

BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF KANSAS

FINAL ORDER
5/4/2017

In the Matter of the Proposed Adoption)
Of the Financial Condition Examination)
Report as of December 31, 2015) Docket No. 5016
Bearing Midwest Casualty Company)
NAIC # 14402)

CONSENT ORDER

NOW COMES on for formal disposition the matter of the proposed adoption of the financial condition examination as of **December 31, 2015** of the **Bearing Midwest Casualty Company (BMCC)**, a Kansas corporation. This matter is brought before the Commissioner of Insurance ("Commissioner") for adoption, rejection, or modification pursuant to the provisions of K.S.A. 40-222.

The Kansas Insurance Department ("KID") and BMCC wish to resolve this matter by entering into this Consent Order. BMCC hereby waives any and all rights to further administrative adjudication or review of this matter, including any and all rights conferred upon it under K.S.A. 77-501 *et seq.* This Consent Order constitutes the Final Order in this matter.

The Commissioner, having fully considered and reviewed the financial condition examination report, together with all written submissions, applicable rebuttals, and all relevant portions of the examiners' work papers, and further, being fully advised on all premises, hereby finds:

Policy Reasons

It is stated policy of the State of Kansas that whenever the Commissioner deems it necessary, an examination of the affairs and financial condition of any insurance

company in the process of organization, applying for admission, or doing business in this State can be undertaken. In all cases, such an examination must occur once every five (5) years. Through the examination process, the insurance consuming public will be well served and protected.

Findings of Fact

1. The Commissioner of Insurance has jurisdiction over this matter pursuant to K.S.A. 40-222.
2. An examination of BMCC was undertaken by the Kansas Insurance Department and was completed on **February 27, 2017**.
3. The examiner-in-charge tendered and filed with the Kansas Insurance Department a verified written report on the examination within thirty (30) days following completion of the examination, to wit: **March 2, 2017**.
4. Following receipt of the verified report, the Kansas Insurance Department transmitted the report to BMCC on **March 17, 2017**, with a notice advising BMCC of its opportunity to prepare a written submission or rebuttal with respect to any and all matters contained in the report. BMCC was further advised that any written submission or rebuttal needed to be filed with the Kansas Insurance Department no later than thirty (30) days after receipt of the verified report.
5. BMCC filed a written rebuttal of the verified report on **April 10, 2017**. Based on the written submission tendered by BMCC, the company suggested minor modifications to the verified report.
6. Within thirty days (30) days of the end of the time period allowed for written submission or rebuttal, the Commissioner of Insurance fully reviewed the report

and all written submissions and rebuttals provided by BMCC. The Commissioner of Insurance further reviewed all relevant workpapers.

7. No other written submissions or rebuttals were submitted by BMCC.

Conclusion of Law

8. K.S.A. 40-222(k)(2) provides:

"Within 30 days of the end of the period allowed for the receipt of written submissions or rebuttals, the commissioner shall fully consider and review the report, together with any written submissions or rebuttals and any relevant portions of the examiners workpapers and enter an order:

- (A) adopting the examination report as filed with modification or corrections. If the examination report reveals that the company is operating in violation of any law, regulation or prior order of the commissioner, the commissioner may order the company to take any action the commissioner considers necessary and appropriate to cure such violations; or
- (B) rejecting the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information, and refiling pursuant to subsection (k); or
- (C) call and conduct a fact-finding hearing in accordance with K.S.A. 40-281, and amendments thereto, for purposes of obtaining additional documentation, data, information and testimony.

9. Based upon the Findings of Fact enumerated in paragraphs 1-7 above, the Department conducted a thorough and accurate financial condition examination. Therefore, the report as of December 31, 2015 should be adopted.

IT IS THEREFORE, BY THE COMMISSIONER OF INSURANCE, ORDERED THAT:


1. The financial condition examination report as of December 31, 2015 of BMCC, is hereby adopted.

2. The Commissioner of Insurance retains jurisdiction over this matter to issue any and all further Orders deemed appropriate or to take such further action necessary to dispose of this matter.

