

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION  
OF  
SURETY LIFE and CASUALTY  
INSURANCE COMPANY  
FARGO, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2021**

STATE OF NORTH DAKOTA  
INSURANCE DEPARTMENT


I, the undersigned, Commissioner of Insurance of the State of North Dakota, do hereby certify that I have compared the annexed copy of the Report of Examination of the

**Surety Life and Casualty Insurance Company  
Fargo, North Dakota**

as of December 31, 2021, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto  
set my hand and affixed my official seal at my  
office in the City of Bismarck, this 30<sup>th</sup> day of  
May, 2023.



  
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Jon Godfread  
Insurance Commissioner

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Fargo, North Dakota  
May 3, 2023

Honorable Jon Godfread  
Insurance Commissioner  
North Dakota Insurance Department  
600 East Boulevard Avenue  
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination was made of the books, records and financial condition of

**Surety Life and Casualty Insurance Company**

**Fargo, North Dakota**

hereinafter referred to as the "Company" last examined as of December 31, 2016, by representatives of the North Dakota Insurance Department, hereinafter referred to as the "Department".

**SCOPE OF EXAMINATION**

This examination was a risk-focused financial condition examination conducted in accordance with North Dakota Century Code ("N.D.C.C.") § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five year period of January 1, 2017 through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the Department and procedures recommended by the NAIC. In accordance with the NAIC Financial Condition Examiners Handbook, the examination was planned and performed 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. The examination also included 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. Statements were prepared by management and are therefore the responsibility of

management. 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.

## **STATUS OF PRIOR EXAM FINDINGS**

The last report of examination as of December 31, 2016 had two recommendations for the Company. All recommendations made in the prior report of statutory examination have been adequately addressed by the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings or material changes in the financial statements.

## **SUBSEQUENT EVENTS**

There were no material subsequent events noted through the date of this report.

## **HISTORY**

### **General**

The Company originally organized as Surety Mutual Health and Accident Insurance Association under Chapter 19, North Dakota Compiled Laws of 1913 (and amendments thereto on October 30, 1935) and commenced business on June 10, 1936. It began by writing accident and health insurance coverage on the assessment plan.

In 1950, the Company reorganized as a Legal Reserve Mutual Life Insurance Company under Chapter 26-08, of the amended North Dakota Revised Code of 1943, and the name of the Company was changed to Surety Mutual Life and Casualty Insurance Company. As such, it additionally was allowed to carry insurance upon the lives of persons, including every kind of insurance pertaining thereto.

On March 31, 2004, the Company demutualized and became a Stock Life Insurer, and the name of the Company was changed to Surety Life and Casualty Insurance Company.

## **CAPITALIZATION**

After demutualization, the Company amended its Articles of Incorporation to become a stock life insurance company and authorized the issuance of up to 2,000,000 shares of \$1.00 par value capital common stock. Currently 1,082,000 shares have been issued and are outstanding, all currently owned by Mr. Duane Steffes and other members of his family. The following table reflects the Company's capitalization activity since the date of demutualization on March 31, 2004:

Item Reference	Year	Amount Contributed	Capital Stock	Gross Paid-in & Contributed Surplus
(1)	2004	\$ 105,421	\$ 0	\$ 105,421
(2)	2004	1,396,800	582,000	814,800
(3)	2008	\$1,200,000	500,000	700,000
Totals as of December 31, 2021			\$ 1,082,000	\$1,620,221

- (1) Contribution carry-over resulting from demutualization
- (2) Initial capitalization 582,000 shares issued
- (3) Duane Steffes's additional purchase of 500,000 shares in 2008

## MANAGEMENT AND CONTROL

### Ultimate Control

The ultimate controlling person is Mr. Duane Steffes, a general agent living in Bismarck, North Dakota, who owns 1,000,000 of the issued and outstanding shares of the Company's capital stock. The other individuals who own capital stock are:

John or Cindy Steffes                      41,000 shares

In September 2019, the Company repurchased 41,000 shares, previously owned by Clarence or Mar-Jo Steffes. These shares remained as Treasury Stock at December 31, 2021.

