

REPORT ON EXAMINATION
OF
HORIZON MIDWEST CASUALTY COMPANY
1100 WALNUT STREET, SUITE 3010
KANSAS CITY, MISSOURI 64106
AS OF
DECEMBER 31, 2019

FILED

DEC 08 2020

VICKI SCHMIDT
Commissioner of Insurance

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Kansas City, Missouri
October 20, 2020

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Road
Topeka, Kansas 66604

Dear Commissioner:

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

HORIZON MIDWEST CASUALTY COMPANY

with its statutory home office at:

**2900 SOUTHWEST WANAMAKER DRIVE, SUITE 204
TOPEKA, KANSAS 66614**

and its main administrative office at:

**1100 WALNUT STREET, SUITE 3010
KANSAS CITY, MISSOURI 64106**

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

SCOPE OF EXAMINATION

The examiners performed a multi-state financial examination of HMCC, a Kansas domiciled property and casualty insurance company. The last examination covered the four-year period from January 1, 2012, through December 31, 2015. This examination covers the four-year period from January 1, 2016, through December 31, 2019. The Kansas Insurance Department ("Department") performed concurrent four-year examinations on the Company's affiliate, Bearing Midwest Casualty Company ("BMCC"), and its parent, Midwest Builders' Casualty Mutual Company ("MWBC").

The examination was conducted in accordance with the rules, regulations, and directives of 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 that 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 is documented separately following the Company’s financial statements.

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

Independent Audit Reports

The consolidated financial statements of the Company were audited by BKD, LLP for the years ending December 31, 2016, through December 31, 2019. In each of the years under examination, the auditors concluded that the consolidated financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company, the results of its operations, and its cash flows 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.

Actuarial Review

The Department retained the services of Madison Consulting Group, Inc. ("MCG"), in order to perform a review of the Company's actuarial practices and reserves held as of December 31, 2019. MCG's review consisted of evaluating certain assumptions, methodologies, and calculations utilized by the Company in the reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

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

COMPANY HISTORY

General

The Company was incorporated on January 19, 2012, and commenced business on July 1, 2012. The Company is a stock casualty writer organized under the provisions of K.S.A. 40 -1101 *et seq.* 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, any other such insurance that the Corporation is authorized or becomes authorized under the laws of the state of Kansas, or any state, nation, country, territory, possession, principality of the 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.”

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 \$1,250,000 shares of common stock, \$1.00 par value per share, to MWBC; the sale was for \$2.00 per share and resulted in capital stock of \$1,250,000 and gross paid in and contributed surplus of \$1,250,000.

Dividends and Capital Contributions

The Company did not pay any dividends during the examination period. In August 2018, the Company received a \$2,500,000 capital contribution from MWBC. On May 7, 2019, the Company converted \$1,250,000 in paid-in capital to \$1,250,000 of \$1.00 par value common stock. The conversion resulted in \$2,500,000 of common stock and \$2,500,000 in paid-in capital. The transactions were required to meet the capital and surplus requirements in the expansion states.

CORPORATE RECORDS

The Company’s articles of incorporation and bylaws were reviewed. The articles of incorporation were amended in 2016 and 2018 to change the registered agent’s name and address. Both amendments were properly filed with the Department.

MANAGEMENT AND CONTROL

Stockholders

Article II, Section 2 of the Company's bylaws provides that: "Unless directors are elected by written consent in lieu of an annual meeting as provided in these Bylaws, an annual meeting of the stockholders will be held during the month of September of each year. At the annual meeting, the stockholders entitled to vote will elect directors and may also transact such other business as may be desired, whether or not the same was specified in the notice of the meeting, unless the consideration of such other business without its having been specified in the notice of the meeting as one of the purposes thereof is prohibited by law."

Article II, Section 9 of the Company's bylaws provides that: "Unless otherwise provided in the Articles, each stockholder entitled to vote will be entitled to one vote for each share of stock held and registered in such stockholder's name on the books of the Corporation."

Board of Directors

Article III, Section 2 of the Company's bylaws provides that: "The business and affairs of the Corporation will be managed by and under the direction of the Board. In addition to the powers and authorities by these Bylaws and the Articles expressly conferred upon it, the Board may exercise all such powers of the Corporation, and do all such lawful acts and things, as are not by statute or by the Articles or by these Bylaws directed or required to be exercised or done by the stockholders."

Article III, Section 1 of the Company's bylaws provides that: "Unless and until changed by the Board as hereinafter provided, the number of directors to constitute the Board shall be at least five (5) directors and no more than twenty five (25) directors

appointed or elected as provided in this Article III. The number of directors constituting the Board may be changed from time to time and at any time by a resolution adopted by a majority of the whole Board. Directors, each of whom must be a natural person, need not be stockholders. Each director will hold office until a successor is elected and qualified or until such director's earlier resignation or removal.”

