

REPORT OF EXAMINATION
ON
AMTRUST INSURANCE COMPANY OF KANSAS, INC.
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
May 28, 2019

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
420 S.W. 9th Street
Topeka, Kansas 66612-1678

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in K.S.A. 40-222 – *Examination of condition of company*, an examination has been made of the affairs, financial condition and management of

AMTRUST INSURANCE COMPANY OF KANSAS, INC.

with its statutory home office at:

**2900 S.W. WANAMAKER DRIVE, SUITE 204
TOPEKA, KANSAS 66614**

and main administrative office at:

**4455 LBJ FREEWAY, SUITE 700
DALLAS, TEXAS 75244**

hereinafter referred to as the “Company” or “AICK”. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination was conducted as of December 31, 2012, by the Kansas Insurance Department. This examination covered the period of January 1, 2013 through December 31, 2017. This examination was performed as part of the multi-state coordinated

examination of the AmTrust Financial Services, Inc. (“AFSI”) Group of regulated entities wherein Delaware was the lead state. All States with an AFSI domiciled insurer participated in the examination. The examination was conducted concurrently with that of the Company’s Delaware domiciled affiliates, Technology Insurance Company, Inc. (“TIC”), Wesco Insurance Company (“WIC”), Security National Insurance Company (“SNIC”), First Nonprofit Insurance Company (“FNIC”), Milford Casualty Insurance Company (“MCIC”) and CorePointe Insurance Company (“CPIC”), along with the following eighteen (18) United States (“U.S.”) affiliate insurers and their respective domiciliary states as of December 31, 2017:

<u>Company</u>	<u>State</u>
AmTrust Insurance Company of Kansas, Inc. ("AICK")	KS
AmTrust Title Insurance Company ("ATIC")	NY
Associated Industries Insurance Company, Inc. ("AIIC")	FL
ARI Casualty Company ("ACC")	NJ
ARI Insurance Company ("ARI")	PA
Developers and Surety Indemnity Company ("DSIC")	CA
Heritage Indemnity Company ("HIC")	CA
Indemnity Company of California ("ICC")	CA
Republic Fire and Casualty Insurance Company ("RFC")	OK
Republic Lloyds ("RL")	TX
Republic Underwriters Insurance Company ("RUIC")	TX
Republic-Vanguard Insurance Company ("RVIC")	AZ
Rochdale Insurance Company ("RIC")	NY
Sequoia Indemnity Company ("SIC")	NV
Sequoia Insurance Company ("SEQ")	CA
Southern County Mutual Insurance Company ("SCM")	TX
Southern Insurance Company ("SOIC")	TX
Southern Underwriters Insurance Company ("SUIC")	OK

To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners* (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”) and statutes, regulations and directives of the State of Kansas. The NAIC Handbook requires that we 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.

There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

The financial statements of the Company were audited by KPMG LLP for the years ending December 31, 2016, through December 31, 2017. Prior to that, the financial statements of the Company were audited by BDO USA, LLP for the years ending December 31, 2013 through December 31, 2015. 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 their operations and their cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Kansas Insurance Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners; whereby significant reliance was placed on select workpapers during the course of this examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no changes made to the Financial Statements as a result of this Examination.

COMPANY HISTORY

AICK was organized and incorporated on January 10, 1972, under 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*. The Company was organized and chartered January 10, 1972, under the name Trinity Universal Insurance Company of Kansas, Inc. ("Trinity") and was authorized and

commenced business on February 1, 1972. Trinity was owned by Trinity Universal Insurance Company, a Texas domiciled property and casualty insurance company, that was ultimately owned by Unitrin, Inc., (now Kemper Corporation) an insurance holding company domiciled in the state of Delaware. On June 1, 2008, Trinity was sold to AmTrust Financial Services, Inc., a publicly-held insurance holding company incorporated in the state of Delaware. On July 1, 2009, Trinity changed its name to AmTrust Insurance Company of Kansas, Inc.

The Company was organized for profit, with the nature and purpose of the business “to engage generally in the business of a casualty, surety, fidelity and fire insurance company, and do any and all things in connection with such business which now or hereafter be permitted by the laws of the State of Kansas.” AICK’s articles provide for an existence of 100 years.

Capital Stock

The Company’s Certificate of Incorporation authorizes the issuance of 347,828 shares of common stock with a par value of \$11.50 per share. As of December 31, 2017, AFSI, the parent owned 100% of the issued and outstanding common stock of 347,828 shares, resulting in common stock capital totaling \$4,000,022. No preferred stock was authorized. Gross paid in and contributed surplus was \$15,700,000.

