

**REPORT ON EXAMINATION**  
**OF**  
**AMERICAN SOUTHERN INSURANCE COMPANY**  
**2900 S.W. WANAMAKER DRIVE, SUITE 204**  
**TOPEKA, KANSAS 66614**  
**AS OF**  
**DECEMBER 31, 2017**

**FILED**

**JUN 28 2019**

**VICKI SCHMIDT**  
Commissioner of Insurance

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Topeka, Kansas  
March 22, 2019

Honorable Vicki Schmidt  
Commissioner of Insurance  
Kansas Insurance Department  
420 Southwest Ninth 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

**AMERICAN SOUTHERN INSURANCE COMPANY  
2900 S.W. WANAMAKER DRIVE, SUITE 204  
TOPEKA, KANSAS 66614**

hereinafter referred to as the “Company” or “American Southern”. 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 American Southern Insurance Company. The last examination covered the four-year period from January 1, 2008 through December 31, 2012. This examination covers the five-year period from January 1, 2013, through December 31, 2017. The examination was conducted as a coordinated examination with the Georgia Office of Insurance and Safety Fire Commissioner’s (GOISFC) examination of Atlantic American Corporation (Atlantic American), parental holding company, and its remaining subsidiaries, Bankers Fidelity Life Insurance Company, Bankers Fidelity Assurance Company and American Safety Insurance Company (American Safety). The GOISFC utilized Risk & Regulatory Consulting, LLC to manage the examination.

The examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department (the Department) 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 BDO USA, LLP for the years ending December 31, 2013, through December 31, 2017. 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 of the Company 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 Department.

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**

American Southern was organized and incorporated on December 14, 1936 as a Georgia domestic property and casualty insurance company and commenced business on March 6, 1937. American Southern re-domesticated to the State of Kansas on October 30, 1997, and pursuant to its amended and re-stated articles of incorporation, was organized as a stock corporation pursuant to K.S.A. 40-310 – *Additional kinds of insurance authorized; surplus and deposit requirements*. The Company is subject to the provisions of K.S.A. 40-901 *et seq.* – *General Provisions Relating to Fire Insurance Companies*, and K.S.A. 40-1101 *et seq.* – *General Provisions Relative to Casualty, Surety and Fidelity Companies*.

## **Capital Stock.**

American Southern's articles of incorporation authorize the issuance of shares of common capital stock with a par value of \$10.00 per share. As of December 31, 2017, 300,000 shares had been issued and were outstanding resulting in a total paid-up common capital stock amount of \$3,000,000. No preferred stock was authorized. Atlantic American Corporation (AAC), a publically traded holding company incorporated in the state of Georgia, owns 100% of the common stock. The ultimate controlling person (UCP) is the Harriett Robinson Trust (the Trust), who collectively had 74.30% beneficial ownership of Atlantic American, as of December 31, 2017

### **Dividends and Capital Contributions**

The Company's Board of Directors authorized and paid monthly, through the examination period, a \$300,000 dividend to AAC, or \$3,600,000 annually. As the Company's elected dividend policy is to pay \$300,000 each month, the Department instructed the Company to submit annually a dividend declaration notification prior to any dividend distribution pursuant to K.S.A. 40-3306(f)(1) – *Material transactions by registered insurers with affiliates*. The Department received notification and granted approval as required to pay the annual \$3,600,000 dividend.

American Safety's Board of Directors, a wholly owned subsidiary of American Southern, authorized and paid annually during this examination period, a \$1,000,000 dividend to American Southern.

### **MANAGEMENT AND CONTROL**

American Southern's bylaws, as amended and restated April 23, 2002, consists of eleven articles (articles) that provide the framework for the operation, management and control of this capital stock property and casualty insurance company.

American Southern is controlled by Atlantic American, which is significantly controlled by the Trust, its majority stockholder. Atlantic American meet annually for the transaction of business and to elect the directors of American Southern.

