

**EXAMINATION REPORT**  
**OF THE**  
**STANDARD GUARANTY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2013**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2013 of the

**STANDARD GUARANTY INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By:

A handwritten signature in black ink, appearing to be "G. M. K.", written over a horizontal line.

Date: June 23, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 23rd day of June, 2015.

A handwritten signature in black ink, appearing to be "Karen Weldin Stewart", written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION  
OF THE  
STANDARD GUARANTY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2013

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.



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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 23rd day of June, 2015

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May 30, 2015

**SALUTATION**

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner of Insurance  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 14.010, dated October 14, 2013, an examination has been made of the affairs, financial condition and management of the

**STANDARD GUARANTY INSURANCE COMPANY**

hereinafter referred to as “Company” or “SGIC” at the main administrative offices of the Company located at 11222 Quail Roost Drive, Miami, Florida, 33157. The examination was a coordinated examination and was conducted concurrently with other insurance entities within the Assurant, Inc. Group, including; American Security Ins. Co. (ASIC) (DE), American Bankers Ins. Co. of Florida (ABIC) (FL), American Bankers Life Assurance Co. of Florida (ABLAC ) (FL), American Reliable Ins. Co. (ARIC) (AZ), Reliable Lloyds Ins. Co. (RLIC) (TX), United Dental Care of Texas, Inc. (UDC of TX) (TX), United Dental Care of Michigan (UDC of MI) (MI) and United Dental Care of Ohio (UDC of OH) (OH). In addition, work completed in Examination Planning and all common (Assurant Corporate) work is being shared with the Kansas Department of Insurance in their 2014 Examination of Union Security Ins. Co. (USIC) (KS), a legal entity within the Employee Benefits business segment. The State of Delaware was the assigned lead state by the National Association of Insurance Commissioners. Separate

## STANDARD GUARANTY INSURANCE COMPANY

reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

### SCOPE OF EXAMINATION

The last examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2008, and covered the three (3) year period from January 1, 2006 to December 31, 2008. This examination covers the five (5) year period from January 1, 2009 through December 31, 2013, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook (NAIC Handbook)* and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the state of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identify and assess inherent risk within the Company and evaluate its system controls and procedures used to mitigate those risks. The examination also includes an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to Delaware state regulations.

All accounts and activities of the Company were considered in accordance with the

## **STANDARD GUARANTY INSURANCE COMPANY**

NAIC Handbook risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers, LLP ("PWC"). Certain auditor work papers have been incorporated into the examination work papers and have been utilized in determining the scope and areas of emphasis in conducting the examination. In addition, the Company was Sarbanes Oxley ("SOX") Section 404 compliant as of the examination date. The examination reviewed and relied on the Company's SOX work where deemed appropriate.

In addition to items noted in this report, the topics below were reviewed without exception and are included in the work papers of this examination:

Fidelity Bonds and Other Insurance  
Pensions, Stock Ownership and Insurance Plans  
Statutory Deposits

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings noted during the conduct of this examination.

### **SUBSEQUENT EVENTS**

On October 16, 2014 Assurant Specialty Property, a business segment of Assurant, Inc. announced an agreement to sell its general agency business and associated insurance carrier, American Reliable Insurance Company (ARIC), to Global Indemnity PLC, for approximately \$114 million in cash. According to Mr. Gene Mergelmeyer, President and CEO of Assurant Specialty Property: "The sale of American Reliable Insurance Company allows us to better align our portfolio of businesses, increase resources allocated toward these markets and strengthen our core business." The sale is expected to close following regulatory approval and satisfaction of

## **STANDARD GUARANTY INSURANCE COMPANY**

customary closing conditions. The announcement will not have a material impact on the financial position or operations of ASIC.

On April 28, 2015, Assurant, Inc. announced that, following a strategic review of its business portfolio, it will focus its resources on niche housing and lifestyle protection offerings where it holds market leading positions to consistently generate specialty returns long term. In reshaping its portfolio, Assurant is exploring strategic alternatives for its employee benefits and health business segments, including the sale of each business. Absent a sale of the health business segment, Assurant plans to substantially complete its exit from the health insurance market in 2016. The announcement will not have a material impact on the financial position or operations of ASIC.

