

**REPORT ON EXAMINATION**  
**OF**  
**HERITAGE CASUALTY INSURANCE COMPANY**  
**404 SW WESTCHESTER ROAD**  
**TOPEKA, KANSAS**  
**AS OF**  
**DECEMBER 31, 2021**

FILED

JUNE 28, 2023

VICKI SCHMIDT  
Commissioner of Insurance

## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE NUMBER</u>
SALUTATION.....	1
SCOPE OF EXAMINATION .....	1
Independent Audit Reports .....	3
Actuarial Review .....	3
SUMMARY OF SIGNIFICANT FINDINGS .....	3
COMPANY HISTORY .....	3
General .....	3
Capital Stock.....	4
Dividends and Capital Contributions .....	5
CORPORATE RECORDS.....	5
MANAGEMENT AND CONTROL.....	5
Ownership.....	5
Board of Directors .....	6
Committees .....	6
Officers.....	7
INSURANCE HOLDING COMPANY SYSTEM .....	8
Intercompany/Cost Sharing Agreements .....	9
TERRITORY AND PLAN OF OPERATION.....	10
SELECT FINANCIAL INFORMATION.....	10
REINSURANCE .....	11
Assumed and Ceded Reinsurance.....	11
FINANCIAL STATEMENTS .....	12
STATEMENT OF ASSETS .....	13
STATEMENT OF LIABILITIES AND SURPLUS .....	14
STATEMENT OF INCOME .....	15
CAPITAL AND SURPLUS ACCOUNT .....	16
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....	17
COMMENTS ON FINANCIAL STATEMENTS .....	17
SUBSEQUENT EVENTS .....	17
SUMMARY OF RECOMMENDATIONS.....	17
CONCLUSION .....	18
SUPERVISION.....	19

Topeka, Kansas  
June 1, 2023

Honorable Vicki Schmidt  
Commissioner of Insurance  
Kansas Insurance Department  
1300 SW Arrowhead Rd  
Topeka, Kansas 66604-4019

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:

**HERITAGE CASUALTY INSURANCE COMPANY**

with its statutory home office at:

**404 SW WESTCHESTER ROAD  
TOPEKA, KANSAS**

and main administrative office at:

**444 WEST LAKE STREET, 17<sup>th</sup> FLOOR  
CHICAGO, ILLINOIS**

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

**SCOPE OF EXAMINATION**

The examiners have performed a multi-state financial examination of the Company, a Kansas-domiciled property and casualty insurance company. The last examination covered the four-year period from January 1, 2013, through December 31, 2017. This examination covers the four-year period from January 1, 2018, through December 31, 2021.

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

directives of the Kansas Insurance Department (“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.

Those activities considered in the examination as key or critical to HCIC included Investments and Related Parties. The examination also included a review and evaluation of information technology general controls.

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. 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 KPMG LLP of Kansas City, Missouri for the years ending December 31, 2017, through December 31, 2020, and by Deloitte & Touche of Kansas City, Missouri for the year ended December 31, 2021. 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 as of December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditors' workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

### **Actuarial Review**

The Company retained Lewis & Ellis, Inc. of Plano, Texas to perform a review of the Company's actuarial practices and reserves as of December 31, 2021. The review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

## **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the examination.

## **COMPANY HISTORY**

### **General**

HCIC was originally incorporated as Montgomery Ward Insurance Company ("Montgomery Ward Insurance") under the laws of Illinois on June 4, 1974, and began

writing business on October 2, 1974. At that time, its direct parent, Signature Financial/Marketing Inc., was owned by Montgomery Ward & Co., Inc. (“Montgomery Ward”), which in turn was owned by Mobil Corporation. In 1988, Montgomery Ward was purchased by Montgomery Ward Holding Corp., an investor group headed by senior management with the majority financial control held by subsidiaries of General Electric Company (“GE”).

