

**REPORT OF  
EXAMINATION**

**OF**

**CENTENNIAL CASUALTY COMPANY**

**BIRMINGHAM, ALABAMA**

**AS OF DECEMBER 31, 2020**

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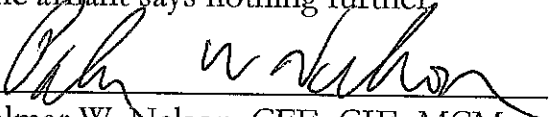
**EXAMINER'S AFFIDAVIT**

**STATE OF ALABAMA  
COUNTY OF COVINGTON**

Palmer W. Nelson, CFE, CIE, MCM being duly sworn, states as follows:

1. I have the authority to represent Alabama in the examination of Centennial Casualty Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Centennial Casualty Company was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

  
\_\_\_\_\_  
Palmer W. Nelson, CFE, CIE, MCM

Subscribed and sworn before me by Palmer W. Nelson on the 25<sup>th</sup> day of February, 2022

(Seal)

  
\_\_\_\_\_  
(Signature of Notary Public)

My commission expires 12-2-23

February 25, 2022

Honorable Jim L. Ridling  
Commissioner of Insurance  
Alabama Department of Insurance  
201 Monroe Street, Suite 502  
Montgomery, AL 36104

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2020, has been made of

**Centennial Casualty Company  
Birmingham, Alabama**

and was conducted remotely and on site with support from Company management located in Birmingham, Alabama. The Company's statutory address is located at 2200 Woodcrest Place, Suite 200, Birmingham, AL 35209. The report of examination is submitted herewith. Where the description "The Company" or "CCC" appears herein, without qualification, it will be understood to indicate Centennial Casualty Company.

## SCOPE OF EXAMINATION

We have performed an examination of Centennial Casualty Company, a multi-state company. The last examination covered the period of January 1, 2011 through December 31, 2015. The current examination covers the period of January 1, 2016 through December 31, 2020.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, the Alabama Department of Insurance regulations, bulletins and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The 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.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IT) was conducted concurrently with the financial examination. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provide controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory, plan of

operation, claims handling, advertising and marketing, policy forms and underwriting, policyholders' complaints, producers' licensing requirements, and privacy standards.

Warren Averett, LLC was the Company's certified public accountants (CPAs) for the years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2020.

## **ORGANIZATION AND HISTORY**

The Company was incorporated on September 25, 1975, as a stock insurance corporation, and commenced business on that same day.

The original Articles of Incorporation authorized 30,000 shares of \$10 par value common stock. The Company began with \$300,000 of capital and \$450,000 of paid in surplus contributed by the Company's parent, Auction Insurance Agency, in exchange for a surplus note, in the same amount, issued by the Company. The surplus note has since been paid off and Auction Insurance Agency has merged with Robinson-Adams Agency, Inc., and the name of the surviving corporation was changed to Robinson-Adams Insurance, Inc. (RAI). The Company's authorized capital stock was increased on January 4, 1982, to 50,000 shares of common stock.

On June 1, 2007 through a share exchange, the stockholders of RAI contributed all of its shares of RAI for an equal number of shares of Century Holding Company, Inc. (Century). On June 2, 2007, RAI distributed all of the Company's shares to Century.

On September 30, 2007, the Company issued a stock dividend of two shares for every one share held to each stockholder of record at the close of business on September 30, 2007.

On October 1, 2007, the Company increased the total amount of its authorized capital stock of \$500,000 consisting of 50,000 shares to \$1.5 million consisting of 150,000 shares.

On October 1, 2010, Century was merged into the Company pursuant to a Plan of Merger filed with the Alabama Secretary of State on August 16, 2010. The shares of Century were retired, and the Company's shares were issued to Century's eight shareholders equivalent to their percentage ownership in Century immediately

preceding the merger. Century's eight shareholders were brothers, Richard M. Adams and Thomas J. Adams, Jr. along with their children.

On December 1, 2010, Richard M. Adams and Thomas J. Adams Jr. transferred their shares (91% of the Company's outstanding shares) to two Grantor Retained Annuity Trust. Since that transfer, shares have been further divided among numerous trusts for family members and individually among family members. At year-end 2020 there was one individual owner with greater than a 10% ownership interest in the Company, Jennifer J. Adams with a 15.32% ownership interest. The shares are not publicly traded.

As of the examination date, the Company reported a capital structure of capital stock of \$1,500,000, gross paid in and contributed surplus of \$797,090, and unassigned funds of \$108,953,846.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

The Company was owned primarily by the Adams family and a trust for the benefit of the Adams family as of December 31, 2020.

### **Board of Directors**

The Company's By-Laws stipulate that its business shall be managed and controlled by a Board of Directors who shall be elected by the stockholders. The number of directors shall not be less than three or more than seven directors.

The following directors were elected by the stockholder and were serving on December 31, 2020.



<u>Director and Place of Residence</u>	<u>Principal Occupation and Employer</u>
Thomas Jefferson Adams, Jr. Birmingham, Alabama	Chairman Woodcrest Services, Inc.
Richard Manly Adams Mountain Brook, Alabama	Vice President Woodcrest Services, Inc.
Charles Walton Redden Mountain Brook, Alabama	Chief Executive Officer Woodcrest Services, Inc.
Charles Thomson Adams Mountain Brook, Alabama	Vice President Woodcrest Services, Inc.
Thomas Jefferson Adams, III Denver, Colorado	Sales Cox Automotive, Inc.

### Committees

The Company's Board of Directors served as the Audit Committee in accordance with ALA. ADMIN. 482-1-141-.03. The Board members appointed to the investment committee and serving On December 31, 2020 were as follows.

Charles Thomson Adams  
Richard Manly Adams  
Thomas Jefferson Adams, Jr.  
Charles Walton Redden

Dana Sugar of PNC Institutional Asset Management participated in her role as an advisory member to the Investment Committee.