### **COMPANY HISTORY**

On January 1, 2004, the Company was an indirect wholly-owned subsidiary of Fortis, Inc., domiciled in the United States, which itself was an indirect, wholly-owned subsidiary of Fortis N.V. of the Netherlands and Fortis SA/NV of Belgium (collectively, “Fortis”), through their affiliates, including their wholly owned subsidiary, Fortis Insurance N.V.

On February 5, 2004, Fortis sold approximately 64% of its ownership in Fortis, Inc., via Initial Public Offering (IPO) and retained approximately 36% of its ownership. In connection with the IPO, Fortis, Inc., was merged into Assurant, Inc., (Assurant or AIZ) a Delaware corporation, which was formed solely for the re-domestication of Fortis, Inc. After the merger, Assurant became the successor to the business, operations and obligations of Fortis, Inc. Further, Fortis, N.V. and Fortis SA/NV transferred their ownership of Assurant’s stock into their wholly owned subsidiary, Fortis Insurance N.V.

## **STANDARD GUARANTY INSURANCE COMPANY**

On January 21, 2005, Fortis owned approximately 36% (50,199,130 shares) of Assurant, based on the number of shares outstanding that day. In a secondary offering on January 21, 2005, Fortis sold 20% of its interest in Assurant and concurrently, sold mandatorily exchangeable bonds for its remaining interest.

The Company's immediate parent is American Security Insurance Company (ASIC), a Delaware domestic insurance company, which was examined concurrently with this examination.

### **CORPORATE RECORDS**

The minutes of the Stockholder and Board of Directors meetings were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

The bylaws require the Board of Directors to meet annually immediately after the annual stockholder meeting, provided a quorum is present. Other meetings may be held as determined by Board of Director resolution, and special meetings may be called by the Chairman of the Board or President. The minutes of the meetings verified annual meetings took place in each year of the examination period.

All applicable agreements were filed with and approved by the Delaware Department of Insurance in accordance with 18 Del.C. §5005 (a)(2) of the Delaware Insurance Code.

### **MANAGEMENT AND CONTROL**

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property, business and affairs of the Company shall be managed by a Board of Directors. The bylaws require the Board of Directors

**STANDARD GUARANTY INSURANCE COMPANY**

consist of not less than seven nor more than fifteen members, the precise number to be fixed from time to time by resolution of the stockholders, to be chosen by the stockholders at their annual meeting.

The Directors are elected annually by the stockholder and hold office until the next annual election and until their successors are elected and qualify. Directors duly elected and serving as of December 31, 2013, are as follows:

<u>Name</u>	<u>Business Affiliation</u>
John August Frobose	President Standard Guaranty Insurance Company
Russell Gary Kirsch	Senior Vice President Standard Guaranty Insurance Company
Steven Craig Lemasters	Senior Vice President Standard Guaranty Insurance Company
Ivan Carlos Lopez-Morales	Senior Vice President Standard Guaranty Insurance Company
Gene Edward Mergelmeyer	President Assurant Specialty Property
Gary Turner	Senior Vice President Assurant Specialty Property
Peter Alexander Walker	Senior Vice-President Standard Guaranty Insurance Company

In accordance with the bylaws, the Board of Directors at its annual meeting shall elect a Chairman of the Board, a Vice Chairman of the Board, a President, a Secretary, and a Treasurer. At any time, the Board of Directors may elect such other officers as it may deem necessary, each of whom shall hold office until his resignation, death or removal. The primary officers serving as of December 31, 2013 were as follows:

## STANDARD GUARANTY INSURANCE COMPANY

<u>Name</u>	<u>Title</u>
John August Frobose	President
Jeannie Amy Aragon-Cruz	Secretary
Beech Hargis Turner	Vice President, Treasurer
Jeffrey Alan Lamy	Actuary
Michael David Anderson	Senior Vice President
Eduardo Arthur	Senior Vice President
Manuel Jose Becerra	Senior Vice President
Gary Bursevich	Senior Vice President
Michael Campbell	Senior Vice President
Gregory Joseph DeChurch	General Counsel
Joseph Edward Erdeman	Senior Vice President
Russell Gary Kirsch	Senior Vice President
Gary Louis Lau	Vice President
Steven Craig Lemasters	Senior Vice President
Ivan Carlos Lopez-Morales	Senior Vice President
Katherine Ann McDonald	Senior Vice President
Temikia LaTonia Montford	Vice President
Peter Alexander Walker	Senior Vice President

### Holding Company System

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. The Company is a directly owned subsidiary of ASIC. In turn, ASIC is a wholly owned subsidiary of Interfinancial, Inc., a Georgia corporation. In turn, Interfinancial, Inc. is a wholly owned subsidiary of Assurant, Inc., a Delaware Insurance holding company. Assurant is a publically traded insurance holding company that trades on the New York Stock Exchange under the ticker symbol AIZ.