In June of 1997, Montgomery Ward filed for Chapter 11 bankruptcy protection. Montgomery Ward emerged from that protection when it was purchased on July 30, 1999, by General Electric Capital Corporation (“GECC”), a subsidiary of GE. GECC passed ownership of Montgomery Ward Insurance to its downstream holding company, GE Financial Assurance Holdings, Inc. (“GEFA”). The operations of Montgomery Ward Insurance were subsequently folded into the insurance operations of GEFA. On April 1, 2004, the name of Montgomery Ward Insurance was changed to Heritage Casualty Insurance Company.

In June of 2009, HCIC, through a series of dividend, sales and contribution transactions became the wholly owned subsidiary of Union Fidelity Life Insurance Company (“UFLIC”). UFLIC is wholly owned by Employers Reassurance Corporation (“ERAC”), with the ultimate parent being GE. On December 31, 2011, the Company re-domesticated from Illinois to Kansas.

Effective January 1, 2022, UFLIC sold all outstanding shares of HCIC to Vantage Risk Holdings Corporation.

### **Capital Stock**

As of December 31, 2021, the Company had 600,000 shares of common stock

authorized, and 300,000 shares issued and outstanding, with a par value of \$10.00 per share. One hundred percent (100%) of the Company's stock was owned by UFLIC.

### **Dividends and Capital Contributions**

On March 10, 2021, HCIC paid an extraordinary cash distribution of \$9,000,000 to its parent, UFLIC. The Company paid no other dividends during the examination period. On August 18, 2021, HCIC received a capital contribution of \$8,500,000 from UFLIC, which was made to aid the Company in meeting minimum active licensing requirements in certain states. No other capital contributions were made or received by HCIC during the examination period.

### **CORPORATE RECORDS**

On June 30, 2020, HCIC amended and restated its Bylaws to remove §1-6 of Article X and amend §7 to change a reference to Article X to instead refer to the Company's Articles of Incorporation, to address items that were previously included in the sections removed from Article X of the Bylaws.

Also on June 30, 2020, the Company amended and restated the Articles of Incorporation to include additional details related to indemnification – previously included in §1-6 of Article X of the Company's Bylaws – in Article X of the Articles of Incorporation. Additionally, Article XI was added to the Articles of Incorporation, stating that directors shall not be personally liable to the Company or its stockholders for monetary damages for any breach of fiduciary duty as a director.

### **MANAGEMENT AND CONTROL**

#### **Ownership**

The Company is controlled by its sole stockholder, UFLIC.

## **Board of Directors**

The Company's bylaws consist of eleven (11) articles that provide the framework for the operation, management, and control of the Company. The Company is managed under the direction of its board of directors ("Board").

Pursuant to the Company's bylaws, the Board should consist of no less than five (5) and no greater than eleven (11) directors. At the annual meeting, the stockholders shall elect directors, each of whom will hold office for a term of one (1) year or until a successor is elected and qualified or until such director's earlier resignation or removal.

The directors elected and serving as of December 31, 2021, were as follows<sup>1</sup>:

<b><u>Name</u></b>	<b><u>Principal Occupation and Business Affiliation</u></b>
Dale E. Filsinger	Chief Risk Officer, ERAC
Anthony A. Grandolfo	Chief Investment Officer, GECNALH
Brandon J. Mayer	Chief Information Officer & Chief Operating Officer, GECNALH
Shawna A. Meyer	President & Chief Executive Officer, GECNALH
William J. Steilen	Chief Financial Officer, GECNALH

## **Committees**

The Company's bylaws indicate that the Board may designate one (1) or more committees of the Board as deemed necessary and proper. The established committees

---

<sup>1</sup> Vantage directors as of January 1, 2022, are as follows:

<b><u>Name</u></b>	<b><u>Principal Occupation and Business Affiliation</u></b>
Bobbi O. Anderson	General Counsel, Vantage Group Holdings Ltd.
Peter S. Hahn	Chief Data and Analytics Officer, Vantage Group Holdings Ltd.
Gregory S. Hendrick	Chief Executive Officer, Vantage Group Holdings Ltd.
Kelly T. Smith	Director, Vantage Risk Specialty Insurance Company
Aurora J. Swithenbank	Chief Financial Officer, Vantage Group Holdings Ltd.