### Officers

The Company's By-Laws provide that its executive officers shall be a President, one or more Vice Presidents, a Secretary, and a Treasurer, each of whom shall be elected by the Board annually and shall hold office until their successors are elected and qualified. Other officers may be appointed as deemed necessary by the Board of Directors. Officers serving on December 31, 2020 were as follows.

<u>Name</u>	<u>Title</u>
Charles Walton Redden	Chief Executive Officer and President
William Reed Cain	Chief Financial Officer, Secretary, Treasurer
Richard Manly Adams	Vice President
Thomas Jefferson Adams, Jr.	Chairman

### **Conflicts of Interest**

The Conflict of Interest statements filed by the officers and directors of the Company were reviewed for this examination period. No items of disclosure, which may have had the potential of a material or adverse impact on the operations of the Company, were noted during the review.

### **CORPORATE RECORDS**

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the Stockholder and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with respect to actions taken on matters before the respective bodies for deliberation and action.

### **HOLDING COMPANY AND AFFILIATE MATTERS**

As of December 31, 2020, the Company was subject to the Alabama Insurance Company Regulatory Act of 1973 as defined in ALA. CODE § 27-29-1 (1975). The review of the holding company filings made during the examination period indicated that appropriate disclosures were made regarding the Company.

### **Dividends to Stockholders**

The Company paid the following dividends to its Stockholder for each year under examination:

2016	\$ 0
2017	\$3,000,000
2018	\$2,500,000
2019	\$2,000,000
2020	\$3,000,000

### Administrative Service Agreements

The following administrative management service agreements were in effect during the examination period.

### Affiliated Agreements

#### Agreement to Provide Accounting Services Between Centennial Casualty Company and Woodcrest Services, Inc. effective January 1, 2013

Woodcrest Services, Inc. agreed to provide Centennial Casualty Company accounting services for the operation of the Woodcrest Place building including the compilation of all reports to reflect income, expenses, and other operational cost. Woodcrest Services, Inc. will receive consideration of \$500 per month for the services. The agreement became effective January 1, 2013, and shall continue until terminated by either party, by giving the other party 30 days advance notice.

#### Agreement to Provide Building Management Services Between Centennial Casualty Company and Woodcrest Services, Inc. effective April 1, 2014

Woodcrest Services, Inc. agreed to provide Centennial Casualty Company building management services for the operation of the Woodcrest Place building. Centennial shall pay Woodcrest Services, Inc. \$500 per month for such services. The agreement became effective April 1, 2014, and shall continue until terminated by either party, by giving the other party 30 days advance notice. The agreement was terminated July 1, 2017.

#### Facilities, Systems, Operations and Investment Services Agreement between the Company and Woodcrest Services, Inc. (Manager) effective January 1, 2010

1. Manager agreed to provide all non-underwriting management, secretarial, accounting, and clerical services needed for the efficient operation of the Company.
2. Manager agreed to supply all office equipment, telephone service including long-distance service, and office facilities necessary for the

Company's operations.

3. Manager agreed to provide information systems services suitable for the Company and to retain all electronic data records for a minimum of 7 years. It is mutually agreed that the Manager may subcontract information systems activities to an affiliate or an outside firm, however, Manager shall remain responsible for ensuring the quality of the services and the retention of the data.
4. Manager shall have the responsibility to manage the Company's investment portfolio; however, all investment decisions shall be approved by a Company officer.
5. The Company is to pay \$350,000 annually in 12 monthly payments.
6. The agreement shall continue until terminated by either party, by giving the other party 10 days advance notice.

General Sales Agency Agreement between the Company and Woodcrest Services, Inc. (Agent)  
effective January 1, 2010

1. The Company employed Agent as its sales agent for Check and Title Insurance policies, other policies of insurance and surety bonds.
2. The Agent shall provide all necessary sales representatives, secretarial, accounting, clerical, data processing and telephone services necessary for the efficient production of insurance premium. The Company agrees that the Agent may subcontract with others to provide services, equipment, and facilities.
3. The Agent shall have no underwriting authority but shall recommend applicants for policies to the Company or other underwriting managers designated by the Company giving full information about such applicants. The Company or its delegated underwriting manager has complete authority to accept or reject risks.
4. Agent shall give a detailed accounting to the Company on any material transaction, including information necessary to support all commissions, charges, and other fees received by or owing to Agent.
5. All funds are to be submitted at least monthly. Premiums or any installment collected by Agent are to be remitted no later than 90 days after the effective date of any policy. Premiums are also collectible directly by the Company from the insured.
6. Any funds collected for the Company's account shall be held by Agent in a fiduciary capacity in one or more appropriately identified bank accounts in a Federal Reserve System bank. Separate identifiable records of the Company's written business shall be maintained by Agent.

7. The rates and terms of the commissions, charges, and other fees payable to Agent shall not be greater than those applicable to comparable business placed with the Company by producers other than Agent. The Company may establish a different limit for each line or sub-line of business written by the Agent. The Company shall notify Agent when the limit is approached and shall not accept business from Agent if the limit is reached. The initial limit under this contract is established at one time of policyholder's surplus as of the preceding December 31.
8. Agent may negotiate but may not bind reinsurance on the Company's behalf.
9. The Company shall provide Agent with its underwriting standards, rules and procedures, and manuals setting forth the rates to be charged, and the conditions for the acceptance or rejection of risks, which the Agent shall adhere to. These should be the same as those applicable to comparable business placed with the Company by a producer other than Agent.
10. Compensation for the Agent's services:
  - a. 20% of all premiums on Check and Title Policies.
  - b. A contingent commission equal to the earned premium on all check & Title premiums produced by Agent less 45% for the Company's expenses, less losses times 25%; however, said calculation shall not be made and no payment issued until one year after premiums are earned and until the adequacy of the Company's reserves on remaining claims has been independently verified as outlined in Chapter 6B of the Alabama Insurance Code. Settlements under this contingent commission provision shall be made each April 1 thereafter with any deficit carried forward to subsequent collections.
  - c. 30% of all premiums on surety bonds.
  - d. 20% of all premiums on all other property and liability insurance excluding long term professional and general liability insurance, which is covered in a separate agreement; however, the Company and Agent may agree to a larger compensation for larger policies (not to exceed 25%) and may also agree to a smaller compensation for specific policies where the size of the risk and amount of work required to produce the business warrants a different commission level.
11. This contract applies to all existing in force contracts and all policies issued after its effective date.
12. The agreement shall continue until terminated by either party by giving the other 10 days advance notice.