The following is a listing of directors and their position(s) held as of December 31, 2019:

<u>Director</u>	<u>Position(s) Held</u>
Charles W. Haren III	President Haren & Laughlin Construction Co., Inc.
Robert P. Daly Jr.	President Kaw Roofing & Sheet Metal, Inc.
Joseph T. Fahey	Chief Executive Officer (Retired) J. M. Fahey Construction Company
Walker R. Gray	President Gray & Company, Inc.
Leon J. Keller	Vice President Meyer Electric Company Inc.
Mark R. Teahan	Chief Financial Officer and Vice President George J. Shaw Construction Company
James L. Wilkinson	Partner and Senior Vice President (Retired) Cretcher Lynch & Cretcher Heartland

Committees

Article III Section 7 of the Company's bylaws provides that: “The Board may designate one or more committees of the Board. Each committee will consist of one or more designated directors.” As of December 31, 2019, the sole committee established by the Board is Audit and Investment.

Officers

Article IV, Section 1 of the Company's bylaws provides that: "The Corporation will have a President, Secretary, and a Treasurer and may also have the following officers: a Chairman of the Board, one or more Vice Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers, each with such duties as are stated in this Article IV or by resolution of the Board which is not inconsistent with these Bylaws. The Board will elect a President and a Secretary at its annual meeting. The Board then, or from time to time, may elect one or more of the other officers as it may deem advisable, and may further identify or describe the duties of any one or more of the officers of the Corporation. Officers of the Corporation need not be members of the Board. Any number of offices may be held by the same person."

Article IV, Section 2 of the Company's bylaws provides that: "Each officer will hold office at the pleasure of the Board or for such other period as the Board may specify at the time of such officer's election or appointment, or until the death, resignation or removal of such officer, whichever first occurs. In any event, each officer of the Corporation who is not reelected or reappointed at the annual election of officers by the Board next succeeding his or her election or appointment will be deemed to have been removed by the Board, unless the Board provides otherwise at the time of such officer's election or appointment."

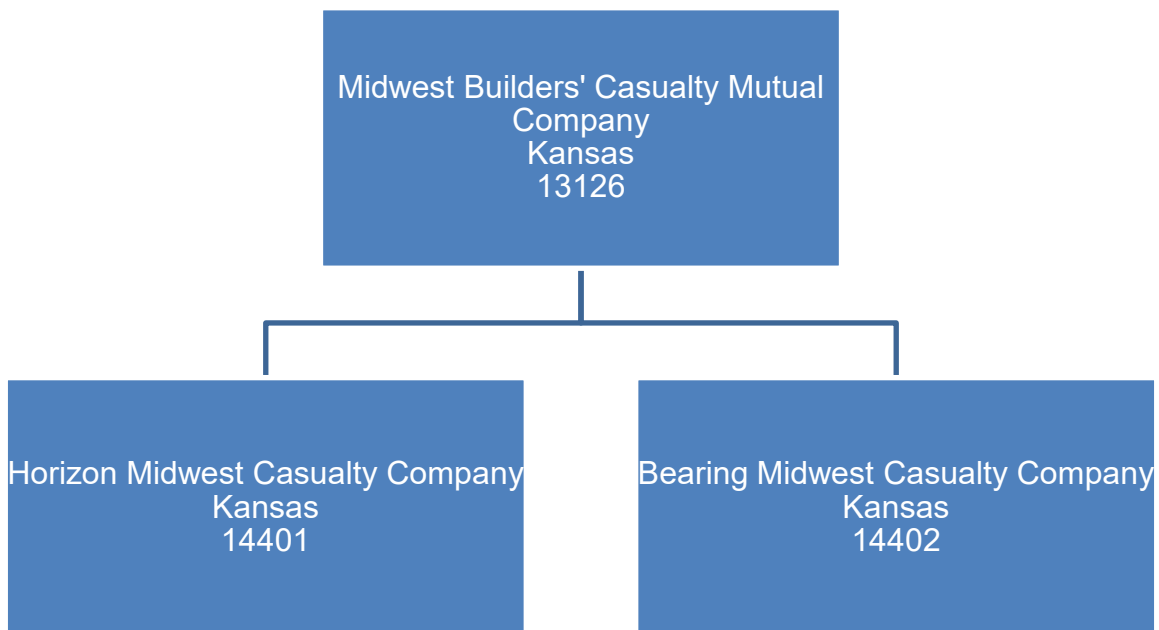
The following is a listing of officers and their position(s) held as of December 31, 2019:

<u>Officer</u>	<u>Position(s) Held</u>
Johnny D. Crowley Jr.	President
Melinda L. Yancey	Secretary and Vice President
Shannon L. Burns	Treasurer

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 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 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 following is an organizational chart showing the direct line of ownership as of December 31, 2019. All subsidiaries listed below are wholly-owned unless otherwise noted.



Intercompany/Cost Sharing Agreements

The Company 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, and supplies, as well as other services 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 the receipt of its billing.