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents and subsidiaries, and other affiliates with direct business relationships with the Company as of December 31, 2013:

## STANDARD GUARANTY INSURANCE COMPANY

Assurant, Inc.	
Union Security Life Insurance Company of New York	NY
Interfinancial, Inc.	GA
American Bankers Insurance Group, Inc.	FL
ABI International	Cayman
Protection Holding Cayman	Cayman
Assurant International Division Limited	Malta
Assurant Solutions Holdings Puerto Rico, Inc.	PR
Caribbean American Property Insurance Company (74%)	PR
Caribbean American Life Assurance Company	PR
Caribbean American Property Insurance Company (26%)	PR
American Bankers Insurance Company of Florida	FL
American Bankers General Agency, Inc.	TX
Reliable Lloyds Insurance Company (Controlled by management agreement)	TX
American Bankers Life Assurance Company of Florida	FL
American Reliable Insurance Company	AZ
Voyager Group, Inc.	FL
Voyager Indemnity Insurance Company	GA
American Memorial Life Insurance Company	SD
American Security Insurance Company	DE
<b>Standard Guaranty Insurance Company</b>	<b>DE</b>
Denticare of Alabama, Inc.	AL
John Alden Financial Corporation	DE
John Alden Life Insurance Company	WI
Time Insurance Company	WI
UDC Dental California, Inc.	CA
Union Security DentalCare of Georgia, Inc.	GA
Union Security Insurance Company	KS
United Dental Care of Arizona, Inc.	AZ
United Dental Care of Colorado, Inc.	CO
United Dental Care of Michigan, Inc.	MI
United Dental Care of Missouri, Inc.	MO
Union Security DentalCare of New Jersey, Inc.	NJ
Union Dental Care of New Mexico, Inc.	NM
UDC Ohio, Inc.	OH
United Dental Care of Texas, Inc.	TX
United Dental Care of Utah, Inc.	UT

Copies of the Form B Holding Company Registration Statements filed with the Delaware Department of Insurance during the period under examination were reviewed in conjunction with the review of the management, service and tax agreements in place during the period under

## STANDARD GUARANTY INSURANCE COMPANY

examination. This review indicated that the Company complied with the provisions of 18 Del. Admin. Code 1801.

### Management, Service, and Other Agreements

The Company participated in various inter-company service and administrative type agreements with their parent and their affiliates. The following four (4) agreements were entered into during the current examination period.

### Intercompany Property, Casualty & Contractual Liability Reinsurance Contract

Effective June 1, 2012, the Company entered into the captioned reinsurance agreement with American Bankers Insurance Company of Florida (ABIC). According to the agreement, SGIC will cede one hundred percent (100%) of each and every involuntary unemployment insurance contract to ABIC. All risks on policies, certificates or contracts are ceded on the basis of earned premium. The ceding fee is three percent (3%) of the net premiums written. No fees were paid or received under this contract in 2013.

### Intercompany Reinsurance Contract (SGIC-ABIC)

Effective February 1, 2013, the Company entered into the captioned reinsurance agreement with ABIC. According to the agreement, SGIC agrees to cede 100% of each and every involuntary unemployment insurance contract to ABIC. All risks on policies, certificates or contracts are ceded on the basis of earned premium. The ceding fee is five and one half percent (5.5%) of earned premium and the premium tax rate is included in the ceding fee. No fees were paid or received under this contract in 2013.

## STANDARD GUARANTY INSURANCE COMPANY

### Intercompany Reinsurance Contact (SGIC-ASIC)

Effective April 1, 2013, the Company entered the captioned agreement with ASIC to cede 100% of the risks for certain clients on its Lender Placed Hazard and Real Estate Owned policies. All risks on the policies will be ceded on the basis of net premium written. The ceding fee is ten percent (10%) of the net written premium. The Company paid \$114,508,833 under the agreement in 2013.

