

Report of Examination of

**Stonebridge Casualty Insurance Company**  
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio  
May 9, 2011

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Honorable Joseph Torti III  
Chairman, NAIC Financial Condition (E) Committee  
Deputy Director and Superintendent  
Insurance and Banking  
State of Rhode Island  
1511 Pontiac Avenue, Bldg. 69-2  
Cranston, Rhode Island 02920

Dear Directors:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Stonebridge Casualty Insurance Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department last examined the Company as of December 31, 2004. The Department’s current examination covers the period of January 1, 2005 through December 31, 2009.

Representatives of the Iowa Insurance Division, as the coordinating state regulator of the insurance company affiliates of AEGON USA, LLC, led the multi-state coordinated examination that included representatives from the states of Arkansas, New York, Ohio and Vermont. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing 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 domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

## **Management and Control**

### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
Marilyn Carp	Chairman of the Board and President, Stonebridge Casualty Insurance Company
Brenda K. Clancy	Executive Vice President and Chief Operating Officer, AEGON USA, LLC
Glyn D. Mangum, Jr.	Senior Vice President Division Chief Actuary, Stonebridge Casualty Insurance Company
Martha A. McConnell	Senior Vice President, Stonebridge Casualty Insurance Company
Brian A. Smith	Executive Vice President, Stonebridge Casualty Insurance Company
Cornelis H. Verhagen	Vice President, Stonebridge Casualty Insurance Company
Craig D. Vermie	Senior Vice President, Secretary and General Counsel, AEGON USA, LLC

### **Officers**

As of the examination date, the following officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
Marilyn Carp	President and Chairman of the Board
Michael A. Eubanks	Senior Vice President, Secretary, and Division General Counsel
Eric J. Martin	Vice President and Corporate Controller

## Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is wholly owned by AEGON USA, LLC (“AEGON USA”), an Iowa domiciled holding company that conducts substantially all of its insurance operations through subsidiary companies. AEGON USA’s ultimate parent is Vereniging AEGON Netherlands Membership Association, organized under the laws of The Netherlands. All of the U.S. domiciled AEGON companies share senior and investment management, as well as support services.

## Territory and Plan of Operations

The Company is licensed to operate in all fifty states and the District of Columbia. The Company primarily writes travel insurance, reported as inland marine business, and guaranteed auto protection (“GAP”) coverage, reported as credit. The majority of the travel business is produced by managing general agents that have authority to underwrite and administer policies, and to settle claims. The GAP product is currently sold by a small number of producers who sell through banks and credit unions.

During 2009, the largest states in terms of direct premium written were as follows: Texas, \$26.6 million (21.5%); California, \$11.9 million, (9.7%); New York, \$10.0 million (8.1%); Florida, \$7.3 million (5.9%); and all other states, \$68.0 million (54.8%). The following schedule illustrates the Company’s premium written in 2009 by line of business:

<u>Line of Business</u>	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Inland marine	\$ 77,397,411	\$ 0	\$ 9,973,213	\$ 67,424,198
Credit	29,614,585	(144,920)	29,151,800	317,865
Credit Unemployment	7,976,251	0	0	7,976,251
Contract Liability	4,382,111	(365,696)	75,920	3,940,495
Warranty	1,570,988	401,844	1,972,832	0
Group accident and health	1,028,380	0	0	1,028,380
Financial guaranty	750,000	0	0	750,000
Credit accident and health	733,180	0	0	733,180
All other lines	<u>394,188</u>	<u>1,139,324</u>	<u>1,135,033</u>	<u>398,479</u>
Totals	<u>\$ 123,847,094</u>	<u>\$ 1,030,552</u>	<u>\$ 42,308,798</u>	<u>\$ 82,568,848</u>

## Reinsurance

The Company's workers' compensation, vehicle service contracts and GAP policies are reinsured by quota share agreements with authorized and unauthorized reinsurers. Cessions to unauthorized reinsurers are collateralized with funds held and letters of credit.

## Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Premiums earned	<u>\$92,103</u>	<u>\$123,784</u>	<u>\$139,146</u>	<u>\$144,902</u>	<u>\$122,792</u>
Losses incurred	51,488	68,015	79,523	93,182	80,055
Loss adjustment exp. incurred	1,451	2,009	2,489	1,310	1,831
Underwriting expenses incurred	41,750	45,769	51,760	67,147	62,632
Change in retroactive rein. res.	<u>(423)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total underwriting deductions	<u>94,266</u>	<u>115,793</u>	<u>133,772</u>	<u>161,639</u>	<u>144,518</u>
Net underwriting gain (loss)	<u>\$ (2,163)</u>	<u>\$ 7,991</u>	<u>\$ 5,374</u>	<u>\$ (16,737)</u>	<u>\$ (21,726)</u>
Pure loss ratio	55.9	54.9	57.2	64.3	65.2
Loss adjustment expense ratio	<u>1.6</u>	<u>1.6</u>	<u>1.8</u>	<u>0.9</u>	<u>1.5</u>
Loss ratio	57.5	56.6	58.9	65.2	66.7
Underwriting expense ratio	<u>50.1</u>	<u>42.4</u>	<u>39.2</u>	<u>40.7</u>	<u>43.5</u>
Combined ratio	<u>107.5</u>	<u>99.0</u>	<u>98.1</u>	<u>105.9</u>	<u>110.2</u>

## Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

- Statement of Assets, Liabilities, Capital and Surplus
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus**  
**December 31, 2009**