### Annual Shareholder Meetings

The corporate Bylaws indicate the annual meeting of the Shareholders be held on the fourth Friday of March in each year at 2:00 p.m. for the purpose of electing a Board of Directors. Special meetings of the Shareholders may be called by the Chief Executive Officer, the Board of Directors, or by Shareholders holding 25 percent or more of the voting power of the Company. A majority of the votes entitled to be cast on a matter at the meeting constitutes a quorum.

### Board of Directors

The Bylaws specify that the business and affairs of the Company be managed by a Board of Directors consisting of no less than 6 and no more than 18 members. Each Director shall be elected during the annual meeting for a one year term or until his successor is duly elected and qualified. Eligible individuals must be under 70 years old and cannot be retired from their business or profession.

The Bylaws indicate the annual meeting of the Board of Directors is to be held as soon as practical after the annual meeting of the Shareholders. Meetings of the Board of Directors, other than the annual meeting, may be held regularly once each year, in accordance with a duly adopted resolution or motion of the Board of Directors. Special

meetings may be called by the Chief Executive Officer of the Corporation, the Chairman of the Board, or any Director, upon five days' notice. The presence of at least 51 percent of the Directors shall constitute a quorum for the transaction of any business, except the filling of vacancies. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if the action is taken by all Directors in office at that time.

Individuals elected and serving on the Company's Board of Directors at December 31, 2021, together with their addresses and business affiliations are as follows:

<u>Name and Address</u>	<u>Business Affiliations</u>
Duane Steffes Bismarck, ND	President and Chief Executive Officer Professional Insurance Services, Inc.
Cody Carter Bismarck, ND	Vice-President Surety Life & Casualty Insurance Company
Karen Skeldum Fargo, ND	Consultant Surety Life & Casualty Insurance Company
Dean Mastel Bismarck, ND	Manager Steffes Agency
John Steffes Lisbon, ND	Factory Worker Bobcat Company
Jonathan Seefeld Bismarck, ND	Office Manager Professional Insurance Services, Inc.

### Officers

The Bylaws indicate the Officers of the Company are to be elected at the annual meeting of the Board of Directors to serve for one year. The Officers of the Company are to consist of a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, and a Treasurer. Individuals elected as Officers and serving their respective duties as of December 31, 2021, are as follows:

<u>Name</u>	<u>Title</u>
Duane Steffes	Chairman, President and Chief Executive Officer
Cody Carter	Vice President
Karen Skeldum	Secretary and Treasurer

### Committees

The Company has an Executive Committee, Finance Committee, Audit Committee and a Compensation and Nominating Committee with the same members:

Duane Steffes	Chair
Cody Carter	Secretary

John Seefeld            Member

The Audit Committee met each year under review to appoint the Company's independent auditor. The Finance Committee met frequently in order to approve investment transactions. The Compensation and Nominating Committee also met each year under review to approve salaries and recommend a slate of Directors to the Board.

## **CORPORATE RECORDS**

### **Articles of Incorporation and Bylaws**

There were no article or bylaw changes that occurred during the examination period.

### **Board of Directors, Shareholders, and Committee Minutes**

The minutes of the Board of Directors, shareholders, and committees for the period under examination were read.

The minutes of the various meetings indicate that meetings were well attended and held in accordance with the Bylaws and Articles of Incorporation. The deliberations of the Board were adequately documented and support the Company's transactions and events.

### **Conflict of Interest**

The Company's procedure for disclosure of any conflict requires that every director, officer, and employee of the Company annually sign a conflict of interest disclosure. The signed statements are reviewed by the Board of Directors. A disclosed conflict was noted during the exam period pertaining to Duane Steffes's ownership of Professional Insurance Services, Inc. (PIS), an independent insurance agency that receives commissions from the Company. To mitigate this conflict, Duane abstains from all votes related to PIS compensation.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2021, the Company was protected against fraudulent or dishonest acts of its employees by a Fidelity Bond with a limit of \$250,000, which met the minimum coverage level as recommended by the NAIC.