Dividends and Capital Contributions

The Company’s Board of Directors (Board) approved and authorized the payment of a \$2,000,000 ordinary dividend on April 6, 2017. No other dividends were authorized or paid during the examination period.

The Company received \$12,000,000 in capital contributions from its parent, AFSI

on December 27, 2017. No other capital contributions were received during the examination period.

MANAGEMENT AND CONTROL

Pursuant to the Company's Certificate of Incorporation and Bylaws, the property and affairs of the Company must be managed by or under the direction of its Board, which shall not have less than five (5) or more than twenty-five (25) members.

Each Director is elected annually by the stockholder and holds office until the next annual election and until their successors are elected and qualified except as removed for cause and the successor elected by a special meeting of the stockholder. Directors duly elected and serving as of December 31, 2017, are as follows:

<u>Name</u>	<u>Title</u>
Donald Thomas DeCarlo	Attorney (Self-Employed)
Harry Schlachter	Treasurer, AFSI
Stephan Barry Ungar	General Counsel and Secretary, AFSI
Susan Carol Fisch	Director, AFSI
Adam Zev Karkowsky	Executive Vice President, AFSI

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, Secretary and Treasurer. Any number of offices may be held by the same person. The primary officers elected and serving as of December 31, 2017, are as follows:

<u>Name</u>	<u>Title</u>
Jeffrey Paul Leo	President
Stephen Barry Ungar	Secretary
Harry Schlachter	Treasurer
Melanie Shae Garrison	Vice President
Barry Wolff Moses	Vice President, Regulatory & Compliance and Assistant Secretary
Jeffery Howard Mayer	Chief Actuary

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events.

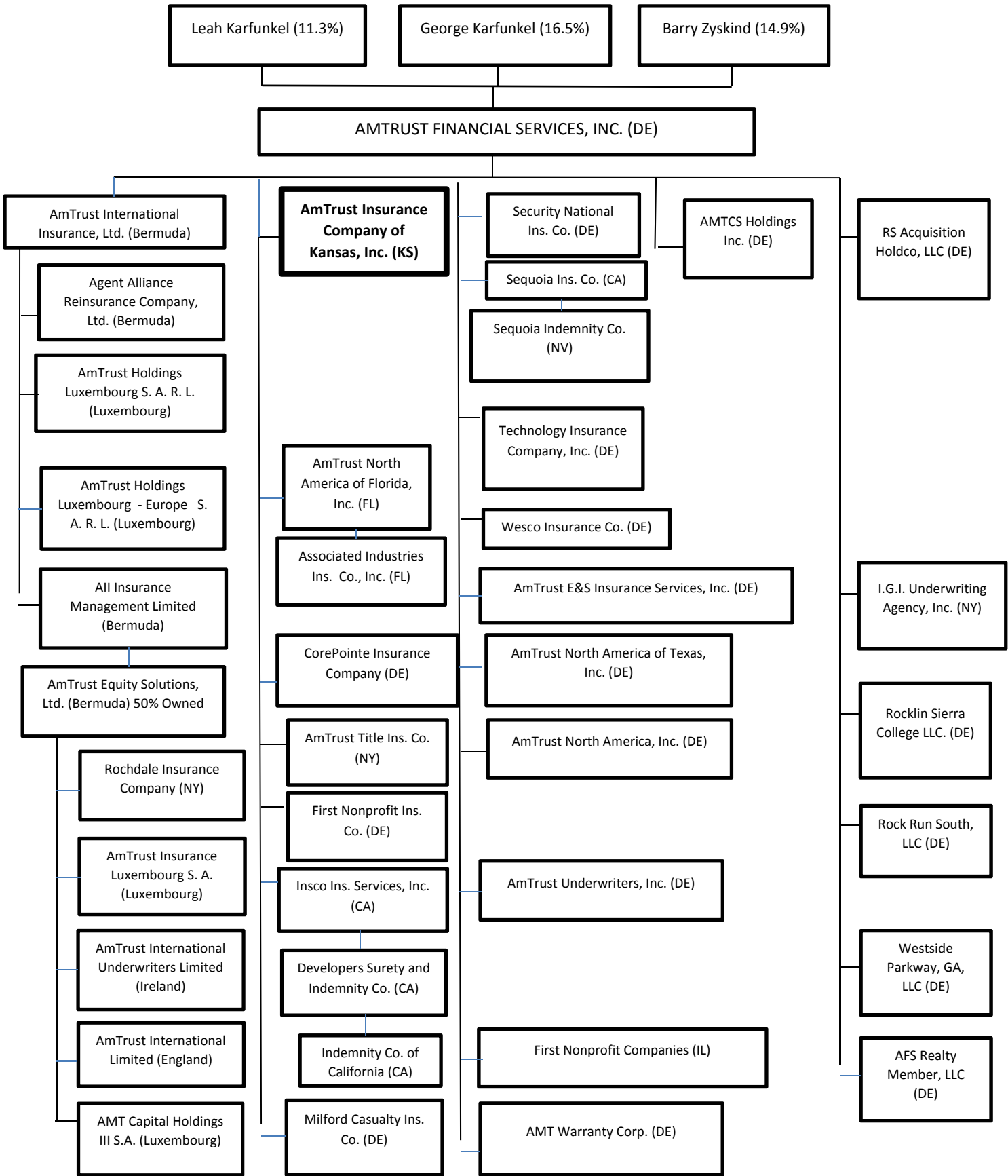
INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system known as AFSI. As noted above, the Company is a wholly-owned subsidiary of AFSI, the ultimate parent in the insurance holding company system.

