

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

**REPORT OF EXAMINATION**

**OF**

**SURETY LIFE and CASUALTY  
INSURANCE COMPANY  
FARGO, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2016**

STATE OF NORTH DAKOTA  
DEPARTMENT OF INSURANCE

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, 2016, 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 10<sup>th</sup> day of April, 2018



  
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Jon Godfread  
Commissioner of Insurance

## TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	3
STATUS OF PRIOR EXAM FINDINGS.....	4
SUMMARY OF SIGNIFICANT FINDINGS .....	4
SUBSEQUENT EVENTS.....	4
HISTORY.....	4
General.....	4
CAPITALIZATION.....	5
MANAGEMENT AND CONTROL .....	5
Ultimate Control.....	5
Annual Shareholders Meetings.....	5
Board of Directors.....	5
Officers.....	7
Committees .....	7
CORPORATE RECORDS .....	8
Articles of Incorporation and Bylaws .....	8
Minutes of Meetings.....	8
Conflict of Interest.....	8
FIDELITY BOND AND OTHER INSURANCE .....	8
PENSION AND INSURANCE PLANS.....	8
Employee Benefit Plan .....	8
Employee Retirement Plan.....	8
TERRITORY AND PLAN OF OPERATION .....	9
TREATMENT OF POLICYHOLDERS AND CLAIMANTS.....	9
GROWTH OF COMPANY .....	9
REINSURANCE.....	9
RELATED PARTY TRANSACTIONS.....	10
Professional Insurance Services Inc.....	10
ACCOUNTS AND RECORDS.....	10
Safekeeping Agreements .....	10
FINANCIAL STATEMENTS .....	10
CONCLUSION.....	15
RECOMMENDATIONS.....	16

Fargo, North Dakota  
January 26, 2018

Honorable Jon Godfread  
Commissioner of Insurance  
North Dakota Insurance Department  
600 East Boulevard Avenue, Department 401  
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**

Surety Life and Casualty Insurance Company (hereinafter referred to as "the Company") was last examined as of December 31, 2011, by representatives of the North Dakota Insurance Department.

**SCOPE OF EXAMINATION**

This examination was a risk-focused financial condition examination conducted in accordance with 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, to assure its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five year period beginning January 1, 2012, and ending December 31, 2016, 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 North Dakota Insurance 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 included 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 was identified, the impact of such adjustment was documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the N.D.C.C. § 26.1-03-19.3, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but are separately communicated to other regulators and/or the Company.

## **STATUS OF PRIOR EXAM FINDINGS**

The last report of examination as of December 31, 2011 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**

The meeting minutes and general ledger were reviewed through January 2018 and no significant subsequent events were noted.

## **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, 2016			<u>\$ 1,082,000</u>	<u>\$1,620,221</u>

- (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
Clarence or Mar-Jo Steffes	41,000 shares

### 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, 2016, 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
Sharon Berg Fargo, ND	Retired Office Manager Surety Life & Casualty Insurance Company
Dean Mastel Bismarck, ND	Manager Steffes Agency
John Steffes Lisbon, ND	Factory Worker Bobcat Company
Brandon Steckler Bismarck, ND	Claims Adjustor Workforce Safety & Insurance
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, 2016, 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

### Executive Committee

The Executive Committee of the Board exercises all authority of the Board, except where an action conflicts with expressed policies of the Board of Directors. The Executive Committee met twice in 2012, 2013, and 2016 and once in 2014. Those members serving on this Committee as of December 31, 2016 were as follows:

Duane Steffes	Chair
Cody Carter	Secretary
John Seefeld	Member

### Finance Committee

The Finance Committee supervises and authorizes investments on behalf of the Board. The Finance Committee met 97 times and approved every investment transaction during the exam period. Those members serving on this Committee as of December 31, 2016 were as follows:

Duane Steffes	Chair
Cody Carter	Secretary
John Seefeld	Member

### Other Committees

The Company also has an Audit Committee and a Compensation and Nominating Committee with the same members as the Executive and Finance committees. The Audit Committee met once in each year under review to appoint the Company's independent auditor. The Compensation and Nominating Committee met twice in each year under review except 2014, when they only met once. The Compensation and Nominating Committee approved salaries each year and recommended a slate of Directors to the Board in each year except 2014.