### Intercompany Tax Sharing Agreement

The Company files a consolidated federal income tax return and uses the method of allocation that is guided by the written agreement. Within the agreement, the allocation is based on a separate return and the calculations are analyzed with focus and concern on the current credit for net losses. The intercompany tax balances are settled within thirty (30) days of the filing of the consolidated federal income tax return. The Tax Allocation Agreement was amended in 2013 to allocate certain taxes related to the Patient Protection and Affordable Care Act to the health insurance companies. The Company paid \$41,294,504 in 2013 under the subject agreement.

### Other Intercompany Agreements

The following agreements became effective prior to the examination period and remained active as of December 31, 2013:

- Management Agreement dated January 1, 1994 between the Company and Assurant, Inc.
- Investment Management Agreement dated January 1, 1995 between the Company and Assurant, Inc.

## STANDARD GUARANTY INSURANCE COMPANY

- General Agency Agreement dated July 1, 1997 between the Company and American Security Insurance Company (ASIC) and Insureco Agency & Insurance Services, Inc.
- Management Agreement dated January 1, 2002 between the Company and American Security Insurance Company (ASIC).
- General Agency Agreement dated May 1, 2006 between the Company and American Security Insurance Company (ASIC) and Tracksure Insurance Agency, Inc. and Voyager Indemnity Insurance Company (VIIC).
- Intercompany Reinsurance Contract dated September 1, 2007 between the Company and American Reliable Insurance Company (ARIC).
- Affiliate Services Agreement for the accounting period ending December 31, 2007 between the Company and its Affiliates.
- Intercompany Services and Payment Intermediary Agreement dated January 1, 2008 between the Company and American Bankers Insurance Company of Florida (ABIC).
- Multicent Catastrophe Reinsurance Allocation Agreement dated January 1, 2008 between the Company and its Affiliates.
- Intercompany Reinsurance Contract dated November 1, 2008 between the Company and Bankers Atlantic Reinsurance Company (BARC). This Contract was cancelled on January 31, 2013.
- Payroll Prefunding Agreement dated December 31, 2008 between the Company and Assurant, Inc.
- General Agency Agreement dated for the accounting period ending December 31, 2008 between the Company and Insureco, Inc.
- Intercompany Services and Payment Intermediary Agreement dated December 31, 2008 between the Company and American Bankers Life Assurance Company of Florida (ABLAC).
- General Agency Agreement dated October 1, 2008 between the Company and the Signal LP.

Amounts paid by SGIC under the above agreements were \$99,066,259 and the amounts received by related parties amounted to \$2,046.

**TERRITORY AND PLAN OF OPERATION**

Territory

The Company is licensed in forty two (42) states and the District of Columbia and is eligible and approved to write Surplus Lines in the State of Texas.

Plan of Operation

The Company's ultimate parent, Assurant, is a provider of specialized insurance products and related services in North America, Latin America, Europe and other select worldwide markets and organizes and operates its insurance operations around the following four (4) Strategic Business Units (SBU's):

- Assurant Solutions (Solutions)
- Assurant Specialty Property (Specialty Property)
- Assurant Health
- Assurant Employee Benefits

The Company's business is organized and operated through the Assurant Solutions and Assurant Specialty Property SBU's that write the following lines:

Solutions targets profitable growth in three key product areas: domestic and international extended service contracts (ESC's) and warranties, including mobile device protection; preneed life insurance; and international credit insurance. Solutions has more of a global footprint compared to Assurant's other SBU's.

Specialty Property includes lender-placed homeowners insurance, collateral protection (primarily on autos), manufactured housing insurance, renter's insurance, and agency-based specialty property lines. Lender placed insurance represents the majority of the business written within the Specialty Property SBU.

## STANDARD GUARANTY INSURANCE COMPANY

The Company is authorized to write the following lines of business: marine, transportation, property and casualty, theft and burglary, fire and allied lines, leakage and fire extinguisher equipment, liability, fidelity, surety and guaranty bonds, all forms of motor vehicle and aircraft insurance, credit insurance, and accident and health coverage.