as of December 31, 2021, were as follows: Capital Planning Committee, Compliance, Operations and Digital Committee, Investment Committee, and Insurance Liability Committee. The Committee members serving as of December 31, 2021, were as follows:

**Investment Committee**

Mark D. Bienz  
 Harshal Chaudhari  
 Dale E. Filsinger  
 Brett Gansen  
 Anthony A. Grandolfo  
 Paul K. Goudie  
 Jane B. Kipper  
 Shawna A. Meyer  
 William J. Steilen

**Compliance, Operations & Digital Committee**

Jodi Bachelor  
 Michael J. Burbach  
 Mark Cohenour  
 Cheri M. DiPiero  
 Karen L. Fleming  
 Doug D. Malloy  
 Brandon J. Mayer  
 Cecelia P. Ortiz  
 Jeffrey M. Russell  
 Kathleen A. Russell

**Insurance Liability Committee**

Mark D. Bienz  
 Dale E. Filsinger  
 Shawna A. Meyer  
 William J. Steilen

**Capital Planning Committee**

Mark D. Bienz  
 Dale E. Filsinger  
 Brett Gansen  
 Shawna A. Meyer  
 William J. Steilen

**Officers**

Pursuant to the bylaws, the Company may have a Chairman of the Board, President, Secretary, Treasurer, and any other officers deemed necessary, all of whom shall be elected annually at the first regular meeting of the board. The Chairman of the Board and the President shall be elected from the membership of the Board. One (1) person may hold multiple offices, except no one (1) person may hold the office of both

President and Secretary. The Board may leave any office unfilled except that of the President, Treasurer and Secretary.

The following is a listing of officers and their position(s) held as of December 31, 2021<sup>2</sup>:

<b><u>Name</u></b>	<b><u>Office</u></b>
Shawna A. Meyer	President
Kathleen A. Russell	Secretary
Jane B. Kipper	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 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 items and events pertaining to the Company were properly reported as required by statute.

The Company’s ultimate controlling parent was GE. The abbreviated organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2021. Ownership is noted in parentheses and the Kansas domiciled insurers are bolded.

---

<sup>2</sup> Vantage officers as of January 1, 2022, are as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Bobbi O. Anderson	Secretary
Gregory S. Hendrick	President and Chief Executive Officer
Aurora J. Swithenbank	Treasurer

General Electric Company (Publicly Held)

GE Capital Global Holdings LLC (100%)

GE Capital US Holdings, Inc. (100%)

GE Capital NALH Holdings LLC (100%)

**Employers Reassurance Corporation (100%)**

ERC Long Term Care Solutions, Inc (100%)

OP REO Holdco Two LLC (100%)

Holdco Two Sub #1 LLC (100%)

**Union Fidelity Life Insurance Company (100%)**

**Heritage Casualty Insurance Company (100%)**

OP REO Holdco One LLC (100%)

Holdco One Sub #1 LLC (100%)

**Intercompany/Cost Sharing Agreements**

The following is a brief description of significant agreements executed with affiliate entities that were in effect as of December 31, 2021.

*Management Services Agreement*

Effective January 1, 2009, HCIC entered into a Management Services Agreement with ERAC, whereby the Company receives certain designated administrative and support services. Pursuant to this agreement, HCIC paid expenses of \$186,850; \$156,871; \$187,217; and \$326,713 to ERAC in 2021, 2020, 2019, and 2018, respectively. Effective January 1, 2022, HCIC is no longer party to this agreement pursuant to its sale to a non-related party.