### **Directors**

The board of directors (board) are responsible for the management of the Company. The board consists of no less than three (3) nor more that fifteen (15) members who serve until the succeeding annual meeting and thereafter until their successor is elected and qualified. A director may be removed at any shareholder's meeting and the election of the succeeding director may be elected at the same meeting to serve the unexpired term. A vacancy occurring in the board, except from removal, may be filled to serve the unexpired term, and until the shareholders have elected a successor, by affirmative vote of the majority directors.

The exhibit below contains a listing of directors with their principal occupations as of December 31, 2017.

<b>Name</b>	<b>Position Held</b>
Calvin A. Wall	Chairman Emeritus American Southern Insurance Company
Hilton H. Howell	Chairman, President and CEO Atlantic American Corporation
Scott G. Thompson	Chairman, President and CEO American Southern Insurance Company
Robert H. Knight	Chief Financial Officer, Controller Executive Vice President and Treasurer American Southern Insurance Company

## **Committees**

The board, by majority vote, may designate three (3) or more directors to an executive committee and to one or more committees. Committees established as of December 31, 2017 were as follows:

Executive Committee	Investment	Retirement Plan Committee
Hilton H. Howell, Jr. Robert H. Knight Scott G. Thompson	Hilton H. Howell, Jr. Robert H. Knight Scott G. Thompson	Hilton H. Howell, Jr. Robert H, Knight Scott G. Thompson

## **Officers**

The officers of the Company will be a chairman of the board, a president, an executive vice president, a secretary, a treasurer, a controller and such other vice presidents, assistant vice presidents, assistant secretaries, and assistant treasurers as determined by resolution of the board. The chairman and the president will be directors of the Company while the remaining officers may or may not be directors of the Company. Any two (2) offices may be held by one and the same person, except for the office of the president and secretary or assistant secretary.

The officers listed on the following page were duly elected by the board and serving in the indicated capacity as of December 31, 2017.

<b><u>Name</u></b>	<b><u>Position</u></b>
Calvin L. Wall	Chairman, Emeritus
Scott G. Thompson	Chairman, Chief Executive Officer and President
Melonie A. Coppola	Corporate Secretary
Robert H. Knight	Chief Financial Officer, Controller, Executive Vice President and Treasurer



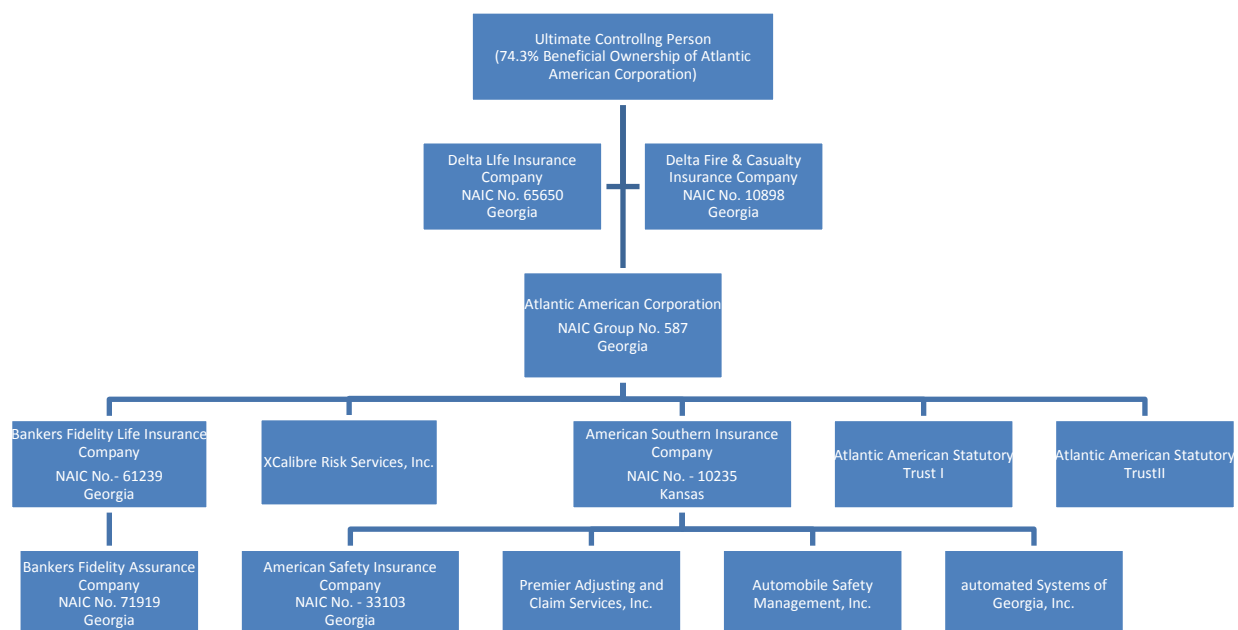
Brian G. Haurylak	Senior Vice President, Claims
John R. Huot	Vice President, Claims
Constance B. Woods	Vice President, Claims
Laura L. Baird	Vice President, Underwriting
Gary M. O’Neal	Vice President, Marketing
Jerry A. Underwood	Vice President, Surety
Edward P. Vollertsen III	Vice President, Special Assets