Other insurance coverages carried by the Company were reviewed and appeared to be adequate.

## **TERRITORY AND PLAN OF OPERATION**

The Company currently is licensed in Arizona, Montana, Nebraska, Nevada, North Dakota, and South Dakota.

The principal products marketed by the Company as of December 31, 2021 were:



- Accident Medical Plan (AMP) - Covers medical expenses incurred due to an accident. Coverage levels of between \$5,000 and \$25,000 are available; after age 64 benefits are reduced by 50%.
- Whole Life Policy – Provides level benefit whole life insurance for individuals between the ages of 0 and 85.
- Graded Whole Life Policy – Provides graded death benefit whole life coverage to individuals between the ages of 0 and 85.

## REINSURANCE

The Company had no reinsurance contracts in effect during the five-year period under review.

## RELATED PARTY TRANSACTIONS

### Professional Insurance Services, Inc.

PIS is a general agency owned by Duane Steffes, the Company's majority shareholder, Board Chairman, President, and Chief Executive Officer. The Company and PIS have been affiliated since November 2001. The majority of the Company's premiums originated from PIS.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2021, was traced to the appropriate schedules of the Company's 2021 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is annually audited by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to extent deemed appropriate for this examination.

### Safekeeping Agreements

During the period under examination, the Company's securities were held by the Bank of North Dakota (BND) in Bismarck, North Dakota and by Fidelity Investments (Fidelity) in Cincinnati, Ohio. The Company's agreements with BND and Fidelity meet all the provisions required by N.D. Admin. Code § 45-03-23-02.

## **FINANCIAL STATEMENTS**

The following pages present a Statement of Assets and a Statement of Liabilities, Surplus, and Other Funds as of December 31, 2021. These statements are followed by supporting statements and reconciliations presented in the following order:

Summary of Income, Year 2021

Reconciliation of Capital and Surplus, January 1, 2017, through December 31, 2021

These financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2021. The accompanying comments on 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.

**Surety Life and Casualty Insurance Company**  
**Statement of Assets**  
**As of December 31, 2021**

	<b>Ledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$10,773,393		\$10,773,393
Common Stocks	2,853,987		2,853,987
Real Estate – Property Occupied by the Company	48,263		48,263
Cash	375,512		375,512
Contract Loans	349,762		349,762
Investment Income Due and Accrued	148,016		148,016
Uncollected Premiums and Agents' Balances in Course of Collection	9,865		9,865
Deferred Premiums, Agents' Balances and Installments Booked but Deferred Not Due	194,373		194,373
Net Deferred Tax Asset	297,864	\$250,508	47,356
Totals	<u>\$15,051,035</u>	<u>\$250,508</u>	<u>\$14,800,527</u>

**Surety Life and Casualty Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2021**

**Liabilities**

Aggregate reserve for life contracts	\$3,517,260
Aggregate reserve for accident and health contracts	4,030,385
Contract Claims:	
Life:	70,000
Accident and Health	122,313
Premiums and annuity considerations received in advance	9,940
Interest Maintenance Reserve	389,580
General expenses due or accrued	78,936
Taxes, licenses and fees due or accrued, excluding federal income tax	22,300
Current federal and foreign income taxes	130,940
Unearned investment income	12,856
Remittances and items not allocated	(4,566)
Asset valuation reserve	<u>992,590</u>
Total Liabilities	<u>9,372,534</u>

**Capital and Surplus**

Common capital stock	1,082,000
Gross paid in and contributed surplus	1,620,221
Unassigned funds (surplus)	<u>2,925,772</u>
Less treasury stock, at cost (41,000 shares common)	<u>(200,000)</u>
Surplus	4,345,993
Totals of common capital stock and surplus	<u>5,427,993</u>
Total Liabilities and Surplus	<u>\$14,800,527</u>