An amendment to the agreement was agreed to on June 1, 2010. The Company agreed to employ Agent as its sales agent for Dental Insurance and agreed to pay the Agent compensation for its services of 15% of all premiums on Dental Insurance.

Loss Adjustment Agreement between the Company and Woodcrest Services, Inc. (Agent) effective January 1, 2010

1. The Company appointed Agent as its exclusive loss adjusting agent.
2. Agent shall perform the following functions:
  - a. Coordinate and make all claim payments.
  - b. Supervise and monitor outside attorneys.
  - c. Supervise all repossession activities.
  - d. Act in the capacity of General Counsel.
3. The Company agreed to allow and pay, and Agent agrees to accept 7% of all premiums on check and title policies as compensation for its services.
4. Agent's operation shall be at its own expense.
5. This contract applies to all existing policies in force on January 1, 2010 and all policies issued after this date.
6. The agreement shall continue until terminated by either party, by giving the other party 10 days advance notice.

Loss Prevention, Salvage and Subrogation Agreement between the Company and Woodcrest Services, Inc. effective January 1, 2010

1. The Company appoints Agent as its agent for loss prevention, salvage, and subrogation. Agent shall take all steps to prevent losses and to recover salvage and minimize losses.
2. Agent agrees to give notice to the insureds of the names of dealers with whom transactions are unacceptable to the Company for coverage under the policies issued, adding, and deleting the names of dealers whose transactions with the insureds are unacceptable to the Company for coverage as may from time to time be deemed by Agent in the best interest of the operation of this program of insurance. Agent shall see to it that all insureds are properly advised of any additions or deletions from the names of automobile dealers with whom insureds' transactions will not be covered under the policies issued.
3. The Company agrees to allow and pay, and Agent agrees to accept as compensation for its services \$350,000 annually plus 30% of all recoveries made by Agent on losses reported to the Company by its insureds.
4. The agreement shall continue until terminated by either party, by giving the other party 10 days advance notice.

## Unaffiliated Agreements

### Long term Care Professional and General Liability Sales Agency Agreement between the Company and Arthur J. Gallagher (Agent) effective January 1, 2010

The agreement was originally between the Company and Woodcrest Services, Inc. Woodcrest Services, Inc. has assigned its interest in the agreement to Arthur J. Gallagher.

1. The Company employed the Agent as its sales agent for Long Term Care Professional and General Liability Insurance, as a fronting Company for Associated Long Term Care Insurance Company.
2. Agent shall provide all necessary sales representatives, secretarial, accounting, clerical, data processing and telephone services necessary for the efficient production of insurance premium. The Company agrees that Agent may subcontract with others to provide services, equipment, and facilities.
3. The Company does appoint the licensed employees of Agent as its agents for the writing of said insurance.
4. The Company has agreed to pay the Agent 2% of all premiums on Long Term Care Professional and General Liability Insurance for which the Company is acting as a fronting company.
5. The agreement shall continue until terminated by either party, by giving the other party 10 days advance notice.

### Lease Services Agreement between the Company and Hydingier Stewart & Chew Commercial Properties, LLC (Agent) effective July 1, 2017

The Company employed the Agent to provide lease services for the property located at 2200 Woodcrest Place, Suite 310, Birmingham, AL. The Agent has agreed to monitor the market and keep the Company informed with regards to prevailing rents, leasing activity, landlord contributions to tenant improvements, and rent concessions. The Company has agreed to pay the Agent an amount to be determined by a commission schedule, with the maximum compensation amounting to 6%. The agreement shall continue for 12 months, and thereafter shall be deemed automatically renewed for a successive 12-month term, unless either party notifies the other party of their intention to terminate the agreement, giving at least 60 days advanced notice from the end of the current term.

Management Agreement between the Company and HSC Properties, LLC (Agent) effective June 1, 2017

The Company employed the Agent to manage the property located at 2200 Woodcrest Place, Suite 200, Birmingham, AL. The Company has agreed to pay the Agent \$1000.00 per month in base pay, \$45.00 per hour for on-site maintenance calls, and 5% of the cost of any renovations that the Agent supervises. The agreement shall continue until terminated by either party, by giving the other party 30 days advance notice.

Participating Provider Agreement between the Company and LTC Dental PC (Agent) effective December 15, 2012

The Company entered into an agreement with the Agent for the purpose of providing in-network dental coverage to the Company's insureds. The Company agreed to pay the Agent a monthly capitated fee of \$40.00 per insured person and a range of different fees dependent on the procedure performed. The agreement shall continue until terminated by either party, by giving the other 90 days advance notice.

On June 24, 2013 an amendment was agreed upon whereby the Company agreed to pay the Agent a monthly capitated fee of \$40.00 - \$60.92 per insured person, depending on the amount of the premium paid by the insured. The fees to be paid for procedures performed remained unchanged.