Bonds	\$ 196,397,383
Common stocks	5,420
Cash, cash equivalents, and short term investments	36,853,236
Other invested assets	<u>138,244</u>
Subtotal, cash and invested assets	233,394,283
Investment income due and accrued	2,091,844
Uncollected premiums in course of collection	4,133,176
Amounts recoverable from reinsurers	8,404,317
Funds held by or deposited with reinsured companies	22,851
Net deferred tax asset	6,602,087
Guaranty funds receivable or on deposit	34,231
Receivables from parent, subsidiaries, and affiliates	769,169
Miscellaneous assets	<u>2,110,998</u>
Total admitted assets	<u>\$ 257,562,956</u>

**Statement of Assets, Liabilities, Capital and Surplus  
December 31, 2009**

Losses	\$ 48,389,468
Reinsurance payable on paid losses and loss adjustment expenses	391,709
Loss adjustment expenses	3,954,719
Commissions payable, contingent commissions, and other charges	4,227,494
Other expenses	1,918,070
Taxes, licenses and fees	529,514
Current federal income taxes	2,551,931
Unearned premiums	24,442,789
Ceded reinsurance premiums payable (net of ceding commissions)	4,323,506
Funds held by company under reinsurance treaties	50,237,569
Remittances and items not allocated	117,511
Provision for reinsurance	9,512,243
Payable to parent, subsidiaries and affiliates	4,828,069
Miscellaneous liabilities	<u>583,737</u>
Total liabilities	<u>156,008,329</u>
Special surplus from retroactive reinsurance	573,647
Common capital stock	8,724,386
Increase in admitted deferred tax assets pursuant to SSAP No.10R	3,191,095
Gross paid in and contributed surplus	81,217,108
Unassigned funds	<u>7,848,391</u>
Total capital and surplus	<u>101,554,627</u>
Total liabilities, capital and surplus	<u>\$ 257,562,956</u>

**Statement of Income**  
**As of December 31, 2009**

Premiums earned	<u>\$ 92,102,707</u>
Losses incurred	51,488,444
Loss adjustment expenses incurred	1,450,699
Other underwriting expenses incurred	41,749,587
Change in retroactive reinsurance reserves	<u>(422,898)</u>
Total underwriting deductions	<u>94,265,832</u>
Net underwriting gain (loss)	<u>(2,163,125)</u>
Net investment income earned	11,114,129
Net realized capital gains	<u>978,326</u>
Net investment gain	<u>12,092,455</u>
Miscellaneous income	<u>(1,803,821)</u>
Total other income (loss)	<u>(1,803,821)</u>
Income before federal income taxes	8,125,509
Federal income taxes incurred	<u>2,966,690</u>
Net income	<u>\$ 5,158,819</u>

**Statement of Changes in the Capital and Surplus Account**  
**(in thousands)**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital and surplus, beginning of the year	<u>\$127,919</u>	<u>\$120,145</u>	<u>\$103,314</u>	<u>\$69,816</u>	<u>\$71,541</u>
Net income (loss)	5,159	14,291	12,888	4,206	(11,760)
Change in net unrealized cap. gains (losses)	2,100	(4,851)	(34)	19	(27)
Change in net deferred income tax	(460)	(900)	1,727	1,171	3,341
Change in non-admitted assets	3,741	(1,496)	(1,540)	(9)	(3,909)
Change in provision for reinsurance	(668)	730	(1,210)	4,111	(3,224)
Surplus adjustments	(22,600)	0	5,000	23,567	12,000
Dividends to stockholders	(17,400)	0	0	0	0
Aggregate write-ins for gains in surplus	<u>3,764</u>	<u>0</u>	<u>0</u>	<u>433</u>	<u>1,854</u>
Change in surplus during the year	<u>(26,364)</u>	<u>7,774</u>	<u>16,831</u>	<u>33,498</u>	<u>(1,725)</u>
Capital and surplus, end of the year	<u>\$101,555</u>	<u>\$127,919</u>	<u>\$120,145</u>	<u>\$103,314</u>	<u>\$69,816</u>

## Notes to Financial Statements

### Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

### Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Ann M. Conway, FCAS, MAAA, of Towers Watson, to render the Company's Statement of Actuarial Opinion ("Opinion"). Ms. Conway prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2009 Annual Statement.

Mary D. Miller, FCAS, MAAA, Assistant Director, Product Regulation and Actuarial Services of the Department, reviewed the Actuarial Report. A significant portion of the net loss and loss adjustment expense ("LAE") reserves relate to assumed commercial multiple peril and general liability business that is now is run-off. Ms. Miller determined the loss and LAE reserves presented in the Company's 2009 Annual Statement are reasonably stated.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Assets	<u>\$ 257,562,956</u>
Liabilities	156,008,329
Capital and Surplus	<u>101,554,627</u>
Total Liabilities, Capital and Surplus	<u>\$ 257,562,956</u>

### **Subsequent Events**

In 2010, Edward H. Walker, III was named President of the Company and elected to the board of directors.

### **Acknowledgement**

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, David Finkler, CPA; Mary Miller, FCAS, MAAA; and Brad Schroer, of the Department, participated in this examination.

Respectfully,

  
\_\_\_\_\_  
Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

*J. K. Ebert*      5/24/11  
Assistant Chief Examiner      Date

State of Ohio

County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 24 day of May, 2011.

*Kimberly Ann Lowry*  
(Notary Public)

3-28-2016  
My Commission Expires

**KIMBERLY ANN LOWRY**  
**NOTARY PUBLIC • STATE OF OHIO**  
Recorded in Franklin County  
My commission expires Mar. 28, 2016