Business is written by banks and finance companies located throughout the US. The Company has no branch offices. The Company has one corporate agent that is an affiliate, Insureco. Insureco procures hazard insurance (lender placed coverage) for various financial institutions on the Company's paper. Insureco collects premium payments, deducts Insureco commission and remits net to the Company.

The Exhibit of Premiums Written in the 2013 Annual Statement indicates net premiums written was as follows:

Fire	\$ 139,389,031
Allied lines	91,496,125
Homeowners multiple peril	2,088,810
Inland marine	98,165
Credit accident and health	256,065
Other liability - occurrence	115,472
Auto physical damage	160,152
Credit	4,011,961
Warranty	43,666
Total	<u>\$ 237,659,447</u>

### **GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the past five years through December 31, 2013. No financial adjustments were made as a result of the examination.

## STANDARD GUARANTY INSURANCE COMPANY

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2013	\$476,835,420	\$ 325,960,553	\$ 150,874,867	\$ 596,785,539	\$ 21,248,204
2012	188,937,295	94,860,550	94,076,745	170,691,928	32,394,319
2011	182,041,657	88,677,074	93,364,583	170,052,065	35,741,335
2010	175,657,472	87,248,813	88,408,659	167,538,119	36,767,345
2009	176,354,252	96,164,423	80,189,829	156,981,499	29,991,374

The increases in the above growth factors from 2012 to 2013 was primarily the result of increased written premiums of \$440 million by acquiring new clients and the roll out of a new lender-placed insurance program.

The increase was partially offset by cancellations, run off business and the new cross-selling agreement executed in the 4th quarter of 2013 to cede 100% of several clients' lender-placed business to ASIC effective April 1, 2013.

### **LOSS EXPERIENCE**

The Company's total loss and loss adjustment expenses were \$13,988,359 at December 31, 2012 compared to \$22,548,930 at December 31, 2013. The \$8,560,571 increase is primarily due to increased exposure related to premium growth. Reserves are continually reviewed and adjusted as experience develops or new information becomes available.

### **REINSURANCE**

The Company's reinsurance activities are performed within the various business units and to some extent at the corporate level especially regarding coverage against catastrophic events (see comments below). The Company utilizes reinsurance for loss protection and capital management, business dispositions and, in Assurant Solutions and Assurant Specialty Property,

## STANDARD GUARANTY INSURANCE COMPANY

insured risk and profit sharing. In addition, the Company has utilized ceded reinsurance contracts to exit certain businesses that no longer fit into its business model or strategic plans.

The following is a brief description of those activities:

### Assumed

The Company reported no assumed reinsurance activities in Schedule F in its 2013 Annual Statement.

### Ceded (Other than Catastrophe)

The Company actively utilizes ceded reinsurance for loss protection and capital management, business dispositions and, in Assurant Solutions and Assurant Specialty Property business units, insured risks and profit sharing. The following schedule demonstrates the extent of the Company's ceded reinsurance activities:

	Reinsurance Premiums Ceded	Paid Losses	Ceded Loss Reserves	Net Amount Recoverable
Affiliates - Authorized	\$ 327,842,000	\$ 3,481,000	\$ 27,036,000	\$ 74,406,000
Affiliates - Unauthorized	694,000	-	-	-
Unaffiliated - Authorized	3,571,000	19,000	-	387,000
Unaffiliated – Unauthorized	<u>27,019,000</u>	<u>1,536,000</u>	<u>4,200,000</u>	<u>11,129,000</u>
	<u>\$ 359,126,000</u>	<u>\$ 5,036,000</u>	<u>\$ 31,236,000</u>	<u>\$ 85,922,000</u>

A majority of the Company's ceded reinsurance is related to its intercompany cession to its affiliate, American Security Insurance Company (DE). In addition, other than its catastrophe program, the Company's ceded business was related to agreements to reinsure premiums generated by certain clients back to those clients' own captive insurance companies, or to reinsurance subsidiaries in which they have an ownership interest. This is accomplished through the use of generally standard quota share reinsurance agreements with the various captives. The

## STANDARD GUARANTY INSURANCE COMPANY

Company derives servicing income from processing and other service fees received from these clients. These activities are generally located within the Assurant Solutions and Assurant Specialty Property business units and are managed within each unit.