Dental Services Coordinator Agreement between the Company and Nursing Home Dental Care LTD (Agent) effective January 7, 2013

The Company entered into an agreement with the Agent to come to certain understandings, as the Agent has entered into an agreement with LTC Dental PC to provide administrative services. The following obligations apply under the terms of the agreement:

1. The Agent shall be familiar with the policies of the Company.
2. The agent shall furnish to the Company adequate evidence that Agent has in effect Commercial General Liability insurance with coverage limits of \$1,000,000 per claim and \$3,000,000 annual aggregate and with companies acceptable to Company.
3. The Agent waives and shall cause LTC Dental PC to waive any claims against the Company or its representatives for any communications made or actions taken in good faith in connection with any review of the Provider's or Coordinator's professional behavior.



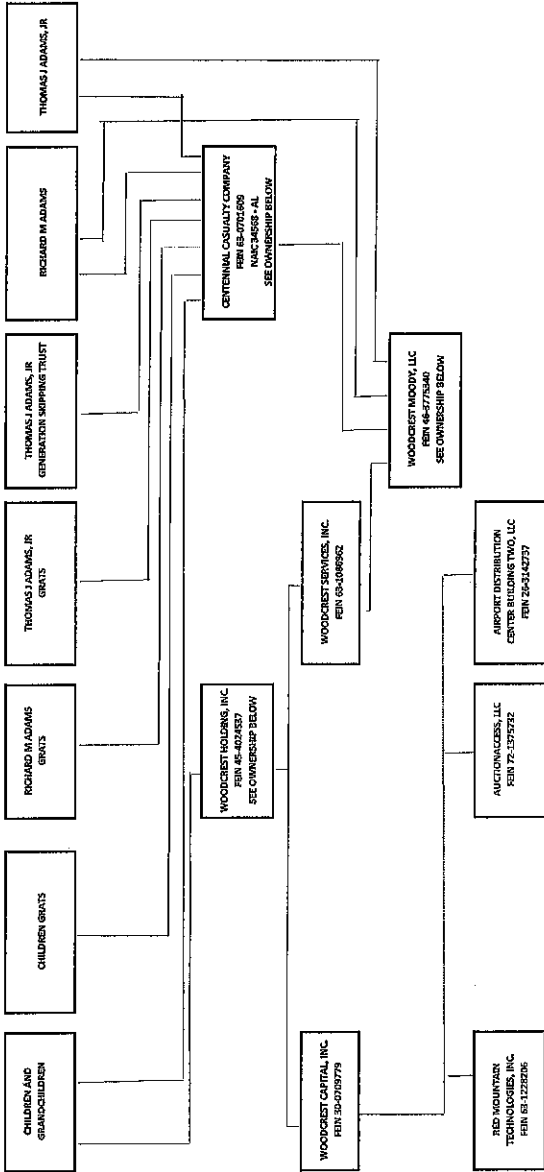
4. The Agent will provide to the Company a list describing all services it agrees to provide.
5. The Agent, as a recruiter of Alabama dentists, shall make all reasonable efforts to ensure that insured persons continue to receive covered dental services.
6. The agreement shall continue until terminated by either party, by giving the other party 90 days advance notice.

Program Administration Agreement between the Company and Arthur J. Gallagher Risk Management Services Inc. (Agent) effective January 19, 2017

The Company has employed the Agent to act as a Program Administrator for the Company. The Agent has an Agreement with ALTC, whom the Company has a Reinsurance Agreement with. Obligations of the Agent include adhering to the terms set forth in the Agreement and the Reinsurance Agreement. The Company has agreed to pay the Agent a commission based on the direct premiums written for the applicable coverage underwritten by the Agent. The applicable percentage of the commission is outlined in the Agreement between the Agent and ALTC. The agreement shall continue until terminated by either party, by giving the other party 90 days advance notice.

**ORGANIZATIONAL CHART**

The chart on the following page presents the relationships of the Company, the Company's owners, the Company's subsidiary, and the Company's affiliates as of December 31, 2020.



**OWNERSHIP PERCENTAGES**

Woodcrest Holding, Inc.	Centennial Casualty Company	Woodcrest Moody, LLC
Richard M. Adams	1.9566261%	20.6695%
Thomas J. Adams, Jr.	7.2596836%	20.6695%
Richard M. Adams GRATS	4.4747381%	
Thomas J. Adams, Jr. GRATS	3.6108113%	
Thomas J. Adams, III GRAT	9.1563036%	
2004 Generation Skipping Trust	8.0481278%	
Thomas J. Adams, III	2.5381155%	
Jennifer J. Adams	15.7159335%	
UTA FBO Ashlyn O. Adams	1.8107372%	
UTA FBO Skylar A. Adams	1.8107372%	
Mary Britt Adams Redden	4.8243814%	
Mary Britt Adams Redden GRAT	2.1608105%	
Katherine G. Adams McKnight	4.8243814%	
Katherine G. Adams McKnight GRAT	2.1608105%	
Richard M. Adams, Jr.	4.8243895%	
Richard M. Adams, Jr. GRAT	2.1608147%	
Grandchildren's Trust	7.2666657%	
Charles T. Adams	9.1878649%	
UTA FBO Charles Walton Redden, Jr.	0.5006682%	
UTA FBO Mary Lucy Redden	0.5006682%	
UTA FBO Parker M. Redden	0.5006682%	
UTA FBO Charlotte S. Redden	0.5006682%	
UTA FBO Lawson M. McKnight	0.7342095%	
UTA FBO Alice Louise McKnight	0.7342095%	
UTA FBO William Adams McKnight	0.7342095%	
UTA FBO Richard M. Adams, III	0.7342022%	
UTA FBO Lindsay Reid Adams	0.7342022%	
UTA FBO Marvethel Anne Adams	0.7342022%	
Woodcrest Services, Inc.		43.5080%
Centennial Casualty Company		15.1530%
<b>Totals</b>	<b>100.0000%</b>	<b>100.0000%</b>

## **FIDELITY BONDS AND OTHER INSURANCE**

Centennial Casualty Company is a named insured on an insurance policy issued by The Cincinnati Insurance Company. The insurance policy included fidelity coverage that was in effect as of December 31, 2020. The coverage amount was applicable to employee theft, employee forgery or alterations, and theft of money or securities. The amount of the fidelity coverage maintained by the Company exceeded the minimum amount suggested in the NAIC *Financial Condition Examiners Handbook*.