	Title	Board of Director	Committee			Officer
			Executive	Retirement	Investment	
Melonie A. Coppola	Corporate Secretary					X
Hilton H. Howell, Jr.	Atlantic American Corporation, Chairman President and CEO	X	X	X	X	
Robert H. Knight	Executive Vice President Chief Financial Officer Treasurer Controller	X	X	X	X	X
Scott G. Thompson	Chairman Chief Executive Officer Executive Vice President	X	X	X	X	X
Calvin L. Wall	Chairman, Emeritus	X				

**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 Department 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, 2017.



### **Intercompany/Cost Sharing Agreements**

American Southern is party to a January 1, 2006 service agreement whereby its parent, Atlantic American will provide certain support and contract services to the Company. Contract and support services will include, but not limited to, investment accounting, independent audits, actuarial services, and banking related services. American Southern provides administrative services to its wholly owned subsidiary American Safety. Pursuant to the agreement, dated November 17, 2017, services include accounting services, actuarial services and miscellaneous state filings.

The methodology for the recognition of allocated costs for the aforementioned agreements is in accordance with section 18, *Transactions Involving Services*, under

SSAP #25 – *Affiliates and Other Related Parties*. The Department approved both agreements.

**Tax Sharing Agreement**

American Southern’s federal income tax return is consolidated with that of its affiliated companies and the parent company, AAC. The tax allocation agreement apportions the tax liability according to the separate return tax liability method, which considers dividends to members, the effect of any alternative minimum tax, gains (losses), intercompany transactions, tax credits, net operating losses, refunds, and other income and deductions; with current credit given for any net operating losses or other items utilized in the consolidated tax return.

**TERRITORY AND PLAN OF OPERATION**

As of December 31, 2017, the Company is authorized to transact business as an authorized direct writer in the following 32 states, the District of Columbia and is eligible or approved to write surplus lines in seven states, in addition to Canada.

AUTHORIZED:

Alabama	Arizona	Arkansas	Colorado	Delaware	Florida
Georgia	Illinois	Indiana	Kansas	Kentucky	Maryland
Michigan	Minnesota	Mississippi	Missouri	Montana	Nebraska
New Jersey	New York	North Carolina	Ohio	Oregon	Pennsylvania
South Carolina	Tennessee	Utah	Virginia	Washington	West Virginia
Wisconsin	Wyoming	District of Columbia			

ELIGIBLE OR APPROVED:

Alaska	Iowa	Louisiana	New Mexico	North Dakota	Oklahoma
Texas	Canada				

As of December 31, 2017, American Southern’s five (5) largest lines of business providing 97.7% of direct written premiums were other commercial auto liability at 36.2% commercial auto physical damage at 26.2%, surety at 23.5%, other liability – occurrence

at 9.0% and inland marine at 2.8%. The remaining 2.3% represented private passenger auto liability, and fire and allied lines.

American Southern underwrites fire, allied lines, inland marine, general liability, full coverage automobile and surety insurance. Business is produced through approximately 35 agencies and general agents. The Company specializes in handling block accounts such as state, municipalities and associations that are sufficiently large enough to establish separate class experience.