3. All administrative remedies have been exhausted.

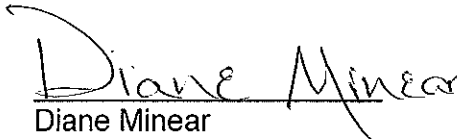
IT IS SO ORDERED THIS 4TH DAY OF MAY, 2017 IN THE CITY OF TOPEKA,
COUNTY OF SHAWNEE, STATE OF KANSAS.





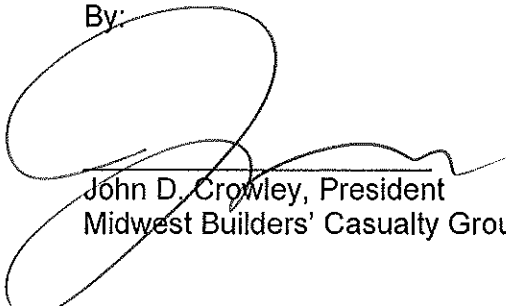
Ken Selzer
Commissioner of Insurance

By:



Diane Minear
General Counsel

By:



John D. Crowley, President
Midwest Builders' Casualty Group

NOTICE OF RIGHTS TO HEARING AND REVIEW

This Order is subject to the provisions of the Kansas Judicial Review Act, K.S.A. 77-601 et seq. In the event the company files a Petition for Judicial Review, pursuant to K.S.A. 77-613(e), the agency officer to be served on behalf of the Kansas Insurance Department is:

Diane Minear, General Counsel
Kansas Insurance Department
420 S.W. 9th Street
Topeka, Kansas 66612

Certificate of Service

The undersigned hereby certifies that he was served a true and correct copy of the above and foregoing **Consent Order** on this 4th day of May, 2017, by causing the same to be emailed to John Crowley, President, Midwest Builders' Casualty Group at jcrowley@mwbc.com.



Richard Ramos
Director, Financial Surveillance Division
Kansas Insurance Department

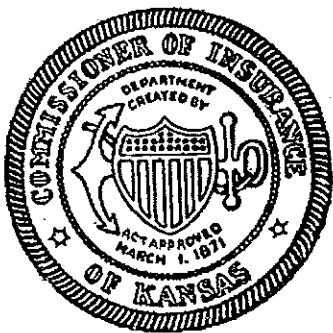
CERTIFICATE

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
BEARING MIDWEST CASUALTY COMPANY
6201 COLLEGE BOULEVARD, SUITE 500
OVERLAND PARK, KS 66211
AS OF
DECEMBER 31, 2015

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 4th day of May, 2017





Commissioner of Insurance

FILED
MAY 04 2017
KEN SELZER
Commissioner of Insurance

REPORT ON EXAMINATION
OF
BEARING MIDWEST CASUALTY COMPANY
6201 COLLEGE BOULEVARD, SUITE 500
OVERLAND PARK, KANSAS 66211
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Topeka, Kansas
February 27, 2017

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

**BEARING MIDWEST CASUALTY COMPANY
6201 COLLEGE BOULEVARD, SUITE 500
OVERLAND PARK, KANSAS 66211**

hereinafter referred to as the "Company" or "BMCC". The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiner has performed a multi-state financial examination of BMCC, a Kansas domiciled property and casualty insurance company. The Company was incorporated on January 19, 2012 and an organizational examination was performed as of May 31, 2012. This examination covers the four-year period from June 1, 2012 through December 31, 2015. The Kansas Insurance Department (KID) performed concurrent four-year examinations as of December 31, 2015, on BMCC's affiliated company Horizon Midwest Casualty Company (HMCC) and their parent, Midwest Builders' Casualty Mutual Company (MWBC).