ASFI is a publicly-traded holding company that, through its insurance company and related entity subsidiaries, operates in several business segments.

AFSI is considered to be the ultimate controlling entity; however, there are three (3) individuals who own or control more than 10% of the issued and outstanding shares of common stock. As of December 31, 2017, Leah Karfunkel owned 11.3% of the outstanding shares, George Karfunkel owned 16.5% and Barry Zyskind owned 14.9%.

The following page reflects an abbreviated organizational chart of the AFSI holding company system as of December 31, 2017. Ownership of subsidiaries is 100% unless otherwise noted.



Intercompany/Cost Sharing Agreements

Insurance Services, Management and Agency Agreement

Effective January 1, 2008, the Insurance Services, Management and Agency Agreement states that AmTrust North America, Inc. (“ANA”), an affiliate insurance agency, will provide compliance, marketing, billing and collection, underwriting and other administration services to the Company as defined in the agreement.

Intercompany Management Agreement

Effective June 1, 2008, the Intercompany Management Agreement states that AFSI will provide financial, accounting, corporate and operational management services to the Company as defined in the agreement.

Tax Allocation Agreement

Effective June 1, 2008, the Company became party to a Tax Allocation Agreement, whereby each AFSI affiliated company that is a party to the agreement pays AFSI its tax liability as if it were computed on a stand-alone basis. Each affiliate remits to AFSI its federal tax liability due, as each is legally obligated to make pursuant to terms of the agreement.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company is licensed and authorized to write business in 49 states and territories except for California, Florida, American Samoa, Guam, Puerto Rico, U.S. Virgin Island and the Northern Marina Islands.

The Company offers the following lines of businesses: fire, allied lines, commercial multi-peril, inland marine, earthquake, workers compensation, other liability, commercial

automobile liability, commercial auto physical damage, fidelity, burglary and theft and boiler and machinery. The Company's primary line of business is workers compensation, which amounted to 80% of its direct written premium in 2017.

GROWTH OF COMPANY

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
(in millions)					
Admitted Assets	43	50	68	152	106
Liabilities	28	31	43	119	42
Capital and Surplus	15	19	25	33	64
Net Cash from Operations	(7)	3	13	(8)	65
Net Income	3	4	6	8	29
Net Premiums Earned	6	7	16	39	69

REINSURANCE

The Company reported the following distribution of premiums written for the years ended December 31, 2017, and the prior examination date of December 31, 2013:

	<u>2017</u>	<u>2013</u>
Direct premiums written	\$ 339,243,464	\$ 72,733,210
Assumed premiums (from affiliates)		
Assumed premiums (from non-affiliates)	<u>2,625,179</u>	<u>742,610</u>
Gross premiums written	\$ 341,868,643	\$ 73,475,820
Ceded premiums (to affiliates)	297,817,846	63,559,449
Ceded premiums (to non-affiliates)	<u>8,676,049</u>	<u>2,936,721</u>
Net premiums written	<u>\$ 35,374,748</u>	<u>\$ 6,979,650</u>

Intercompany Pooling Arrangement

Effective October 1, 2017, an intercompany pooling arrangement was established with TIC as the lead company to aggregate insurance business with sixteen (16) U.S. insurance affiliates (“Pool affiliates”) and share liabilities with Bermuda affiliate, AmTrust International Insurance, LTD (“All”) under a Quota Share (“QS”) reinsurance agreement.