### Catastrophe Reinsurance – Assurant Inc.

Due to the nature and geographic location of loss exposures related to several product lines (such as homeowners, manufactured housing, and other property policies) that exposes Assurant, Inc. to possibly extreme catastrophe losses, it obtains reinsurance coverage to protect the capital of the organization and to mitigate earnings volatility. This coverage is most significant in the Specialty Property business unit, to a lesser degree in the Solutions business unit and some minor exposures are covered in other units. The catastrophe reinsurance activity is generally managed at the corporate Assurant level and affords protection across the various affected business units up to a 159 year event or \$2,060,000,000. The primary Assurant corporate catastrophe reinsurance is outlined as follows:

	Limit	Retention	Details
Assurant Retention	\$	\$ 140 million	Group Retention
Layer 1	150 million	240 million	\$100m xs \$140m xs \$100m
Layer 2	270 million	390 million	\$150m xs \$240m
Layer 3	400 million	660 million	\$270m xs \$390m
Layer 4	500 million	1,060 million	\$400m xs \$660m
Layer 5	200 million	1,560 million	\$500m xs \$1,060m
Layer 6	100 million	1,760 million	\$200m xs \$1.560m
Layer 7	200 million	1,860 million	\$100m xs \$1,760m

## ACCOUNTS AND RECORDS

The accounts and records review included an assessment of the Company's risk management process for identifying and controlling risks in key operational areas. In making the assessment for each key area, processes were reviewed, risks were identified and controls were

## **STANDARD GUARANTY INSURANCE COMPANY**

identified and tested. The Company's methodology for assessing the effectiveness of the established mitigation factors was also evaluated.

The primary mainframe data center is located in Woodbury, MN. Distributed systems are located in Atlanta, GA and Woodbury, MN, with the exception of the PAM application, which is located in New York City.

The Delaware Department of Insurance engaged INS Services, Inc. to perform a review and assessment of the Company's information systems and the related control environment. There were no reportable examination findings with respect to the Company's information technology systems and controls.

### **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, and surplus as regards policyholders of the Company, as determined by this examination, for the period ended December 31, 2013:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Reconciliation of Capital and Surplus From the Prior Examination

**STANDARD GUARANTY INSURANCE COMPANY**

Assets  
As of December 31, 2013

	Assets	Non Admitted Assets	Net Admitted Assets	Notes
Bonds	\$ 312,942,808	\$ 0	\$ 312,942,808	1
Preferred stocks	13,453,744	0	13,453,744	
Common stocks	221,219		221,219	
Mortgage loans on real estate:				
First Liens	6,595,538		6,595,538	
Cash, Cash Equivalents and Short-term Investments	24,599,882	0	24,599,882	
Other invested assets (Schedule BA)	301,300	0	301,300	
Receivables for securities	201,324	0	201,324	
Subtotals, cash and invested assets	<u>\$ 358,315,815</u>	<u>\$ 0</u>	<u>\$ 358,315,815</u>	
Investment income due and accrued	2,928,241	0	2,928,241	
Uncollected premiums and agents' balances in the course of collection	2,713,329	2,121,194	592,135	
Amounts recoverable from reinsurers	5,035,597	0	5,035,597	
Other amounts receivable under reinsurance contracts	60,508		60,508	
Current federal and foreign income tax due	19,147,033		19,147,033	
Net deferred tax asset	14,773,905	1,096,092	13,677,813	
Receivables from parent, subsidiaries and affiliates	75,677,847		75,677,847	
Aggregate write-ins for other than invested assets:				
Other assests	1,036,772		1,036,772	
Prepaid expenses	750,000	750,000	-	
Accounts receivable other	184,794		184,794	
Premium tax receivable	178,133		178,133	
Balances under deposit type contracts	732		732	
Totals	<u>\$ 480,802,706</u>	<u>\$ 3,967,286</u>	<u>\$ 476,835,420</u>	

