

EXAMINATION REPORT OF
FIDELITY AND GUARANTY INSURANCE COMPANY
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2019

West Des Moines, Iowa
April 5, 2021

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa Insurance Division
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of:

FIDELITY AND GUARANTY INSURANCE

COMPANY WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2019

The report of such examination, containing applicable comments, explanations and financial data, is presented herein.

INTRODUCTION

Fidelity and Guaranty Insurance Company, hereinafter referred to as the "Company", was previously examined as of December 31, 2014. The examination reported herein was conducted as a coordinated examination of an insurance holding company group with the Insurance Division of Connecticut acting as the Lead State. This Report of Examination reflects the operation and examination results for the Company, including its financial condition as of December 31, 2019.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2015 to the close of business on December 31, 2019, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that the Division plan and perform the examination to evaluate the financial condition, 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.

HISTORY

The Company was incorporated on March 1, 1977, under the laws of the state of Iowa with authority to transact business as defined by Chapter 515. Business commenced on April 15, 1977. The Company is a wholly owned subsidiary of St. Paul Fire and Marine Insurance Company (SPFM), a Connecticut domiciled insurer.

In 1998, The St. Paul Companies, Inc. (SPC), a Minnesota corporation, acquired USF&G Corporation, by which United States Fidelity and Guaranty Company and all its subsidiaries, including the Company, became wholly owned subsidiaries of SPC, the ultimate parent.

On November 16, 2003 the ultimate parent, SPC entered into an agreement and plan of merger with Travelers Property Casualty Corp. The transaction closed in the second quarter of 2004. The merger was structured as a tax-free, stock-for-stock merger and, solely for accounting purposes, was treated as a purchase business combination by Travelers of SPC under accounting principles generally accepted in the United States of America. The acquiring entity (SPC) issued the equity interests which allowed the combination to meet the criteria of a reverse acquisition. The resulting company became known as The St. Paul Travelers Companies, Inc., and remained a Minnesota corporation with its corporate headquarters in St. Paul, Minnesota.

Effective July 1, 2005, The St. Paul Travelers Companies Inc. combined the St. Paul Insurance Pool with the Travelers Property Insurance Pool to form the St. Paul Travelers Reinsurance Pool (STA Pool; currently referred to as the "TRV Pool"), retroactive to January 1, 2005. The Company's parent, SPFM, participates in the TRV Pool which is an inter-company pooling arrangement that is led by The Travelers Indemnity Company. On February 26, 2007, The St. Paul Travelers Companies, Inc. changed its name to The Travelers Companies, Inc. (TRV) and began trading on the New York Stock Exchange under the symbol "TRV". The principal executive office of TRV is located in New York, NY and TRV also maintains executive office in Hartford, Connecticut, and St. Paul, Minnesota.

MANAGEMENT AND CONTROL

Capital Stock and Dividends

The original authorized capital stock was set at \$2,000,000, consisting of 20,000 shares of common stock with a par value of \$100. In 1978, the Articles of Incorporation were amended changing the authorized capital stock to \$2,500,000, comprised of 25,000 common shares. The Articles of Incorporation were again amended in 1993, changing the number of authorized shares of common stock to 100,000, making authorized capital stock \$10,000,000.

Currently, authorized common capital stock consists of 100,000 common shares, par value \$100, for authorized capital of \$10,000,000. Common capital stock issued and outstanding is 50,000 shares amounting to \$5,000,000. Gross paid in and contributed surplus totaled \$8,600,000. Cash dividends paid to the stockholder during the period under review are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 400,000
2016	\$ 500,000
2017	\$ 1,900,000
2018	\$ 0
2019	\$ 0

Organizational Structure

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa, and is wholly owned by its direct parent, SPFM. The Company has no subsidiaries and is an indirect subsidiary of The Travelers Companies, Inc., a publicly traded holding company incorporated in Minnesota. The Travelers holding company structure, as of December 31, 2019, is depicted in the following abbreviated table:

<u>Company</u>	<u>Domiciliary Jurisdiction</u>
The Travelers Companies, Inc.	Minnesota St.
Paul Fire and Marine Insurance Company	Connecticut
Fidelity and Guaranty Insurance Company	Iowa

Stockholders

The Articles of Incorporation require that the annual meeting of the stockholders be held on the fourth Monday of May each year. The Bylaws stipulate a meeting, falling within the 30-day period ending May 31, shall be fixed by the Board of Directors.

Special meetings of the stockholders may be called by the Chairman, the President or the Board of Directors. Advance written notice of not less than ten days or more than sixty days is required for any meeting of the stockholders.

Every stockholder is entitled to one vote, either in person or by proxy, for each share of stock issued in the name of a stockholder. A majority of the outstanding shares of the Company entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of the stockholders.

Board of Directors

The Articles of Incorporation provide that the business and affairs of the Company shall be managed by a Board of Directors, the number of whom shall be specified in the Bylaws within a range of not more than twenty-one nor less than five directors.

According to the Bylaws, directors shall be elected for a term of one year. Any vacancy occurring on the Board of Directors may be filled by majority vote of the remaining directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor.