The examination was conducted in accordance with the rules, regulations and directives of the 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

The Company's consolidated financial statements were audited by BKD, LLP for the years ending December 31, 2012, through December 31, 2015. In each of the years under examination, the auditors concluded that the consolidated financial

statements present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus as of December 31, 2015 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; whereby 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 on January 19, 2012 and commenced business on July 1, 2012. The Articles of Incorporation (articles) were approved by the Board of Directors (board) and filed with the office of the Kansas Secretary of State on January 19, 2012. Amendments to the articles were approved by the board and filed with the office of the Kansas Secretary of State on April 5, 2012 and December 2, 2016. The bylaws were approved by the board on January 4, 2012

BMCC is a stock casualty insurer organized under the provisions of K.S.A. 40-1101 et seq., *General Provisions Relative to Casualty, Surety and Fidelity Companies*. The Company was organized as a for-profit corporation as set forth in its articles of incorporation with the nature of its business being:

"The Corporation is authorized and empowered to transact any and all Kinds, classes, types and forms of casualty insurance, and other such insurance that the corporation 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 Corporation is authorized to do business and to reinsure any

such insurance risk or any part thereof ceded to it by other insurance companies”.

BMCC is a mono-liner insurer providing workers' compensation insurance to individual owners or entities in the construction industry. The Company utilizes the business model employed by its parent MWBC, except the Company will utilize higher workers' compensation rates and will issue non-participating policies.

Capital Stock

The Company's articles authorize the issuance of 5,000,000 shares of common stock at \$1.00 par value per share. In May 2012 the Company completed the sale of 2,750,000 shares of common stock, \$1.00 par value per share, to Midwest Builders' Casualty Mutual Company; the sale price was \$2.00 per share and resulted in capital stock of \$2,750,000 and gross paid in and contributed surplus of \$2,750,000.

MANAGEMENT AND CONTROL

The Company's articles consist of eleven (11) articles identifying management of the Company is vested in the board. The articles further recognize the registered holders of any shares of the Company as the owner of such shares.

The Company's bylaws consist of eight articles providing the framework for the operation and management of the Company. Each registered holder of Company issued stock will be entitled to one (1) vote for each share of issued stock of the Company. Special meetings of the board may be called by the Board of Directors, the Chairman of the Board, the Secretary or the registered holder of common stock of not less than thirty-five percent (35%) of the Company's outstanding shares of common stock. The board is comprised of at least five (5) and not more than twenty-five (25) Directors. Each director's term will continue until a successor is elected and qualified or

until the earlier of a Director's resignation or death. In the stockholder's annual meeting of September 2012 the stockholders approved for the composition of the Company's board will mirror the composition of MWBC's board.

The board has authorized an audit and investment committee to recommend an independent audit firm and act as a liaison between the audit company and the board, report to the board on internal controls and policy/procedure improvement recommended by the audit firm, and to direct investment activity and ensure investment compliance to Company requirements.

Directors

The following table provides a listing of members of the board as duly elected and serving in that capacity as of December 31, 2015:

NAME	EMPLOYER
Stephen D. Dunn*	JE Dunn Construction Corporation
Charles W. Haren III	Haren & Laughlin Construction Company, Inc.
Mark R. Teahan*	George J. Shaw Construction Company
Joseph T. Fahey*	J.M. Fahey Construction Company
David L. Snodgrass	Snodgrass & Sons Construction Company, Inc.
James W. Carson	Carson-Mitchell, Inc.
Leon J. Keller	Meyer Electric Company, Inc.