In addition to the above coverage, the Company had insurance that afforded the following protections:

1. Commercial General Liability Coverage with The Cincinnati Insurance Company.
2. Commercial Property Coverage with The Cincinnati Insurance Company.
3. Accounts Receivable Coverage with The Cincinnati Insurance Company.
4. Electronic Data Processing Equipment Coverage with The Cincinnati Insurance Company.
5. Valuable Papers and Records Coverage with The Cincinnati Insurance Company.
6. Business Auto Coverage with The Cincinnati Insurance Company.

It was assessed that the Company held adequate coverage in force covering the hazards to which the Company may have been exposed to.

## **EMPLOYEE AND AGENT WELFARE**

The Company's duties and functions are performed by employees of affiliated entities in accordance with the terms of the administrative and management and services agreements with affiliated entities. Because the Company does not have any direct employees, no liabilities are accrued relating to pensions or post employee benefits.

### **Compliance with 18 U.S.C § 1033**

The examiners reviewed the Company's internal procedures to determine if prospective and current employees or employees of affiliates were in compliance with 18 U.S.C. § 1033, which prohibits persons with certain felony offences from participating in conducting the business of insurance. The examiners verified that criminal background checks were obtained for newly hired staff and that the Company had a periodic procedure in place to determine whether existing employees have been convicted of a felony. However, the Company was not able to provide

evidence of the periodic procedure for all employees engaged in the business of insurance. This is not in compliance with ALA. ADMIN. CODE 482-1-146.11(2009), which states:

1. A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
  - a. An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a 1033 offense.
  - b. An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.
  - c. An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.
2. Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.
3. As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

## **MARKET CONDUCT ACTIVITIES**

### **Territory**

The Company was licensed to write Property and Casualty, Surety, Surety bonds, Marine and Disability insurance in the State of Alabama and Mississippi. The Company also wrote surplus lines business in every state except Delaware, District of Columbia, Hawaii, and Rhode Island. The Company also wrote business in Canada.

### **Plan of Operation**

The Company has an established expertise in writing check and title insurance for the wholesale automobile auction industry since 1976. A specialized insurance policy is offered that protects the auction against receiving bad checks from buying dealers and covers losses resulting from the sale of stolen cars through the auction. Additionally, the Company's affiliated companies provide loss prevention services that include a team of experienced recovery agents, a database of uninsurable dealers, and photo

identification cards which have been issued to more than 250,000 buyers. Beginning in 2013, the Company began covering transaction credit risk for livestock auctions. The Company has assumed reinsurance related to an internet-based retail auction providing insurance for guaranties made for auctioned items including recreational, business, and industrial.

The Company wrote auto physical damage insurance for car dealers and insurance for transactions of excess inventories and merchandise in connection with internet auctions.

Since 2007, the Company has written long-term care medical professional liability insurance. All the medical professional liability insurance business is currently ceded as the Company acts as a fronting company for a Nursing Home Association captive, Association Long-Term Care Insurance Company. The Company also writes dental coverage in nursing homes associated with its long-term care business.

The company has written a small amount of surety bonds including Alabama Motor Vehicle Dealer bonds, Dismantler bonds, notary bonds, Auction Financial Guaranty bonds.

### **Advertising and Marketing**

The Company did not have a formal marketing and sales program during the examination period. The Company's management indicated that the Company operated in a niche market; therefore, it did not have a need to market payment and title insurance to Auction Companies. The Company did have a web site which was owned and maintained by its affiliated company, Woodcrest Services, Inc. [www.auctioninsurance.com](http://www.auctioninsurance.com). The Company used brochures, which described the risks associated with its payment and title insurance and the benefits of coverage. The Company wrote Professional Medical Liability Coverage and Dental Insurance that was 100% produced by A. J. Gallagher & Co, which used a single brochure that marketed its policies to nursing home residents.

### **Policyholders' Complaints**

The Company did not have any complaints forwarded during the examination period from the Alabama Department of Insurance. However, the Company received twelve consumer direct complaints from the Better Business Bureau listed on its complaints register. None of the complaints were from Alabama policyholders and were not within the scope of the review.

## **Claims Payment Practices**

### **Review of Paid Claims**

The examiners reviewed the entire population of Alabama paid claims which was equal to forty-nine claims. The transactions were reviewed for compliance with policy provisions, timeliness of payment and adequacy of documentation. The examiners verified the dates that the claims were reported, the dates that the proofs of loss were provided, the dates that the claims were acknowledged by the Company, and the dates that the claim payments were issued. The examiners determined that the Company properly followed its policy provisions, timeliness of payment and adequacy of documentation for the Alabama paid claims during the examination period.

### **Review of Denied Claims**

The examiners reviewed Alabama denied claims that were selected from a population of denied claims transactions. The total population was equal to three Alabama denied claims. The examiner reviewed the entire population of Alabama denied claims. The examiners verified for each denied claim in the sample that the claims were properly acknowledged and claimants were properly and promptly notified. The denials complied with the policy provisions and were adequately documented.

## **Compliance with Producer Licensing Requirements**

### **Appointments**

A random sample of 116 direct written premium transactions was selected from a population of 489 Alabama transactions from the examination period 2016-2020. The examiners used the NAIC's State Based System (SBS) to verify that producers were appropriately licensed and appointed by the Company prior to writing business. No issues of non-compliance were identified as a result of the review.