STANDARD GUARANTY INSURANCE COMPANY

Liabilities, Surplus and Other Funds  
December 31, 2013

		<u>Note</u>
Losses	\$ 20,402,422	2
Loss adjustment expenses	2,146,508	2
Commissions payable, contingent commissions	1,033,870	
Other expenses	1,486,162	
Taxes, licenses and fees	7,901,255	
Unearned premiums	135,750,264	
Ceded reinsurance premiums payable	138,440,577	
Funds held by company under reinsurance treaties	1,505,308	
Remittances and items not allocated	118,282	
Provisions for reinsurance	11,000	
Payable to parent, subsidiaries and affiliates	8,669,406	
Payable for securities	997,500	
Aggregate write-ins for liabilities:		
Unearned ceding fees	6,492,190	
Checks pending escheat	688,366	
Stale dated suspense	317,443	
Total liabilities	<u>\$ 325,960,553</u>	
Common capital stock	\$ 3,547,500	
Gross paid in and contributed surplus	33,339,575	
Unassigned funds (surplus)	113,987,792	
Surplus as regards policyholders	<u>\$ 150,874,867</u>	
Totals	<u>\$ 476,835,420</u>	

STANDARD GUARANTY INSURANCE COMPANY

Statement of Income  
For the Period Ended December 31, 2013  
and  
Capital and Surplus Account  
From December 31, 2012 to December 31, 2013

Premiums earned	\$ 166,524,958
Losses incurred	\$ 58,981,523
Loss adjustment expenses incurred	10,109,180
Other underwriting expenses incurred	70,760,482
Miscellaneous other (income) / loss	
Total underwriting deductions	<u>\$ 139,851,185</u>
Net underwriting gain (loss)	<u>\$ 26,673,773</u>
Net investment income earned	\$ 7,720,676
Net realized capital gains or (losses)	<u>1,090,944</u>
Net investment gain (loss)	<u>\$ 8,811,620</u>
Finance and service charges not included in premiums	\$ 4,565
Aggregate write-ins for miscellaneous income:	
Fee income	\$ 5,902,392
Other income	\$ 138,300
Deposit treaty income (expense)	<u>280</u>
Total other income	<u>\$ 6,045,537</u>
Net income after dividends to policyholders	41,530,930
Federal and foreign income taxes incurred	<u>20,282,726</u>
Net income	<u><u>\$ 21,248,204</u></u>
Surplus as regards policyholders, December 31, 2012	<u>\$ 94,076,745</u>
Net income (losses)	21,248,204
Change in net unrealized capital gains or (losses)	(345,520)
Change in net unrealized foreign exchange capital gain (loss)	
Change in net deferred income tax	5,973,669
Change in non-admitted assets	(99,371)
Change in provision for reinsurance	21,140
Surplus adjustments:	
Transferred to capital (Stock Dividend)	<u>30,000,000</u>
Net change in capital and surplus for the year	<u>\$ 56,798,122</u>
Surplus as regards policyholders, December 31, 2013	<u><u>\$ 150,874,867</u></u>

**STANDARD GUARANTY INSURANCE COMPANY**

**Reconciliation of Capital and Surplus From Prior Examination  
From December 31, 2008 to December 31, 2013**

		Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Special Surplus Funds	Total
December 31, 2008		\$ 3,547,500	\$ 1,802,500	\$ 75,872,055	\$ -	\$ 81,222,055
2009 Operations	(1)			34,967,774		34,967,774
Dividends to Stockholders	(2)			(36,000,000)		(36,000,000)
						-
2010 Operations	(1)			37,011,188	207,642	37,218,830
Dividends to Stockholders	(2)			(29,000,000)		(29,000,000)
						-
2011 Operations	(1)			33,287,283	131,566	33,418,849
Dividends to Stockholders	(2)			(30,000,000)		(30,000,000)
Surplus: Paid in			1,537,075			1,537,075
				34,051,370		34,051,370
2012 Operations	(1)			(33,000,000)	(339,208)	(33,339,208)
Dividends to Stockholders	(2)					-
						-
2013 Operations	(1)			26,798,122		26,798,122
Surplus: Paid in			30,000,000			30,000,000
						-
December 31, 2013		<u>\$ 3,547,500</u>	<u>\$ 33,339,575</u>	<u>\$ 113,987,792</u>	<u>\$ -</u>	<u>\$ 150,874,867</u>

(1) Operations is defined as: net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, and aggregate write-ins for gains and losses to surplus.

(2) See discussion of dividends below.