* Member of the Audit & Investment Committee

Officers

The bylaws provide for the board to elect a President, Secretary and Treasurer to one (1) year terms. When necessary the board may elect additional officers. Elected officers will serve at the pleasure of the board or such other period and identified at the time of the officer's election or until the resignation, removal or death. The officers listed

in the table below were duly elected by the board and were serving in this capacity as of December 31, 2015:

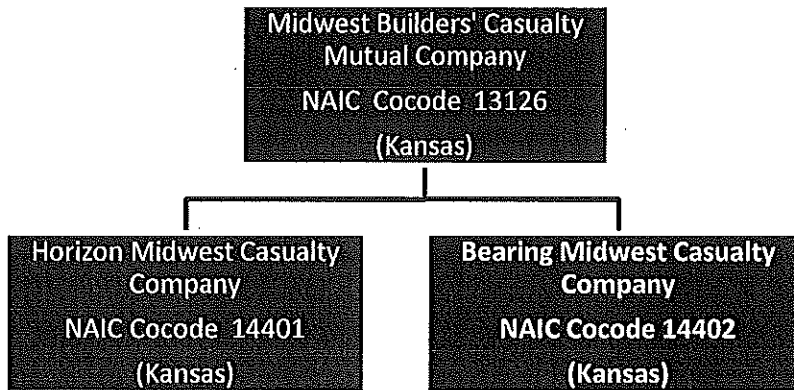
NAME	POSITION
John D. Crowley	President
Melinda L. Yancey	Secretary
Shannon L. Barberich	Treasurer

The minutes of the annual stockholder meetings, board of directors and audit and investment committee were reviewed and supported the approval of transactions and events of the Company during the period under review and subsequent to December 31, 2015.

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 following organizational chart illustrates the identities and intercompany relationships among insurance and non-insurance companies, if any, and the controlling entities thereof, as of December 31, 2015.



BMCC and its affiliate HMCC share common board of directors and senior management of MWBC. BMCC has not received from MWBC any capital surplus infusion beyond its initial capitalization.

Intercompany/Cost Sharing Agreements

The Company and HMCC entered into an Administrative Services Agreement, effective August 22, 2012, with MWBC. Services the Company receives from MWBC include, but are not limited to, producer management, reinsurance, legal, facilities management, tax and audit services, accounting, financial management and printing and supplies for the successful operation of the Company. The Company receives quarterly billings and is responsible for submitting payment within a specified number of days from its receipt of the billing.

The Company and HMCC entered into a Tax Allocation Agreement, effective October 12, 2015, with MWBC. Each member of the group agrees to file consolidated federal income tax returns for any year, as determined by MWBC. Each member's federal income tax liability is limited to their federal income tax liability as if the member had filed separately from the group. Losses of any member may be carried backward or forward for the benefit of any member of the group, as allowed by the Internal

Revenue Code or Treasury Regulation. State tax returns will be handled on a basis consistent with the federal tax filings.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Company is authorized to transact business in the following states:

Arkansas	Iowa	Kansas	Missouri
Nebraska	Oklahoma		

The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

Annual direct written premiums during the examination years were: 2012 - \$0, 2013 - \$287,135, 2014 - \$1,329,527 and 2015 - \$1,617,108.

GROWTH OF COMPANY

The exhibit below shows the Company's financial growth (in thousands) for the period of December 31, 2011 through December 31, 2015. The financial growth amounts were obtained from annual statements filed by the Company.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<i>(in thousands)</i>					
Admitted Assets	\$0	\$5,539	\$5,648	\$5,850	\$6,479
Liabilities	0	40	104	240	796
Capital and Surplus	0	5,499	5,543	5,610	5,683
Net Underwriting Gain/(Loss)	0	(40)	0	0	0
Net Income Gain/(Loss)	0	(1)	44	65	63
Net Premiums Written	0	0	0	0	0

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.

Assumed Reinsurance

The Company assumes reinsurance for those states it is licensed in and in which the state's worker's compensation reinsurance pool is managed by the National Council on Compensation Insurance.

Ceded Reinsurance

The Company cedes all direct and assumed liabilities from losses and loss adjustment expenses through a 100% quota share reinsurance agreement with MWBC effective June 14, 2012. This reinsurance agreement will continue until terminated upon the mutual agreement of all parties

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, 2015. 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.