### **Terminated Producers**

The Company had four Alabama terminated producers during the examination period 2016-2020. The review of the four indicated that the Company properly sent the required notifications. No issues of non-compliance were identified as result of the review.

## **Underwriting and Rating**

### *Policy Forms and Ratings*

The examination indicated that all of the forms, endorsements, and premium rates utilized by the Company in Alabama during the examination period had been properly filed and approved by the Alabama Department of Insurance.

### *Underwriting Practices*

A random sample of 86 Alabama premium transactions was selected from the 489 Alabama premium transactions that occurred during the examination period. The examiners recalculated the premium amounts and verified that the premiums were calculated in accordance with the Company's underwriting guidelines and rates filed with the Department. It was verified that the Company's policies and endorsements were issued to the applicants in a timely manner.

The Company had two Alabama policy cancelations during the examination period. The examiners reviewed the two cancelations for completeness of and accuracy of documentation, appropriateness, and the timeliness of notifications to the policyholders. No discrepancies were noted during the review.

## **Privacy Standards**

The Company's privacy standards were reviewed to determine compliance with ALA. ADMIN. CODE 482-1-122(2001). Section two of this regulation states, in part, "This regulation does not apply to information about companies or about individuals who obtain or seek to obtain products or services for business, commercial or agricultural purposes..." Based on the aforementioned, the Company was not subject to compliance with this regulation regarding its check and title, surety bond, medical malpractice, general or professional liability lines of business as these products were for business or commercial use, not personal.

The Company also offers dental coverage to residents of long term care facilities. Because dental coverage was for personal use, the Company was subject to the provisions of this regulation regarding this line of business. However, the Company did not disclose any personal nonpublic financial information regarding any of its insureds, who were provided dental coverage; therefore, it did not have to comply with the privacy notice or opt out requirements found in Section five of this regulation. The Employee Handbook, which included the privacy procedures in

place, was reviewed and determined to contain the Company's methods utilized to safeguard confidential information.

## SPECIAL DEPOSITS

On December 31, 2020 as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows:

State	Book/Adjusted Carrying Value	Fair Value
Alabama	\$276,893	\$271,185

## FINANCIAL CONDITION/GROWTH OF THE COMPANY

	2020	2019	2018	2017	2016
Admitted Assets	\$157,859,439	\$139,855,117	\$116,360,619	\$125,156,570	\$115,137,270
Liabilities	\$46,608,503	\$44,022,854	\$39,008,892	\$42,235,440	\$43,752,313
Common Capital Stock	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Paid in and Contributed Surplus	\$797,090	\$797,090	\$797,090	\$797,090	\$797,090
Unassigned Funds	\$108,953,846	\$93,535,173	\$75,054,637	\$80,624,040	\$69,087,867
Gross Written Premium	\$13,511,675	\$13,052,234	\$10,664,956	\$10,446,296	\$10,451,197
Losses Incurred	\$4,547,556	\$6,586,587	\$6,099,995	\$6,012,231	\$6,148,885
Loss Adjustment Expenses Incurred	\$212,827	\$370,034	\$361,740	\$618,920	\$871,521
Net Income	\$8,153,376	\$5,976,012	\$4,303,720	\$3,468,915	\$5,166,771

## REINSURANCE

### Reinsurance Assumed

The Company entered into a quota share reinsurance agreement with Market Place Insurance, Inc. on September 1, 2014. The subject business that was assumed were risks associated with internet vehicle sales. The terms and reinsurance rates have been changed many times by amendments to the agreement in which the amendments continued the agreement and amended the terms for a successive annual period. As of the December 31, 2020 examination date, the Company assumed the business 50% quota share.



## Reinsurance Ceded

### Floor Plan Physical Damage Reinsurance

The Company has an ongoing relationship with the assuming reinsurer, General Reinsurance Corporation, as the previous annual agreement is usually reviewed and renewed with amending terms. The original agreement was entered into April 1, 2019 and then renewed for a successive annual term. The agreement involves a master agreement in which the general provisions of reinsurance are stated, and the general provisions pertain to all underlying reinsurance specified in the exhibits. The agreement includes Exhibit A and Exhibit B with Exhibit A pertaining to specifics of reinsurance for property excess of loss reinsurance and Exhibit B is considered catastrophe reinsurance as the retention and limits are applied after any recoveries occur as allowed by the reinsurance at the primary level in Exhibit A. The Exhibit A, primary level, reinsurance involves a \$50,000 retention from any one occurrence and a reinsurance limit of \$950,000 from any one occurrence, with an aggregate limit for all losses of \$5 million. The reinsurance under Exhibit B is for higher levels of reinsurance and is in place to mitigate a catastrophe loss from any one event. The limits per each layer are first layer - \$300,000; second layer - \$500,000; third layer - \$2 million. All limits are per any one event.

### Per Risk Excess of Loss Reinsurance Agreement with General Reinsurance Corporation

The reinsurer is General Reinsurance Corporation. The original agreement became effective January 1, 2020, and then the agreement was renewed January 1, 2021 for a successive year. The agreement involves a master agreement in which the general provisions of reinsurance are stated, and the general provisions pertain to all underlying reinsurance specified in the exhibits. The agreement includes four exhibits, Exhibits A - D, and each exhibit includes provisions for four unique segments of business that are ceded to the reinsurer with unique terms for each. Exhibit A provides reinsurance with a limit of \$850,000 in excess of \$150,000 from any one occurrence for business classified as Payment and Title Insurance and Floor Plan Financing. Exhibit B provides reinsurance with a limit of \$900,000 in excess of \$100,000 from any one occurrence for business classified as Livestock Market Payment Insurance for livestock auctions. Exhibit C provides a catastrophe level limit for the same subject business of Exhibit B. Exhibit C inures to the benefit of the reinsurance provided under Exhibit B and involves a limit of \$1 million in excess of \$300,000 from any one event. Exhibit D reinsures surety and performance bonds with a limit of \$2 million per principal with a retention of the greater of \$500,000 or 25% of the respective bond limit.