*Capital Maintenance Agreement*

As of December 31, 2021, HCIC is party to a Capital Maintenance Agreement with GE that was entered into during 2004 in conjunction with a loss portfolio transfer reinsurance agreement. Pursuant to this agreement, GE is required to indemnify the Company for payments made under the contingent premiums clause related to a loss portfolio transfer via a capital contribution, and to maintain HCIC's minimum capital at 250% of its Company Action Level risk-based capital requirements as defined by the NAIC. No amounts were paid to HCIC pursuant to this agreement during the examination period. Effective January 1, 2022, HCIC is no longer party to this agreement pursuant to its sale to a non-related party.

#### *Tax Allocation Agreement*

Effective September 7, 2005, HCIC entered into a Tax Allocation Agreement with GE Capital US Holdings, Inc., whereby the Company is included in the consolidated Federal income tax return filed by the Ultimate Controlling Person, GE. Pursuant to this agreement, HCIC made tax payments of \$66,637; \$39,935; \$14,832; and \$9,325 in 2021, 2020, 2019, and 2018, respectively.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2021, HCIC was authorized to transact business in all states and the District of Columbia, except for New Hampshire and New Jersey. The Company is in run-off and no longer actively markets or underwrites insurance products.

### **SELECT FINANCIAL INFORMATION**

The exhibit below shows the Company's financial results for the period of December 31, 2018, through December 31, 2021. The financial amounts were obtained from annual statements filed by the Company.

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<i>(\$000 omitted)</i>				
Admitted Assets	15,516	15,561	15,640	15,274
Liabilities	93	62	40	25
Capital and Surplus	15,424	15,499	15,600	15,249
Net Income (Loss)	(83)	77	96	146
Net Premium Written	-	-	-	-

### REINSURANCE

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

<i>(\$000s omitted)</i>		<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<b>Premium Type</b>					
Direct Premiums Written	\$	- \$	- \$	- \$	-
Reinsurance Assumed					
Reinsurance Ceded		-	-	-	-
<b>Net Premiums Written</b>	<b>\$</b>	<b>- \$</b>	<b>- \$</b>	<b>- \$</b>	<b>-</b>

### Assumed and Ceded Reinsurance

Effective October 1, 2004, the Company entered into a loss portfolio transfer agreement with GE Reinsurance Corporation, an affiliated company, to cede 100% of its exposure under the business assumed from the 21st Century Centennial Insurance Company and the 21st Century Premier Insurance Company coinsurance treaties ("LPT Agreement"). Swiss Reinsurance America Corporation ("SRAC") acquired all rights and obligations under the LPT Agreement as successor by merger with GE Reinsurance Corporation. The LPT Agreement contained a contingent premium adjustment clause, which required the Company to cover up to \$50,000,000 in adverse development from losses that exceed the premiums collected. The Company has made total contingent

premium payments to SRAC of approximately \$27,620,356 from inception to date under the terms of the agreement, resulting in a net exposure under this clause of approximately \$22,379,644 as of December 31, 2021.

All reinsurance agreements in effect during the examination contained insolvency and cancellation clauses as required by K.S.A. 40-221a. All reinsurance agreements reviewed provided for the transfer of risk. However, the Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event an assuming reinsurer fails to perform its obligations under the reinsurance contract.

### **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, 2021. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

**HERITAGE CASUALTY INSURANCE COMPANY  
STATEMENT OF ASSETS  
AS OF DECEMBER 31, 2021**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 6,803,641	\$ -	\$ 6,803,641
Cash and short-term investments	8,390,982	-	8,390,982
Investment income due & accrued	79,821	-	79,821
<b>Totals</b>	<b>\$ 15,274,444</b>	<b>\$ -</b>	<b>\$ 15,274,444</b>

**HERITAGE CASUALTY INSURANCE COMPANY  
STATEMENT OF LIABILITIES AND SURPLUS  
AS OF DECEMBER 31, 2021**

Other expenses	\$ 25,000
Total liabilities	<u>25,000</u>
Common capital stock	3,000,000
Gross paid in and contributed surplus	10,792,414
Unassigned funds	1,457,030
Totals	<u>15,249,444</u>
Total liabilities, surplus and other funds	<u><u>\$ 15,274,444</u></u>