## 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, 2016, the Company was protected against fraudulent or dishonest acts of its employees by a Fidelity Bond with a limit of \$100,000. The suggested minimum amount of Fidelity insurance, according to NAIC guidelines, is \$125,000, based on the Company's premiums and assets. **It is recommended that the Company increase its Fidelity Bond coverage to meet the NAIC's guidelines.**

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

## PENSION AND INSURANCE PLANS

### Employee Benefit Plan

The Company provides all full-time employees fully paid medical, dental and vision insurance plans.

### Employee Retirement Plan

The Company's retirement plan consists of a Simple IRA where the Company matches up to three percent of the employees' contributions from salary annually. The Company's contributions to the plan were \$4,414 for 2016 and \$5,499 for 2015.

## 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, 2016 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.

At December 31, 2016, the Company had 65 independent agents and one salaried agent appointed to market its products.

## TREATMENT OF POLICYHOLDERS AND CLAIMANTS

During the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The Company received notice from the Department on November 13, 2014 regarding non-compliance with advertising laws pertaining to a final expense mailer. The Company discontinued this practice and no longer sends out final expense mailers. No other areas of non-compliance were noted.

## GROWTH OF COMPANY

The Company's growth and activities during the period under examination are depicted in the following chart:

	2016	2015	2014	2013	2012
Net Admitted Assets	\$ 11,722,827	\$ 10,922,036	\$ 10,597,130	\$ 10,084,336	\$ 9,213,763
Capital and Surplus	4,556,548	4,307,754	4,096,115	3,839,566	3,437,378
Direct Premiums Written	1,439,388	1,498,831	1,432,866	1,418,601	1,414,849
Assumed Premiums	-	-	-	-	-
Net Income	322,218	544,296	370,329	706,943	248,659

## 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 business that is placed through PIS accounts for approximately 82 percent of the premium earned in 2015 and 2016.

## 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, 2016, was traced to the appropriate schedules of the Company's 2016 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 has safekeeping agreements in place with both BND and Fidelity that meet all the provisions required by N.D. Admin. Code § 45-03-23-02, except that the agreements were not approved by the Board of Directors.

**It is recommended that the Board of Directors approve the Company's custodial agreements in compliance with N.D. Admin. Code §45-03-23-02(2).**

## FINANCIAL STATEMENTS

The following statements and exhibits reflect the financial condition of the Company at December 31, 2016:

Statement of Assets

Statement of Liabilities, Surplus, and Other Funds

Summary of Operations

Reconciliation of Capital and Surplus account for the period under examination

The following financial statements are based on the statutory financial statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2016. 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, 2016**

	<b>Ledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$6,330,581		\$6,330,581
Common Stocks	1,628,383		1,628,383
Real Estate – Property Occupied by the Company	84,975		84,975
Cash and Short-Term Investments	2,989,163		2,989,163
Contract Loans	228,937		228,937
Investment Income Due and Accrued	107,479		107,479
Uncollected Premiums and Agents’ Balances in Course of Collection	4,565		4,565
Deferred Premiums, Agents’ Balances and Installments Booked but Deferred Not Due	231,886		231,886
Net Deferred Tax Asset	467,323	\$350,465	116,858
Totals	<u>\$12,073,292</u>	<u>\$350,465</u>	<u>\$11,722,827</u>

**Surety Life and Casualty Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2016**

**Liabilities**

Aggregate reserve for life contracts	\$2,721,813
Aggregate reserve for accident and health contracts	3,715,301
Contract Claims:	
Life:	24,875
Accident and Health	65,428
Premiums and annuity considerations received in advance	9,911
Interest Maintenance Reserve	240,498
General expenses due or accrued	14,068
Taxes, licenses and fees due or accrued, excluding federal income tax	20,815
Current federal and foreign income taxes	7,251
Unearned investment income	9,314
Amounts Withheld or Retained by Company as agent or trustee	218
Asset valuation reserve	<u>336,787</u>
Total Liabilities	<u>7,166,279</u>