### Casualty Claims Made Quota Share Reinsurance Agreement

The reinsurer is Associated Long Term Care Insurance Company, Inc. The business ceded is classified as General Liability and the business is ceded 100% quota share to the assuming reinsurer. The Company is a fronting company in this business relationship. The agreement and related business arrangement involve two Trust Agreements that protect the Company from an adverse event as the direct writing fronting company.

### **ACCOUNTS AND RECORDS**

The Company's principal accounting records were maintained primarily on electronic data processing equipment with some records maintained manually. The Company was audited by Warren Averett, LLC, Birmingham, Alabama during the examination period. Thomas W. Vasey, FCAS, MAAA of Merlinos & Associates, Inc., Norcross, Georgia, prepared the Actuarial Reports and Statements of Opinion for the examination period.

The Company has obtained five permitted practice letters from the Alabama Department of Insurance.

The first letter, dated September 10, 1992, granted permission to the Company to earn one half of its premiums for check and title business over a five month period and earn the remaining half over a four year period. A subsequent letter, dated January 17, 2002, granted permission to the Company to earn half of its premiums over a one month period and earn the remaining half of the premiums over a six month period for business assumed from one specific significant check and title writer. The September 10, 1992 letter stated "If the vehicle sold through the auction is later discovered to be stolen or mortgaged, losses on these auctioned vehicles do not occur until the authorities identify and seize stolen cars during the four-year coverage period as provided in the policy." Also, the letter stated "The booking of your loss reserves should be consistent with the previous earning assumptions." The Company does not record incurred by not reported loss reserves with respect to its check and title core business. Claims are incurred when the claims are discovered.

The third letter, dated June 28, 2002, granted approval of the Company's new unearned premium calculation for the assumed vehicle auction business.

The fourth letter, dated August 8, 2016, and having determined this request was granted for other portions of the Company's business, granted permission to the Company to earn premiums for livestock auction business over 5 months.

The fifth letter, dated May 26, 2017, granted approval for the Company to apply the unearned premium over the maximum 90 day coverage period for the excess inventory and merchandise transaction insurance connected to internet auctions.

## **FINANCIAL STATEMENTS**

The financial statements included in this report were based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2020. The accompanying comments on the 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.

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Statement of Liabilities, Surplus and Other Funds	25
Summary of Operations	26
Statement of Changes in Capital and Surplus	27

**CENTENNIAL CASUALTY COMPANY**  
**STATEMENT OF ASSETS**  
For the Year Ended December 31, 2020

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
<b>ASSETS</b>			
Bonds	\$17,317,903		\$ 17,317,903
Stocks:			
Preferred stocks	153,329		153,329
Common stocks	110,305,458		110,305,458
Real estate:			
Properties occupied by the company	855,479		855,479
Properties held for the production of income	2,837,114		2,837,114
Cash, cash equivalents & short-term investments	3,729,733	84,975	3,644,758
Other invested assets	<u>2,321,422</u>	<u>2,321,422</u>	<u>0</u>
<b>Subtotals, cash, and invested assets</b>	<b>\$ 137,520,438</b>	<b>\$ 2,406,397</b>	<b>\$ 135,114,041</b>
Investment income due and accrued	\$ 205,729		\$ 205,729
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,285,641		1,285,641
Receivable from parent, subsidiaries, and affiliates	2,890		2,890
Aggregate write-ins for other than invested assets:	<u>21,318,988</u>	<u>67,850</u>	<u>21,251,138</u>
<b>TOTALS</b>	<b>\$ 160,333,686</b>	<b>\$ 2,474,247</b>	<b>\$ 157,859,439</b>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN  
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**CENTENNIAL CASUALTY COMPANY**  
**STATEMENT OF LIABILITIES, SURPLUS, AND OTHER FUNDS**  
**For the Year Ended December 31, 2020**

<b>LIABILITIES</b>	
Losses	\$ 1,239,498
Reinsurance payable on paid losses and loss adjustment	2,050
Loss adjustment expenses	147,487
Other expenses	173,846
Taxes, license, and fees	51,003
Current federal and foreign income taxes	471,478
Net deferred tax liability	12,881,672
Unearned premiums	8,593,735
Advance premium	49,495
Ceded reinsurance premiums payable	535,741
Amounts withheld or retained by company for account of others	422,098
Payable to parent, subsidiaries, and affiliates	899,000
Payable for securities	72,396
Aggregate write-ins for liabilities	21,069,004
<b>Total Liabilities</b>	<b><u>\$ 46,608,503</u></b>
<b>CAPITAL AND SURPLUS</b>	
Common capital stock	\$ 1,500,000
Gross paid in and contributed surplus	797,090
Unassigned funds	108,953,846
Surplus as regards policyholders	\$ 111,250,936
<b>Totals</b>	<b><u>\$ 157,859,439</u></b>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN  
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**CENTENNIAL CASUALTY COMPANY  
SUMMARY OF OPERATIONS**