**Surety Life and Casualty Insurance Company**  
**Summary of Income**  
**For the Year Ended December 31, 2021**

Premiums and annuities for life/accident/health contracts	\$1,480,222
Net Investment Income	551,554
Amortization of Interest Maintenance Reserve	29,210
Aggregate write-ins for miscellaneous income	40,100
<b>Total Income</b>	<u>\$2,101,086</u>
Death benefits	331,500
Disability Benefits	562,055
Surrender benefits/withdrawals for life contracts	60,981
Interest/adjustments on contract/deposit-type contract funds	751
Increase in aggregate reserves	111,173
<b>Total Benefits Paid</b>	<u>1,066,460</u>
Commissions on premiums/annuities/deposit type contract funds	212,075
General insurance expenses	494,465
Insurance taxes, licenses/fees, excluding federal income taxes	58,245
Increase in loading on deferred/uncollected premiums	11,265
<b>Total Expenses</b>	<u>1,842,510</u>
Net gain from operations before federal income taxes	258,576
Federal and foreign income taxes incurred (excluding tax on capital gains)	<u>184,658</u>
Net gain from operations after federal income tax and before Realized capital gains or (losses)	<u>73,918</u>
Net realized capital gains or (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of (\$124,013) (excluding taxes of (\$7,134) transferred to the IMR)	466,525
Net Income	<u><u>\$ 540,443</u></u>

**Surety Life and Casualty Insurance Company  
Reconciliation of Capital and Surplus Account  
January 1, 2017, through December 31, 2021**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Capital and surplus, December 31, prior year	\$5,399,399	\$5,078,865	\$4,867,420	\$4,893,478	\$4,556,548
Net Income	540,443	457,958	360,993	460,451	496,866
Change in net unrealized capital gains (losses)	(60,129)	295,940	458,036	(529,121)	136,150
Change in net deferred income tax	15,974	(21,199)	(81,210)	121,812	(204,837)
Change in nonadmitted assets	(30,502)	5,012	85,050	(120,519)	160,916
Change in asset valuation reserve	(281,043)	(261,027)	(281,584)	257,719	(89,865)
Change in Treasury Stock			(200,000)		
Dividends to stockholders	(156,150)	(156,150)	(129,840)	(216,400)	(162,300)
Net change in capital and surplus for the year	28,593	320,534	211,445	(26,058)	336,930
Capital & surplus, December 31, current year	<u>\$5,427,992</u>	<u>\$5,399,399</u>	<u>\$5,078,865</u>	<u>\$4,867,420</u>	<u>\$4,893,478</u>

## CONCLUSION

The financial condition of the Company, as of December 31, 2021, as determined by this examination is summarized as follows:


Admitted Assets:		<u>\$14,800,527</u>
Total Liabilities	\$ 9,372,534	
Common Capital Stock	\$ 1,082,000	
Gross Paid In & Contributed	1,620,221	
Less Treasury Stock	(200,000)	
Unassigned Funds	<u>2,925,772</u>	
Surplus as Regards Policyholders	<u>5,427,993</u>	
Liabilities, Surplus and Other Funds		<u>\$14,800,527</u>

Since the last examination conducted as of December 31, 2016, the Company's admitted assets have increased \$3,077,700, its total liabilities have increased \$12,206,255, and its surplus as regards policyholders has increased \$871,445.

In addition to the undersigned, Joseph Rome, CFE, Vasileios Keisoglou, ASA, MAAA, and Frank Edwards, Jr., ASA, MAAA of INS Consultants, Inc. and North Dakota Insurance Department Life & Health Actuary Colton Storseth, ASA, also participated in this examination.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,



Colton Schulz, CISA, CFE, CFE (Fraud)  
Supervising Examiner  
North Dakota Insurance Department

