

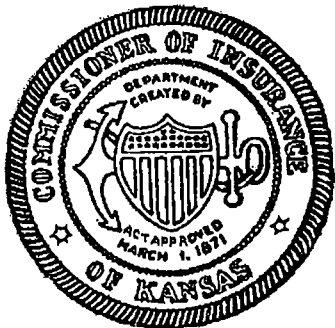
CERTIFICATE

I, KEN SELZER, Commissioner of Insurance of Kansas, do hereby certify that the following and hereto attached is a true copy of

REPORT OF EXAMINATION
OF
KAMMCO CASUALTY COMPANY, INC.
623 SW 10TH AVE.
TOPEKA, KS 66612
AS OF
DECEMBER 31, 2016

the original of which is now on file and a matter of record in this office.

In Witness Whereof, I, KEN SELZER, Commissioner of Insurance of Kansas, have hereto affixed by signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas this 28th day of June, 2018.





Commissioner of Insurance

FILED
JUN 28 2018
KEN SELZER
Commissioner of Insurance

REPORT ON EXAMINATION
OF
KAMMCO CASUALTY COMPANY, INC.
623 SOUTHWEST 10TH AVENUE
TOPEKA, KANSAS 66612
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Topeka, Kansas
April 11, 2018

Honorable Ken Selzer
Commissioner of Insurance
Kansas Insurance Department
420 SW 9th Street
Topeka, Kansas 66612-1678

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222 – *Examination of Condition of Company*, an examination has been conducted of the financial condition and business affairs of:

**KAMMCO CASUALTY COMPANY, INC.
623 SOUTHWEST 10TH AVENUE
TOPEKA, KANSAS 66612**

hereinafter referred to as the “Company” or “KCCI”. The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a property and casualty multi-state financial examination of KCCI. The organizational examination was conducted as of March 31, 2015. This examination covers the two-year period from January 1, 2015, through December 31, 2016.

The examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department (KID) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and

evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, *Examination of Condition of Company*, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

Financial statements of the Company were audited by RSM US, LLP for the years ending December 31, 2015, through December 31, 2016. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the KID.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during the course of this examination.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the course of the examination.

COMPANY HISTORY

The Company was incorporated in Kansas on September 26, 2014 as a stock property and casualty insurance company under the provisions of K.S.A. 40-1101 et seq. – *General Provisions Relative to Casualty, Surety and Fidelity Companies*.

The Company began operations on April 22, 2015 as a stock property and casualty company under Article 32, Chapter 40 of the Kansas Statutes Annotated. The Company was organized as a for-profit corporation as set forth in its articles of incorporation ("Articles") with a perpetual existence and the nature of its business being:

"...to transact any and all kinds, classes, types and forms of property and casualty insurance, any other such insurance that the Company is authorized or becomes authorized to transact under the laws of the State of Kansas, or any state, nation, country, territory, possession, principality or District of Columbia in which the Company is authorized to do business and to reinsure any such insurance risk or any part thereof ceded to it by other insurance companies."

Capital Stock

KCCI's Articles authorize the issuance of 1,800,000 shares of common capital stock at \$1.00 par value per share. The authorized capital stock is comprised of 1,620,000 shares of common stock with voting rights and 180,000 shares of non-voting common stock. As of December 31, 2016, 900,000 shares of voting common stock have been issued to Kansas Medical Mutual Insurance Company (KaMMCO).

MANAGEMENT AND CONTROL

The Board of Directors ("Board") will be elected at the stockholders annual meeting or by written consent in lieu of an annual meeting by those stockholders owning voting common stock. The Board is responsible for the management of the Company.