For the Years Ended December 31, 2020, 2019, 2018, 2017, and 2016

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>UNDERWRITING INCOME</b>					
Premiums earned	\$13,511,675	\$13,052,234	\$10,664,956	\$10,446,296	\$10,451,197
<b>DEDUCTIONS</b>					
Losses incurred	4,547,556	6,586,587	6,099,995	6,012,231	6,148,885
Loss adjustment expenses incurred	212,827	370,034	361,740	618,920	871,521
Other underwriting expense incurred	3,654,968	3,037,915	2,731,164	2,694,886	2,688,051
Total underwriting deductions	<u>\$8,415,351</u>	<u>\$9,994,536</u>	<u>\$9,192,899</u>	<u>\$9,326,037</u>	<u>\$9,708,457</u>
Net underwriting gain (loss)	\$5,096,324	\$3,057,698	\$1,472,057	\$1,120,259	\$742,740
<b>INVESTMENT INCOME</b>					
Net investment income earned	\$2,442,907	\$2,611,533	\$1,975,735	\$2,041,351	\$1,615,606
Net realized capital gains less capital gains tax	<u>1,564,616</u>	<u>810,905</u>	<u>951,737</u>	<u>574,676</u>	<u>2,941,151</u>
Net investment gain	<u>\$4,007,523</u>	<u>\$3,422,438</u>	<u>\$2,927,472</u>	<u>\$2,616,027</u>	<u>\$4,556,757</u>
<b>OTHER INCOME</b>					
Net gain from agents' or premium balances charged	(141)	(301)	(59)	(32)	(37)
Aggregate write-ins for miscellaneous income	672,196	660,777	654,652	654,151	628,085
Total other income	<u>672,055</u>	<u>660,476</u>	<u>654,593</u>	<u>654,119</u>	<u>628,048</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	9,775,902	7,140,612	5,054,122	4,390,405	5,927,545
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	9,775,902	7,140,612	5,054,122	4,390,405	5,927,545
Federal and foreign income taxes incurred	<u>1,622,526</u>	<u>1,164,600</u>	<u>750,402</u>	<u>921,490</u>	<u>760,774</u>
Net Income	<u>\$8,153,376</u>	<u>\$5,976,012</u>	<u>\$4,303,720</u>	<u>\$3,468,915</u>	<u>\$5,166,771</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**CENTENNIAL CASUALTY COMPANY**  
**STATEMENT OF CHANGES IN CAPITAL AND SURPLUS**  
For the Years Ended December 31, 2020, 2019, 2018, 2017, and 2016

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Capital and surplus, December 31, prior year</b>	<u>\$95,832,263</u>	<u>\$77,351,727</u>	<u>\$82,921,130</u>	<u>\$71,384,957</u>	<u>\$66,283,541</u>
Net income	8,153,376	5,976,012	4,303,720	3,468,915	5,166,771
Change in net unrealized capital gains or less capital gains tax	13,264,085	18,429,292	(9,031,231)	10,674,210	461,530
Change in net deferred income tax	(2,804,368)	(3,872,833)	1,932,130	1,428,304	(209,291)
Change in nonadmitted assets	(194,420)	(51,935)	(274,022)	(1,035,256)	(317,594)
Change in surplus notes					
Dividend to stockholders	(3,000,000)	(2,000,000)	(2,500,000)	(3,000,000)	0
Net change in capital and surplus for the year	<u>\$15,418,673</u>	<u>\$18,480,536</u>	<u>\$(5,569,403)</u>	<u>\$11,536,173</u>	<u>\$5,101,416</u>
<b>Capital and surplus, December 31, current year</b>	<u><b>\$ 111,250,936</b></u>	<u><b>\$ 95,832,263</b></u>	<u><b>\$ 77,351,727</b></u>	<u><b>\$ 82,921,130</b></u>	<u><b>\$71,384,957</b></u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN  
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

## NOTES TO FINANCIAL STATEMENTS

### Analysis of Changes to Surplus

No adjustments were made to surplus as a result of the examination.

## COMMENTS AND RECOMMENDATIONS

### Compliance with 18 U.S. Code § 1033 – Page 15

**It is recommended** that the Company maintain evidence of their periodic procedure for all individuals engaged in the business of insurance, as is required by ALA. ADMIN. CODE 482-1-146.11(2009), which states:

1. A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
  - a. An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a 1033 offense.
  - b. An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.
  - c. An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.
2. Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.
3. As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

## COMPLIANCE WITH PREVIOUS EXAMINATION RECOMMENDATIONS

A review was performed to determine if the Company had complied with the recommendations that had been made in the last full scope financial and market



conduct examination report. The review indicated that the Company complied with the recommendations.

## **CONTINGENT LIABILITIES AND PENDING LITIGATION**

The review of contingent liabilities and pending litigation included an inspection of representations made by the Company's managers, a review of the Company's records and files for the period under examination, and a review of the records subsequent to the examination date. The reviews performed did not identify any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

## **SUBSEQUENT EVENTS**

The general ledger and cash transactions occurring subsequent to the examination date were reviewed. Additionally, the examiners inquired of management regarding any significant subsequent events. One significant subsequent event was identified.

In a letter dated January 31, 2022, the Department approved a Service Agreement between Centennial Casualty Company and AuctionACCESS. The agreement, effective as of January 1, 2022, outlined the IT functions to be provided by AuctionACCESS and the allocation of expenses. The services and expenses are to be provided at cost based on the expenses incurred.

The COVID-19 pandemic has continued to develop through 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 of this report, the examination's review of Centennial Casualty Company noted that there has not been a significant impact to the Company. The Alabama Department of Insurance (the Department) has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

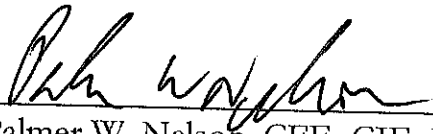
## CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Theo Goodin, AIE, ALMI, MCM; Jacob Grissett, CFE (Fraud); and David Martin, Examiners; David Gordon, CISA, CIA, CFE (Fraud), CDFE, MBA, and Lisa Bringman, CRP, CBA, IT specialists representing INS; and Solomon Frazier, FCAS, FSA, MAAA consulting actuary with Taylor-Walker & Associates represented the Alabama Department of Insurance and participated in the examination of the Company.

Respectfully submitted,



Palmer W. Nelson, CFE, CIE, MCM  
Examiner-in-Charge  
Alabama Department of Insurance