Per the pooling arrangement, TIC assumes one hundred percent (100%) of the Pool affiliates insurance business obligations, before ceding sixty-five (65%) of the business obligations written as of the effective date on October 1, 2017 and fifty percent (50%) of the business obligations written on or after the effective date of October 1, 2017. After the cession to All, TIC then retrocedes forty-five percent (45%) of its pool’s net retained liabilities to three (3) Pool affiliates (twenty five percent (25%) cession to WIC, ten percent (10%) cession to SNIC and a ten percent (10%) cession to DSIC).

Assumed Reinsurance – Non-Affiliates

In 2017, the Company assumed business from non-affiliates, of which approximately ninety-eight percent (98%) was workers compensation business.

Approximately one hundred percent (100%) of the assumed workers compensation business came from the National Workers Compensation Reinsurance Pool.

Ceded Reinsurance – Affiliates

As mentioned above, on October 1, 2017, the Company ceded one hundred percent (100%) of its business obligations written on and after to TIC. Prior to October 1, 2017, the Company retained a portion of the business written before ceding at fifty percent (50%) to All and twenty percent (20%) to TIC under amendment four (4) of an affiliated pooling reinsurance agreement effective January 1, 2008.

Ceded Reinsurance – Non-Affiliates

Prior to October 1, 2017, the Company retained a percentage of the business written before ceding it under an affiliated pooling reinsurance agreement effective January 1, 2018, which was reinsured under various reinsurance agreements to mitigate the risk of loss. The amounts reflected in the 2017 financial statements are a result of the retained business runoff that ended in 2017 with the one hundred percent (100%) participation in the intercompany pooling arrangement as mentioned above.

The intercompany pooling arrangement contained the customary insolvency clause and appeared to meet the requirements set forth in K.S.A. 40-221a – *Reinsurance of risks of and by Kansas companies*.

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.

AMTRUST INSURANCE COMPANY OF KANSAS, INC.
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2017

	Assets	Non admitted Assets	Net Admitted Assets
Bonds	\$ 87,104,908		87,104,908
Cash, cash equivalents and short-term investments	11,577,205		11,577,205
Other invested assets	3,251,058		3,251,058
Receivable for securities	4,970		4,970
Subtotals, cash and invested assets	<u>\$101,938,141</u>		<u>\$ 101,938,141</u>
Investment income due and accrued	750,408		750,408
Amounts recoverable from reinsurers	2,132,171		2,132,171
Other amounts receivable under reinsurance contracts	419,288		419,288
Current federal and foreign income tax recoverable and interest thereon	971,504		971,504
Totals	<u><u>\$106,211,512</u></u>		<u><u>\$ 106,211,512</u></u>

AMTRUST INSURANCE COMPANY OF KANSAS, INC.
STATEMENT OF LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Other expenses	\$ 2,461,708
Net deferred tax liability	12,624
Ceded reinsurance premiums payable	10,359,838
Funds held by company under reinsurance treaties	93,072
Provision for reinsurance	237,822
Payable to parent, subsidiaries, and affiliates	24,013,199
Payable for securities	<u>5,155,467</u>
Total liabilities	<u>42,333,730</u>
Common capital stock	4,000,022
Gross paid in and contributed surplus	15,700,000
Unassigned funds (surplus)	<u>44,177,760</u>
Surplus as regards policyholders	<u>63,877,782</u>
Totals	<u><u>\$106,211,512</u></u>

AMTRUST INSURANCE COMPANY OF KANSAS, INC.
STATEMENT OF INCOME
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2017

Premiums earned	\$ 68,541,459
Losses incurred	<u>42,762,154</u>
Loss adjustment expenses incurred	7,927,259
Other underwriting expenses incurred	<u>(18,404,095)</u>
Total underwriting deductions	<u>32,285,318</u>
Net underwriting gain (loss)	<u>36,256,141</u>
Net investment income earned	1,570,741
Net realized capital gains or (losses)	<u>69,927</u>
Net investment gain (loss)	<u>1,640,668</u>
Net gain (loss) from agents' or premiums balances charged off	71,402
Finance and services charges not included in premiums	<u>723,191</u>
Total other income	<u>794,593</u>
Net income after dividends to policyholders	<u>38,691,402</u>
Dividends to policyholders	-
Net income, after dividends to policyholders	<u>38,691,402</u>
Federal and foreign income taxes incurred	<u>9,367,171</u>
Net income	<u><u>\$ 29,324,231</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	\$ 32,563,142
Net income (losses)	29,324,231
Change in net unrealized capital gains (losses)	(1,195,242)
Change in net deferred income tax	(6,628,035)
Change in non-admitted assets	9,898,387
Change in provision for reinsurance	(78,029)
Surplus adjustment: Paid in	12,000,000
Dividends to stockholders	(2,000,000)
Aggregate write-ins	<u>(10,006,668)</u>
Net change in capital and surplus for the year	<u>31,314,644</u>
Surplus as regards policyholders, December 31, 2017	<u><u>\$ 63,877,786</u></u>