The bylaws consist of eight (8) articles that provide the framework for the operation, management and control of the Company. The Board consists of no less than five (5) and not more than fifteen (15) directors, including three ex-officio voting directors. Directors, need not be stockholders but each of whom are natural born citizens of the United States. Directors are elected to three (3) year terms, such that one-third (1/3) of the total number of directors is elected each year to maintain an equally balanced three (3) year staggered Board. Directors are limited to serving three (3) consecutive terms. In addition to the elected directors there are three (3) ex-officio voting director position, which are the president and chief executive officer of the Company, executive director of the Kansas Medical Society and the chairman of the Board of the Company. Subsequent to the appointment of the initial Board, the future make-up of the directors will consist of at least one-half (1/2) of directors being independent. The elected directors and ex-officio directors serving on the initial Board and their principal occupations are:

<u>Director</u>	<u>Principal Occupation</u>
Craig A. Concannon, M.D.	Physician and Owner Beloit Medical Center
Joe D. Davison, M.D.	Executive Physician West Wichita Family Physicians, P.A.
Randall L. Peterson	President and Chief Executive Officer Stormont-Vail Healthcare, Inc.
Kurtis L. Scott (ex-officio)	Kansas Medical Mutual Insurance Company President and Chief Executive Officer
Loran J. Slaughter (ex-officio)	Executive Director Kansas Medical Society

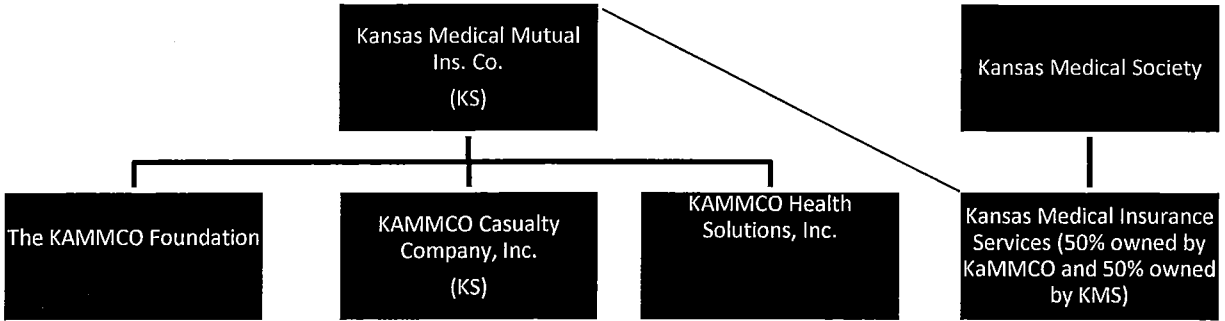
The bylaws state the officers of the Company will be a President and Chief Executive Officer, a Secretary and a Treasurer. The Board may elect from time to time such other officers and assistant officers as deemed necessary or advisable. The following officers were elected by written consent in lieu of the first meeting of the Board on September 30, 2014:

<u>Name</u>	<u>Position</u>
Kurtis L. Scott	President and Chief Executive Officer
Loran J. Slaughter	Secretary and Treasurer

Insurance Holding Company System

K.S.A. 40-3301, et seq. - *Insurance Holding Companies*, requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Form "B" and "C" registration statements to the KID for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2016.



Intercompany/Cost Sharing Agreements

KCCI entered into an administrative services agreement with KaMMCO on October 11, 2016 to provide services in return for a monthly fee that is based on the actual costs of providing the services. The services to be provided are as follows:

- | | |
|-----------------------------------|-----------------------------------|
| Finance and Accounting | Human Resource and Administrative |
| Information Technology | Legal Services |
| Marketing and Product Development | Risk Management |
| Underwriting | |

KCCI entered into a tax allocation agreement with its parent and affiliate effective for the taxable period beginning after December 31, 2013. The method of allocation requires the tax liability of the group to be allocated to the members of the group on the basis of the percentage of the total tax which the tax of such member is computed on a separate tax return would bear to the total amount of the taxes to all members so computed.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company did not have any policies in force and was authorized to transact business in Kansas and Missouri.

GROWTH OF COMPANY

The exhibit below shows the Company's financial growth (in thousands) for the period of December 31, 2015, through December 31, 2016. The financial growth amounts were obtained from annual statements filed by the Company.

	<u>2015</u>	<u>2016</u>
<i>(in thousands)</i>		
Admitted Assets	5,001	5,817
Liabilities	-	875
Capital and Surplus	5,001	4,942
Net Underwriting Gain/(Loss)	-	-
Net Income	(31)	28
Net Premiums Written	-	-

REINSURANCE

There is no reinsurance in effect as of December 31, 2016.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the KID 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.