The Company entered into a Tax Allocation Agreement, effective October 12, 2015, with MWBC. Each member of the group agrees to file consolidated 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 Service or Treasury Regulation. State tax returns are handled on a basis that is consistent with the federal tax filings.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company is authorized to transact business in the following states:

Arkansas	Kansas	Oklahoma
Colorado	Kentucky	South Dakota
Georgia	Missouri	Tennessee
Illinois	Nebraska	Texas
Iowa	New Mexico	

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

The Company is a mono-line writer that writes workers' compensation coverage.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2015, through December 31, 2019. The financial results were obtained from annual statements filed by the Company.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<i>(in thousands)</i>					
Admitted Assets	2,570	2,667	2,746	6,243	5,613
Liabilities	22	71	124	1,066	335
Capital and Surplus	2,548	2,596	2,622	5,177	5,278
Net Underwriting Gain/(Loss)	-	-	-	-	-
Net Income	24	35	25	55	101
Net Premiums Written	-	-	-	-	-

REINSURANCE

The Company, through a 100% quota share reinsurance agreement, cedes all direct and assumed liabilities from losses and loss adjustment expenses to MWBC. This quota share reinsurance agreement was effective as of June 14, 2012, and terminates upon mutual agreement of all parties.

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

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. Any 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.

HORIZON MIDWEST CASUALTY COMPANY
ASSETS
AS OF DECEMBER 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>
Bonds	\$ 4,921,140	\$ -	\$ 4,921,140
Cash and short-term investments	655,643	-	655,643
Investment income due & accrued	35,394	-	35,394
Net deferred tax asset	358	-	358
Totals	<u>\$ 5,612,535</u>	<u>\$ -</u>	<u>\$ 5,612,535</u>

**HORIZON MIDWEST CASUALTY COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2019**

Losses	\$	-
Loss adjustment expenses		-
Commissions payable, contingent commissions and other similar charge		12,078
Taxes, licenses and fees		12,772
Current federal and foreign income taxes		25,897
Amounts withheld or retained by Company for account of others		44,353
Payable to parent, subsidiaries and affiliates		235,853
Aggregate write-ins for liabilities		3,889
Total liabilities	\$	<u>334,842</u>
Common capital stock	\$	2,500,000
Gross paid in and contributed surplus		2,500,000
Unassigned funds (surplus)		277,693
Surplus as regards policyholders	\$	<u>5,277,693</u>
Total liabilities, capital and surplus	\$	<u><u>5,612,535</u></u>

**HORIZON MIDWEST CASUALTY COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019**

UNDERWRITING INCOME

Premiums earned	\$	-
DEDUCTIONS:		
Losses incurred		-
Loss adjustment expenses incurred		-
Other underwriting expenses incurred		-
Total underwriting deductions	<u>\$</u>	<u>-</u>
Net underwriting gain	\$	-

INVESTMENT INCOME

Net investment income earned	\$	121,836
Net realized capital gains		4,384
Net investment gain	<u>\$</u>	<u>126,220</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income	<u>\$</u>	<u>-</u>
Total other income	\$	-
Net income after dividends and before federal income taxes	\$	126,220
Federal income taxes incurred		24,732
Net income after dividends and before federal income taxes	<u>\$</u>	<u>101,488</u>

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

Surplus as regards policyholders, December 31, 2015			<u>\$ 2,548,437</u>
Net income	2016	34,841	
	2017	25,040	
	2018	55,057	
	2019	<u>101,488</u>	216,426
Change in net unrealized capital gains or (losses)	2016	(4,699)	
	2017	(69)	
	2018	-	
	2019	<u>-</u>	(4,768)
Change in net deferred income tax	2016	(2,420)	
	2017	3,535	
	2018	(815)	
	2019	<u>(2,398)</u>	(2,098)
Change in nonadmitted assets	2016	19,699	
	2017	(2,458)	
	2018	815	
	2019	<u>1,640</u>	19,696
Capital changes: paid in	2016	-	
	2017	-	
	2018	-	
	2019	<u>1,250,000</u>	1,250,000
Surplus adjustments: paid in	2016	-	
	2017	-	
	2018	2,500,000	
	2019	<u>(1,250,000)</u>	<u>1,250,000</u>
Surplus as regards policyholders, December 31, 2019			<u><u>\$ 5,277,693</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, 2019, was \$5,277,693, which was the same amount reported by the Company in its 2019 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

No comments on the financial statements were identified that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

No significant or material subsequent events were identified that warranted inclusion in this Report on Examination.

SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

The officers of the Company provided the necessary assistance and cooperation during the course of this examination. In addition to the undersigned, Mr. Shane Mead, CISA, CISM, CRISC, an Information Systems Examiner, Ms. Tamara House, CFE, a Senior Insurance Examiner, and Mr. Tony Florez, CFE, a Senior Insurance Examiner, all representing the Department, participated in this examination.

Respectfully submitted,



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

EXHIBIT S
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 Horizon Midwest Casualty Company.
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 Horizon Midwest Casualty Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

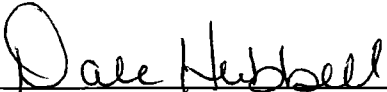
The affiant says nothing further.



Examiner's Signature

Subscribed and sworn before me by Christopher W. Buchanan on this 4 day of December, 2020.

(SEAL)



Notary Public

My commission expires 3/9/23
(date)