Common Capital Stock and Paid-in Surplus

The Certificate of Incorporation provides that the Company has 1,075 shares of common stock authorized, of which 1,075 shares are issued and outstanding, at \$3,300 par value per share. The capital represented by the 1,075 shares of common stock issued and outstanding is \$3,547,500. As of December 31, 2013, all outstanding shares of the Company's common stock were owned by its parent, ASIC.

## STANDARD GUARANTY INSURANCE COMPANY

As of December 31, 2013, the Company reported gross paid-in and contributed surplus of \$33,339,575. The Company received surplus contributions of \$1,537,075 and \$30,000,000 in 2011 and 2013 respectively from its parent, ASIC.

### Dividends

During the period of examination, the Company paid the following cash dividends to its sole shareholder, American Security Insurance Company:

<u>Year</u>	<u>Dividends Paid</u>
2009	\$36,000,000
2010	\$29,000,000
2011	\$30,000,000
2012	\$33,000,000
2013	\$0

The dividends were approved in the Board minutes and proper filings were made to the Delaware Department of Insurance.

### **SCHEDULE OF EXAMINATION ADJUSTMENTS**

There were no examination adjustments made to the financial statements in this examination report dated as of December 31, 2013.

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **Note 1: Bonds**

**\$312,942,808**

As of December 31, 2013, the Company reported total bond investments on Schedule D – Part 1 with book adjusted carrying values in the amount of \$312.9 million and fair market values of \$315.9 million. Bonds represent 87.3% of invested assets, and 65.6% of total admitted assets and were comprised of the following classes:

**STANDARD GUARANTY INSURANCE COMPANY**

U.S. Governments	\$ 13,312,178	4.3%
All Other Governments	997,755	0.3%
U.S. States, Territories & Possessions	7,729,769	2.5%
U.S. Political Subdivisions of States, Territories & Possessions	4,242,696	1.4%
U.S. Special Revenues	92,634,011	29.6%
Industrial and Miscellaneous	193,289,084	61.8%
Hybrid Securities	737,315	0.2%
Total	<u>\$ 312,942,808</u>	<u>100.0%</u>

Of the Company's total bond holdings, 77.8 % were categorized as Class 1 with respect to NAIC credit quality standards. NAIC Class 2 bonds represented 17% of total bonds. The remaining holdings were NAIC Class 3, 4, 5 and 6 and accounted for 5.2% of total bonds. The bond holdings were 90.9% publically traded and 9.1% private placement securities. Bond maturities were diversified relative to maturity with 15.0%, 32.4%, 44.0% 7.1% and 1.4% maturing in less than one year, one to five years, five to ten years, ten to twenty years, and over twenty years, respectively. The examination verified the existence, ratings and reported values for the bond securities as of December 31, 2013.

**Note 2:**

<b>Losses</b>	<b>\$20,402,422</b>
<b>Loss Adjustment Expenses</b>	<b>\$ 2,146,508</b>

INS Consultants, Inc. ("Examining Actuary") performed a review of the inherent risks, management oversight and other mitigating controls over the Company's actuarial processes and procedures. The Examining Actuary's review included detail testing and an independent calculation of the Company's loss and loss adjustment expense reserves as of December 31, 2013. The Company's actuarial staff provided the Examining Actuary its Statement of Actuarial Opinion and the supporting actuarial data, documents and calculations. The Examining Actuary

**STANDARD GUARANTY INSURANCE COMPANY**

determined the Company's loss and loss adjustment expenses reserves were sufficient on both a gross and net basis as of December 31, 2013.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations made in the prior examination report dated as of December 31, 2008.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations made in this examination report dated as of December 31, 2013.

**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<b><u>Description</u></b>	<b><u>December 31, 2013</u></b>	<b><u>December 31, 2008</u></b>	<b><u>Increase</u></b>
Assets	\$ 476,835,420	\$ 199,887,930	\$ 276,947,490
Liabilities	\$ 325,960,553	\$ 118,665,875	\$ 207,294,678
Capital and Surplus	\$ 150,874,867	\$ 81,222,055	\$ 69,652,812

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and the consulting information technology specialist with INS Services, Inc. is acknowledged.

Respectfully submitted,



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Steve Guest, CPA, CFE  
Examiner In-Charge  
State of Delaware