KAMMCO CASUALTY COMPANY, INC.
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2016

	<u>Assets</u>	<u>Assets Nonadmitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 3,766,013		\$ 3,766,013
Cash and short-term investments	2,013,354		2,013,354
Investment income due & accrued	29,411		29,411
Current federal and foreign income tax recoverable	8,064		8,064
Aggregate write-ins for other than invested assets	87,020	87,020	-
Totals	<u>\$ 5,903,862</u>	<u>\$ 87,020</u>	<u>\$ 5,816,842</u>

KAMMCO CASUALTY COMPANY, INC.
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2016

Commissions payable	\$ 87,020
Other expenses	20,910
Ceded reinsurance premiums payable	598,284
Amounts withheld or retained by company for others	<u>168,952</u>
Total liabilities	875,166
Common capital stock	900,000
Gross paid in and contributed surplus	4,131,917
Unassigned funds	<u>(90,241)</u>
Surplus as regards policyholders	4,941,676
Totals	<u><u>\$ 5,816,842</u></u>

**KAMMCO CASUALTY COMPANY, INC.
STATEMENT OF OPERATIONS
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016**

Underwriting Income:

Premiums earned	\$	-
<u>Deduct:</u>		
Losses incurred		-
Loss expenses incurred		-
Other underwriting expenses incurred		-
Total underwriting deductions		-
Net underwriting gain or (loss)		-

Investment Income:

Net investment income earned	64,070
Net realized capital gains or (losses)	243
Net investment gain or (loss)	64,313

Other Income:

Net gain (loss) from agents' or premium balances charged off	-
Finance and service charges not included in premiums	-
Aggregate write-ins for miscellaneous income	(34,307)
Total other income	(34,307)

Net income after dividends to policyholders and before federal income taxes	30,006
Federal income taxes incurred	2,048
Net income	\$ 27,958

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	\$ 5,000,738
Net income	27,958
Change in net unrealized capital gains (losses)	-
Change in net deferred income tax	-
Change in nonadmitted assets	(87,020)
Change in provision for reinsurance	
Aggregate write-ins for gains and losses in surplus	
Change in surplus as regards policyholders for the year	(59,062)
Surplus as regards policyholders, December 31, 2016	\$ 4,941,676

**KAMMCO CASUALTY COMPANY, INC.
 CAPITAL AND SURPLUS ACCOUNT
 RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2014			<u>\$ -</u>
Net income	2015	(31,179)	
	2016	<u>27,958</u>	(3,221)
Change in nonadmitted assets	2015	-	
	2016	<u>(87,020)</u>	(87,020)
Capital changes:			
Paid in	2015	900,000	
	2016	<u>-</u>	900,000
Surplus adjustments:			
Paid in	2015	4,131,917	
	2016	<u>-</u>	<u>4,131,917</u>
Surplus as regards policyholders, December 31, 2016			<u>\$ 4,941,676</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2016, was \$4,941,676, which was the same amount reported by the Company in its 2016 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in the Report on Examination.

MANAGEMENT LETTER

There were several immaterial findings resulting from the examination that did not warrant inclusion in this report. However, concerns were noted in a management letter that was issued to the Company's Board of Directors for review, resolution and response back to the KID.

SUMMARY OF RECOMMENDATIONS

There were no significant or material findings resulting from the examination that warranted inclusion in the Report on Examination.

CONCLUSION

The assistance and cooperation by the officers of the Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Ms. Tamara House, CFE, a senior financial examiner and Mr. Shane Mead, CISA, CRISC, an information technology examiner representing the Kansas Insurance Department, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Christopher W. Buchanan', with a large, stylized flourish at the end.

Christopher W. Buchanan, CPA, CFE
Senior Insurance Examiner
Examiner-in-Charge

EXHIBIT 5
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

Christopher W. Buchanan being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of KaMMCO Casualty Company, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of KaMMCO Casualty Company, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

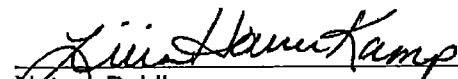
The affiant says nothing further.



Examiner's Signature

Subscribed and sworn before me by Christopher W. Buchanan on this
22nd day of January, 2018.




Notary Public

My commission expires 8-11-21
(date)