**HERITAGE CASUALTY INSURANCE COMPANY  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Premiums earned	\$ -
Other underwriting expenses incurred	(331,777)
Investment income earned	257,036
Net realized capital gains (losses) (excluding gains (losses))	<u>200,684</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	125,943
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	125,943
Federal and foreign income taxes incurred	<u>(20,332)</u>
Net Income	<u><u>\$ 146,275</u></u>

**HERITAGE CASUALTY INSURANCE COMPANY  
CAPITAL AND SURPLUS ACCOUNT  
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2017			<u>\$ 15,507,162</u>
Net income	2018	\$ (82,932)	
	2019	77,198	
	2020	96,373	
	2021	<u>146,275</u>	236,914
Change in net deferred income tax	2018	\$ (342)	
	2019	(1,760)	
	2020	4,745	
	2021	<u>2,725</u>	5,368
Surplus adjustment: paid in	2018	\$ -	
	2019	-	
	2020	-	
	2021	<u>(500,000)</u>	(500,000)
Surplus as regards policyholders, December 31, 2021			<u>\$ 15,249,444</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, 2021, was \$15,249,444, which was the same amount reported by the Company in its 2021 filed Annual Statement.

## **COMMENTS ON FINANCIAL STATEMENTS**

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

## **SUBSEQUENT EVENTS**

Effective January 1, 2022, UFLIC sold all outstanding shares of HCIC to Vantage Risk Holdings Corporation, a Delaware Corporation. Upon closing, HCIC became a member of the Vantage Group of Companies and its name was changed to Vantage Risk Assurance Company (Vantage) effective January 6, 2022. On November 30, 2022, Vantage was redomesticated to Delaware.

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company.

## **SUMMARY OF RECOMMENDATIONS**

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

## CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Joe DeVries, CFE, Kristina Sampson, CPA, and Victoria Scott, CFE, with Noble Consulting Services, Inc., assisted on the financial portion of the examination. Additionally, Carol Riley, AES, CISA, CGEIT, CRISC, and Sharon Riley, CISA, CGEIT, AIRC, FLMI, performed the information technology portion of the examination. In addition, Mike Mayberry, FSA, MAAA, of Lewis & Ellis, Inc., and Greg Hahn, CFA, of Winthrop Capital Management, performed an actuarial and investment review, respectively, of the Company.


Respectfully submitted,

A handwritten signature in black ink, appearing to read "Barry Armstrong, CFE", is written over a horizontal line. The signature is cursive and somewhat stylized.

Barry Armstrong, CFE  
Examiner-in-Charge  
Noble Consulting Services, Inc., representing  
the Kansas Insurance Department

## **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, appearing to read "Levi Nwasoria", written in a cursive style. The signature is positioned above a horizontal line.

Levi Nwasoria, CPA, CFE  
Chief Examiner  
Kansas Insurance Department

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

State of South Carolina,

County of Horry,

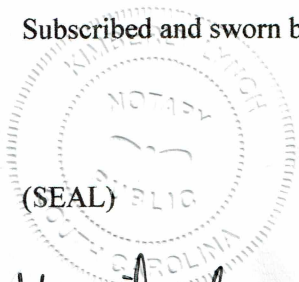
Barry Armstrong, being duly sworn, states as follows:

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

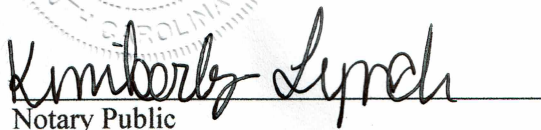
The affiant says nothing further.

  
Examiner's Signature

Subscribed and sworn before me by BARRY ARMSTRONG on this 28<sup>th</sup> day of JULY, 2023.



Kimberly Lynch  
NOTARY PUBLIC  
State of South Carolina  
My Commission Expires 12/3/2031

  
Notary Public

My commission expires 12/3/2031 [date].