AMTRUST INSURANCE COMPANY OF KANSAS, INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

Surplus as regards policyholders, December 31, 2012			\$ 12,986,636
Net income	2013	3,412,970	
	2014	4,080,963	
	2015	5,562,353	
	2016	8,353,668	
	2017	<u>29,324,231</u>	50,734,185
Change in unrealized capital gains or (losses)	2013	(93)	
	2014	93	
	2015	135,268	
	2016	171,031	
	2017	<u>(1,195,242)</u>	(888,943)
Change in net deferred income tax	2013	392,220	
	2014	145,082	
	2015	816,113	
	2016	5,330,413	
	2017	<u>(6,628,035)</u>	55,793
Change in nonadmitted assets	2013	(1,429,890)	
	2014	(152,698)	
	2015	(1,181,633)	
	2016	(5,901,182)	
	2017	<u>9,898,387</u>	1,232,984
Change in provision for reinsurance	2013	(86,795)	
	2014	(44,805)	
	2015	56,265	
	2016	(82,839)	
	2017	<u>(78,029)</u>	(236,202)
Surplus adjustments: Paid in	2017	<u>12,000,000</u>	12,000,000
Dividends to stockholders	2017	<u>(2,000,000)</u>	(2,000,000)
Aggregate write-ins for gains and losses in surplus	2017	<u>(10,006,668)</u>	<u>(10,006,668)</u>
Change in surplus as regards policyholders			50,891,150
Surplus as regards policyholders, December 31, 2017			<u><u>\$ 63,877,786</u></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 \$63,877,786, which was the same amount reported by the Company in its 2017 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENT ITEMS

There were no changes made to the Financial Statements as a result of this Examination.

SUBSEQUENT EVENTS

On November 29, 2018, upon receipt of all necessary regulatory approvals, AFSI closed on an Agreement and Plan of Merger, dated as of March 1, 2018, as amended on June 6, 2018, by and among Evergreen Parent, L.P., a Delaware Limited Partnership (“Evergreen Parent”), Evergreen Merger Sub, Inc., a Delaware corporation (“Merger Sub”) and AFSI, whereby, Merger Sub merged with and into AFSI, with AFSI as the surviving entity. AFSI is now a wholly-owned and privately-held subsidiary of Evergreen Parent, which is the general partner of Evergreen Parent GP, LLC (“Evergreen GP”), a manager-managed Delaware Limited Liability Company formed solely for the purpose of acting as the general partner of Evergreen Parent. A Board of Managers has management control over Evergreen GP and Evergreen Parent.

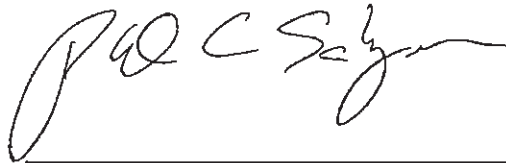
SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this Examination.

CONCLUSION

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the consulting financial examination firm, Baker Tilly Virchow Krause, LLP, the Company's outside audit firm, KPMG LLP and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Philip Schmoyer, CFE
Contract Insurance Examiner
Baker Tilly Virchow Krause, LLP
Examiner-In-Charge



Christopher W. Buchanan, CPA, CFE
Senior Financial Examiner
Kansas Insurance Department

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

State of Kansas,

County of Shawnee,

Philip Schroyer

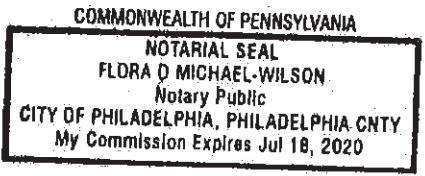
being duly sworn, states as follows:

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

The affiant says nothing further.

Philip Schroyer
Examiner's Signature

Subscribed and sworn before me by Philip Schroyer on this
22nd day of May, 2019.

(SEAL) 

Notary Public Flora D. Michael-Wilson

My commission expires July 18, 2020
(date)