BEARING MIDWEST CASUALTY COMPANY
ANALYSIS OF ASSETS
AS OF DECEMBER 31, 2015

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 5,917,667		\$ 5,917,667
Common stocks	194,910		194,910
Cash and short-term investments	33,786		33,786
Investment income due and accrued	32,701		32,701
Amounts recoverable from reinsurers			-
Net deferred tax asset			-
Guaranty funds receivable or on deposit			-
EDP equipment and software			-
Furniture and equipment			-
Totals	\$ 6,179,064	\$ -	\$ 6,179,064

**BEARING MIDWEST CASUALTY COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2015**

Losses	\$	-
Loss adjustment expense		-
Commissions payable, contingent commissions and other similar charges		19,070
Taxes, licenses and fees		15,648
Current federal and foreign income taxes on realized capital gains/(losses) gains/(losses)		31,155
Amounts withheld or retained by company for others		265,167
Payable to parent, subsidiaries and affiliates		464,834
Total liabilities		<u>795,874</u>
Common capital stock		2,750,000
Gross gain in and contributed surplus		2,750,000
Unassigned funds		183,185
Surplus as regards policyholders		<u>5,683,185</u>
Totals	<u>\$</u>	<u>6,479,059</u>

**BEARING MIDWEST CASUALTY COMPANY
STATEMENT OF INCOME
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2015**

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	84,954
Net realized capital gains or (losses)	2,108
Net investment gain or (loss)	87,062

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	5,927
Total other income	5,927

Net income after dividends to policyholders and before federal income taxes	92,989
Federal income taxes incurred	30,069
Net income	\$ 62,920

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014	\$ 5,610,002
Net income	62,920
Change in net unrealized capital gains (losses)	(874)
Change in net deferred income tax	(448)
Change in nonadmitted assets	11,581
Change in provision for reinsurance	-
Aggregate write-ins for gains and losses in surplus	-
Change in surplus as regards policyholders for the year	73,179
Surplus as regards policyholders, December 31, 2013	\$ 5,683,181

**BEARING MIDWEST CASUALTY COMPANY
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2011			\$ <u> -</u>
Net income	2012	(600)	
	2013	43,934	
	2014	65,331	
	2015	<u>62,920</u>	171,585
Change in net unrealized capital gains or (losses)	2012	-	
	2013	-	
	2014	8,526	
	2015	<u>(871)</u>	7,655
Change in net deferred income tax	2012	-	
	2013	-	
	2014	4,391	
	2015	<u>(448)</u>	3,943
Change in nonadmitted assets	2012	-	
	2013	-	
	2014	(11,581)	
	2015	<u>11,581</u>	-
Capital changes: Paid in	2012	2,750,000	
	2013	-	
	2014	-	
	2015	<u>-</u>	2,750,000
Surplus adjustments: Paid in	2012	2,750,000	
	2014	-	
	2015	-	
	2013	<u>-</u>	<u>2,750,000</u>
Surplus as regards policyholders, December 31, 2015			<u>\$ 5,683,183</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, 2015, was \$5,683,185, which was the same amount, reported by the Company in its 2015 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no issues or comments of a significant nature that warranted inclusion in the report of examination.

SUBSEQUENT EVENTS

There were no events subsequent to December 31, 2015 that had a significant impact on the financial statements of the Company


SUMMARY OF RECOMMENDATIONS

There were no recommendations noted for 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. In addition to the undersigned, Mr. Shane Mead, CISA, CISM, CRISC, an information technology examiner representing the Kansas Insurance Department, participated in this examination.

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

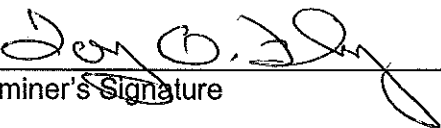
State of Kansas

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 Bearing Midwest Casualty 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 Bearing Midwest Casualty Company 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 Tony Florez on this
17th day of March, 2017.





Notary Public

My commission expires 10-13-2019
(date)