### **GROWTH OF COMPANY**

The exhibit below shows American Southern's financial growth (in thousands) for the period of December 31, 2013, through December 31, 2017. The financial growth amounts were obtained from annual statements filed by American Southern.

	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
<i>(in thousands)</i>					
Admitted Assets	108,648	108,543	108,857	110,920	115,430
Liabilities	69,556	69,532	70,549	69,431	72,082
Capital and Surplus	39,092	39,012	38,308	41,489	43,348
Net Underwriting Gain/(Loss)	(402)	661	1,462	3,608	2,870
Net Income	5,204	4,148	4,626	5,931	6,252
Net Premiums Written	50,773	50,318	55,611	51,476	53,362

### **REINSURANCE**

All reinsurance agreements reviewed during the course of the examination contained insolvency and cancellation clauses as required by paragraph (c) of K.S.A. 40-221a—*Reinsurance of risks of and by Kansas companies*. All reinsurance agreements reviewed provided for the transfer of risk.

Since April 4, 1989, American Southern has maintained a reinsurance assumption agreement with American Safety, whereby American Southern assumes 100% of the premiums and liabilities and allows American Safety to deduct a commission equal to all underwriting expenses, including but not limited to agents' commissions, premium taxes and administrative expenses.

American Southern assumes minimal amounts of reinsurance from various mandatory pools and associations. Assumption agreements for commercial automobile insurance plans were in place with the states of Alabama and South Carolina State Fiscal Accountability Authority, Insurance Reserve Fund (IRF). The Company agrees to reinsure 100% of the automobile liability policies issued by the IRF. The agreement covers the period from May 1, 2016 to April 30, 2019. The Company retains 100% of the risks, which are statutorily limited under Chapter 78, South Carolina Tort Claims Act Section 15-78-10 et al. The Company's retention, dependent the qualifying coverage, is limited to either \$300,000 or \$600,000.

The largest net amount insured in any one risk is \$200,000 whereby the excess of loss agreements recover \$200,000 excess of \$50,000 on property risks and \$800,000 excess of \$200,000 on casualty risks. Clash coverage is also maintained on casualty risks above \$2 million per occurrence to \$4 million over the contract year.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Kansas Insurance Department and present the financial condition of the Company for the period ending December 31, 2017. 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.

**AMERICAN SOUTHERN INSURANCE COMPANY**  
**ANALYSIS OF ASSETS**  
**AS OF DECEMBER 31, 2017**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 76,909,844		\$ 76,909,844
Preferred stocks	1,606,650		1,606,650
Common stocks	17,085,488		17,085,488
Cash and short-term investments	6,991,285		6,991,285
Other invested assets	2,007,628		2,007,628
Receivables for securities	514,884		514,884
Investment income due & accrued	736,196		736,196
Uncollected premiums and agents' balances in the course of collection	4,397,277	\$ 125,000	4,272,277
Deferred premiums, agents' balances and installments booked but deferred	4,180,592		4,180,592
Net deferred tax asset	1,220,859	132,488	1,088,371
EDP equipment and software	37,037		37,037
Furniture and equipment	82,366	82,366	-
Aggregate write-ins for other than invested assets	85,217	85,082	135
Totals	<u>\$ 115,855,323</u>	<u>\$ 424,936</u>	<u>\$ 115,430,387</u>

**AMERICAN SOUTHERN INSURANCE COMPANY  
LIABILITIES, SURPLUS AND OTHER FUNDS  
AS OF DECEMBER 31, 2017**

Losses	\$ 34,793,689
Loss adjustment expense	5,983,595
Commissions payable, contingent commissions and other charges	5,059,838
Other expenses	1,039,876
Taxes, licenses and fees	253,670
Current federal and foreign income taxes	3,046,023
Unearned premiums	19,178,022
Ceded reinsurance premiums payable	1,113,986
Amounts withheld or retained by company for others	3,372
Payable to parent, subsidiaries and affiliates	273,203
Aggregate write-ins for liabilities	1,336,772
Total liabilities	<u>72,082,046</u>
Common capital stock	3,000,000
Gross paid in and contributed surplus	7,356,933
Unassigned funds	32,991,408
Surplus as regards policyholders	<u>43,348,341</u>
Totals	<u>\$ 115,430,387</u>