**Capital and Surplus**

Common capital stock	1,082,000
Gross paid in and contributed surplus	1,620,221
Unassigned funds (surplus)	<u>1,854,327</u>
Surplus	3,474,548
Totals of common capital stock and surplus	<u>4,556,548</u>
Total Liabilities and Surplus	<u>\$11,722,827</u>

**Surety Life and Casualty Insurance Company**  
**Summary of Operations**  
**For the Year Ended December 31, 2016**

Premiums and annuities for life/accident/health contracts	\$1,416,866	
Net Investment Income	539,382	
Amortization of Interest Maintenance Reserve	<u>23,758</u>	
<b>Total Income</b>		<u>1,980,006</u>
Death benefits	353,050	
Disability Benefits	292,537	
Surrender benefits/withdrawals for life contracts	83,742	
Interest/adjustments on contract/deposit-type contract funds	490	
Increase in aggregate reserves	288,271	
<b>Total Benefits Paid</b>		<u>1,018,090</u>
Commissions on premiums/annuities/deposit type contract funds	181,710	
General insurance expenses	297,523	
Insurance taxes, licenses/fees, excluding federal income taxes	49,514	
Increase in loading on deferred/uncollected premiums	(7,253)	
<b>Total Expenses</b>		<u>1,539,584</u>
Net gain from operations before federal income taxes		440,422
Federal and foreign income taxes incurred (excluding tax on capital gains)		<u>113,864</u>
Net gain from operations after federal income tax and before Realized capital gains or (losses)		<u>326,558</u>
Net realized capital gains or (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of (\$683) (excluding taxes of \$14,954 transferred to the IMR)		(4,340)
<b>Net Income</b>		<u><u>\$322,218</u></u>

**Surety Life and Casualty Insurance Company**  
**Reconciliation of Capital and Surplus Account**  
**January 1, 2012, through December 31, 2016**

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Capital and surplus, December 31, prior year	\$4,307,754	\$4,096,115	\$3,839,566	\$3,437,378	\$3,331,056
Net Income	322,218	544,296	370,329	706,943	248,659
Change in net unrealized capital gains (losses)	278,346	(97,985)	(247,915)	(33,481)	(72,843)
Change in net deferred income tax	(82,319)	37,531	116,189	248,832	134,425
Change in nonadmitted assets	83,796	(37,224)	(113,528)	(180,505)	(103,004)
Change in asset valuation reserve	(190,947)	3,061	158,474	(69,101)	61,385
Dividends to stockholders	(162,300)	(238,040)	0	(270,500)	(162,300)
Net change in capital and surplus for the year	248,794	211,639	256,549	402,188	106,322
Capital & surplus, December 31, current year	<u>\$4,556,548</u>	<u>\$4,307,754</u>	<u>\$4,096,115</u>	<u>\$3,839,566</u>	<u>\$3,437,378</u>

## CONCLUSION

The financial condition of the Company, as of December 31, 2016, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$ 11,722,827</u>
Liabilities	\$ 7,166,279	
Surplus as Regards Policyholders'	<u>4,556,548</u>	
Liabilities, Surplus and Other Funds		<u>\$ 11,722,827</u>

Since the last examination conducted as of December 31, 2011, the Company's admitted assets have increased \$2,964,980, its total liabilities have increased \$1,739,488, and its surplus as regards policyholders has increased \$1,225,492.

In addition to the undersigned, Joseph Detrick, CPA, CISA, CFE, AES of Jennan Enterprises and North Dakota Insurance Department Staff including Ed Moody, CFE, CPA, Andrea Rebsom, Examiner, and Colton Storseth, Life & Health Actuary, 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, CFE  
Examiner-In-Charge  
North Dakota Insurance Department



## COMMENTS AND RECOMMENDATIONS

It is recommended that the Company increase its Fidelity Bond coverage to meet the NAIC's guidelines.

It is recommended that the Board of Directors approve the Company's custodial agreements in compliance with N.D. Admin. Code §45-03-23-02(2).