outside the reported holding company) should be shown. Only those companies that were a member of a holding company group at the end of the reporting period should be shown on Schedule Y - Part 1, Organizational Chart.

**Section 1033 Title 18 Compliance** – Page 15

**It is recommended** that the Company establish written procedures to ascertain if applicants or new hires, and those employed or contracted after initial hire have been convicted of a Section 1033 felony offense in accordance with ALA. ADMIN. CODE 482-1-146 (2009), which states:

- (1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
  - a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.
  - (b) An internal procedure after initial employment or contracting applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.
  - (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.
- (2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.

**Producers' Licensing Requirements** – Page 19

**It is recommended** that the Company send terminated producers notifications within 15 days of termination in compliance with ALA. CODE § 27-7-30.1(a) (1975), which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

## MGA License – Page 22

**It is recommended** that the Company license its MGA in compliance with ALA. CODE § 27-6A-2(b) (1975), which states, in part to define a MGA:

Acts as a producer for an insurer whether known as a managing general agent, manager, or other similar term, who, with or without the authority, either separately or together with affiliates, produces, directly or indirectly, and underwrites an amount of gross direct written premium equal to or more than five percent of the policyholder surplus as reported in the last annual statement of the insurer in any one quarter or year together...

**It is recommended** that the Company have a written contract between the Company and its MGA in accordance with ALA. CODE § 27-6A-4(a-k) (1975), states in part:

No person, firm, association, or corporation acting in the capacity of a managing general agent shall place business with an insurer unless there is in force a written contract between the parties that sets forth the responsibilities of each party and where both parties share responsibility for a particular function, specifies the division of such responsibilities...

**It is recommended** that the Company conduct an on-site review of the MGA's underwriting and claims processing functions as required by ALA. CODE § 27-6A-5 (1975) states, in part "(3) The insurer shall periodically, and at least semi-annually, conduct an on-site review of the underwriting and claims processing operations of the managing general agent."

## Accounts and Records – Page 22

**It is recommended** that the Company accurately complete Schedule A – Part 1 of the Annual Statement in accordance with the guidance provided by the 2015 *NAIC Annual Statement Instructions*, which states:

Column 9 – Book/Adjusted Carrying Value Less Encumbrances. Include: The actual cost plus capitalized improvements, less depreciation, less encumbrances and net adjustments. For properties held for sale, the net adjustment to book value shall include the estimated costs to sell the property, in accordance with SSAP No. 90, Impairment or Disposal of Real Estate Investments.

**It is recommended** that the Company accurately complete the Annual Statement Schedule D - Part 1, column 7 to report the Actual Cost of the bonds.

**It is recommended** that the Company accurately complete the Annual Statement Schedule D - Part 1, column 17 to report the correct effective rate of each of the bonds in accordance with the *NAIC Annual Statement Instructions* which state: "Column 17 - Effective Rate of Interest: For issuer obligations, include the effective rate at which the purchase was made... ."

**It is recommended** that the Company ensure that the Board receives the actuarial report with the actuarial opinion and documents the receipt of both in its Board minutes in accordance with the *NAIC Annual Statement Instructions* which state:

The Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors or the Audit Committee and that the Actuarial Opinion and the Actuarial Report were made available.

#### **Common stocks, Other invested assets** – Page 31

**It is recommended** that the Company classify and report its investments in publicly traded Master Limited Partnerships as common stocks in the Annual Statement Assets Page and Schedule D - Part 2 in accordance with SSAP No. 30 paragraph 3 of the *NAIC Accounting Practices and Procedures Manual*, which states:

Common stocks (excluding investments in affiliates) are securities which represent an investment in a residual ownership in a corporation and shall include: ... (b) Master limited partnerships trading as common stock and American deposit receipts only if the security is traded on the New York, American, or NASDAQ exchanges ... .

#### **Unearned premiums** – Page 31

**It is recommended** that the Company calculate its unearned premiums for livestock payment risk insurance over the annual contract period in accordance

with SSAP No. 53, paragraph 7 of the *NAIC Accounting Practices and Procedures Manual* which states, in part:

The exposure to insurance risk for most property and casualty insurance contracts does not vary significantly during the contract period. Therefore, premiums for those types of contracts shall be recognized in the statement of income, as earned premium, using either the daily pro-rata or monthly pro-rata methods ... .

### **CONTINGENT LIABILITIES AND PENDING LITIGATION**

The review of contingent liabilities and pending litigation included an inspection of representations made by management, a review of the CPA workpapers on pending litigation, performance of a search for unrecorded items, and a general review of the Company's records and files conducted during the examination, including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

Management was not aware of any material contingent liabilities at the examination date and had committed no reserves to cover such liabilities.

### **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

The Company complied with all prior examination report recommendations with the following exceptions:

#### **Section 1033 of Title 18 U. S. Code Compliance**

The Company did not comply with the recommendation to establish internal procedures to conduct background checks for compliance with Title 18 U.S.C. Section 1033 and in accordance with ALA. ADMIN CODE 482-1-146 (2009).

### **SUBSEQUENT EVENTS**

Events subsequent to the report date of December 31, 2015 were reviewed for inclusion in the Report of Examination.

In January 2016, the Company engaged PNC Bank to serve as their new Investment Manager and manager of the investment portfolio.

The Company received a permitted practice in August 2016 from the Alabama Department of Insurance to recognize its earned premiums for its livestock auction business over a five month exposure period.

The Company was admitted to do business in the state of Mississippi.

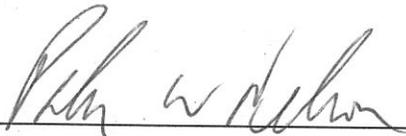
## CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by persons representing Centennial Casualty Company during this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Theo Goodin, MCM, Jerry Hyche, AIE, FLMI, MCM, Charles Turner, CISA, examiners; Deborah Rosenberg, FCAS, MAAA, Andrew Chandler, ACAS, and Stephan Donk, actuarial examiners; all representing the Alabama Department of Insurance, participated in this examination of Centennial Casualty Company.

Respectfully submitted,



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Palmer W. Nelson, CFE  
Examiner-in-charge  
Alabama Department of Insurance