**AMERICAN SOUTHERN INSURANCE COMPANY  
STATEMENT OF INCOME  
CAPITAL AND SURPLUS ACCOUNT  
FOR THE YEAR ENDED DECEMBER 31, 2017**

Underwriting Income:

Premiums earned	\$ 53,661,019
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Deduct:

Losses incurred	26,885,171
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Loss adjustment expenses incurred	7,601,266
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Other underwriting expenses incurred	16,304,472
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Total underwriting deductions	50,790,909
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Net underwriting gain or (loss)	2,870,110
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Investment Income:

Net investment income earned	3,917,626
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Net realized capital gains or (losses)	1,491,097
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Net investment gain or (loss)	5,408,723
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Other Income:

Net gain (loss) from agents' or premium balances charged off	(129)
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Finance and service charges not included in premiums	
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Aggregate write-ins for miscellaneous income	17,489
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Total other income	17,360
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Net income after dividends to policyholders and before	
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federal income taxes	8,296,193
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Federal income taxes incurred	2,044,562
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Net income	\$ 6,251,631
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**CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2016	\$ 41,488,866
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Net income	6,251,631
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Change in net unrealized capital gains or (losses)	(185,010)
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Change in net deferred income tax	(647,604)
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Change in nonadmitted assets	40,458
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Dividends to stockholders	(3,600,000)
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Aggregate write-ins for gains and losses in surplus	
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Change in surplus as regards policyholders for the year	1,859,475
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Surplus as regards policyholders, December 31, 2017	\$ 43,348,341
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**AMERICAN SOUTHERN INSURANCE COMPANY  
CAPITAL AND SURPLUS ACCOUNT  
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2012			<u>\$ 36,947,487</u>
Net income	2013	5,203,926	
	2014	4,148,255	
	2015	4,625,883	
	2016	5,930,686	
	2017	<u>6,251,631</u>	█ 26,160,381
Change in net unrealized capital gains or (losses)	2013	318,869	
	2014	(505,170)	
	2015	(1,763,947)	
	2016	981,373	
	2017	<u>(185,010)</u>	█ (1,153,885)
Change in net deferred income tax	2013	340,331	
	2014	(105,418)	
	2015	28,263	
	2016	(174,920)	
	2017	<u>(647,604)</u>	█ (559,348)
Change in nonadmitted assets	2013	(118,980)	
	2014	█ (17,754)	
	2015	6,562	
	2016	43,420	
	2017	<u>40,458</u>	█ (46,294)
Dividends to stockholders	2013	(3,600,000)	
	2014	(3,600,000)	
	2015	(3,600,000)	
	2016	(3,600,000)	
	2017	<u>(3,600,000)</u>	<u>(18,000,000)</u>
Surplus as regards policyholders, December 31, 2017			█ <u>\$ 43,348,341</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, 2017, was \$43,348,341, which was the same amount, reported by the Company in its 2017 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.

### **SUBSEQUENT EVENTS**

There were no significant events occurring subsequent to December 31, 2017, that would have a material effect on the Company's financial statements.

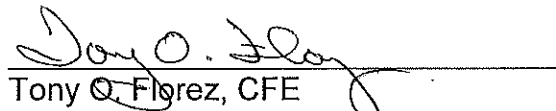
### **SUMMARY OF RECOMMENDATIONS**

There were no findings or recommendations identified as a result of this examination that warranted inclusion in the Report of Examination.

### **CONCLUSION**

The assistance and cooperation by the officers of the Company during the course of this examination is hereby acknowledged and appreciated.

Respectfully submitted,

  
Tony O. Florez, CFE  
Senior Insurance Examiner  
Examiner-in-Charge

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

State of Kansas

County of Shawnee

Tony O. Florez being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of American Southern Insurance Company.
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 American Southern Insurance Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Tony O. Florez  
Examiner's Signature

Subscribed and sworn before me by Tony Florez on this  
21 day of June, 2019.

(SEAL) 

Dale Hubbell  
Notary Public

My commission expires 3/9/23  
(date)