The Bylaws provide for regular Board of Director's meetings to be held quarterly on the fourth Wednesday of February, May, August and November at the office of USF&G in Baltimore or at such other time and place as the Board may designate. Special meetings may be called at any time by the Chairman, the President or any three directors. A majority of the directors present at any meeting constitutes a quorum for the transaction of business.

Directors elected at the 2019 annual meeting and serving at the date of examination were:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>
Nicholas Seminara Hartford, CT	President The Travelers Indemnity Company
Daniel Stephen Frey Hartford, CT	Executive Vice President & Chief Financial Officer The Travelers Indemnity Company

<u>Name and Address</u>	<u>Principal Business Affiliation</u>
William Herbert Heyman New York, NY	Vice Chairman The Travelers Indemnity Company
Christine Kucera Kalla St. Paul, MN	Executive Vice President & General Counsel The Travelers Indemnity Company
Gregory Cheshire Toczydowski Hartford, CT	Executive Vice President & President, & President Business Insurance The Travelers Indemnity Company

Committees

The Company's Board of Directors established three committees of the Board at its 2019 Annual meeting, an Executive Committee, an Investment Committee, and an Audit Committee. In addition, the Board resolved that the Audit Committee of The Travelers Insurance Group Holdings, Inc. be designated as the Company's Audit Committee. The following persons were serving as committee members as of December 31, 2019:

<u>Dividend Committee</u>	<u>Executive Committee</u>	<u>Investment Committee</u>
Daniel S. Frey	Daniel S. Frey William H. Heyman Nicholas Seminara	Daniel S. Frey William H. Heyman Nicholas Seminara

Officers

The Bylaws state that at the first meeting after its election, the Board of Directors shall elect a Chairman of the Board and a President from among the directors and shall also elect two or more Vice Presidents, a Secretary, a Treasurer and other officers as deemed necessary by the Board. Any two or more offices may be held by the same person, except for the offices of President and Vice President. Officers elected at the 2019 annual meeting as reported on the jurat page include the following:

<u>Name</u>	<u>Title</u>
Nicholas Seminara	President
Jay Steven Benet	Vice Chairman
William Herbert Heyman	Vice Chairman
Avrohom Yaakov Kess	Vice Chairman & Chief Legal Officer
Andy Francis Bessette	Executive Vice President & Chief Administrative Officer
Daniel Stephen Frey	Executive Vice President & Chief Financial Officer
Bruce Richard Jones	Executive Vice President, Enterprise Risk Management & Chief Risk Officer

<u>Name</u>	<u>Title</u>
Christine Kucera Kalla	Executive Vice President & General Counsel
Mojgan Mehdian Lefebvre	Executive Vice President & Chief Technology & Operations Officer
David Donnay Rowland	Executive Vice President & Co-Chief Investment Officer
Daniel Tei-Hwa Yin	Executive Vice President & Co-Chief Investment Officer
Douglass Keith Bell	Senior Vice President, Accounting Policy
Douglas Kenneth Russell	Senior Vice President, Treasurer & Corporate Controller
Scott William Rynda	Senior Vice President, Corporate Tax
Wendy Constance Skjerven	Vice President, Corporate Secretary & Group General Counsel
Julie Marie Joyce	Vice President & Chief Corporate Actuary

CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, or key employees that is, or is likely to be, in conflict with the official duties of such person. All directors and officers completed statements and conflict questionnaires for 2019 with no issues noted.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended during the period under review. The recorded minutes of the meetings of the stockholders and Board of Directors were reviewed and appeared to be complete and properly attested.

INTERCOMPANY AGREEMENTS

The Company has entered into numerous agreements and cost sharing arrangements with affiliated companies for sharing and payment of expenses and costs among affiliates. These agreements are summarized below.

Expense Allocation Agreement

This agreement, which was amended in 2017, allows TIC to provide services required in the ordinary course of business. Such services may include financial management, operational management, accounting, treasury, property management, payroll, internal audit, human resource management, risk management, legal, government relations, records management and data processing, etc. with the sharing and payment of expenses and costs among affiliates. TIC makes individual company expense allocations using appropriate measures on a basis consistent with applicable statutory provisions and related guidance consistently applied. Statements of services and reimbursements are provided and remitted monthly, with payments made by inter-company credits and debits settled monthly in arrears.

Tax Allocation Agreement

Effective April 1, 2004, the Company is a party to the TRV tax allocation agreement, which sets forth the manner in which the total consolidated federal income tax is allocated. The agreement was amended and restated effective September 1, 2017. Member companies included with the TRV consolidated group tax return are allocated taxes annually based on their separate taxable income. Companies with a current federal income tax receivable from TRV will receive settlement to the extent that such receivables are for tax benefits that have been utilized in the consolidated federal income tax return. Member companies are reimbursed by TRV in the event the Internal Revenue Service imposes levies upon a member's assets for unpaid taxes in excess of the amount specifically allocated to a member.

Money Market Liquidity Pool

Effective January 1, 2005, the Company began participating in a private short-term investment pool, known as the Travelers Money Market Liquidity Pool, in which affiliated companies may participate. This pool is managed by The Travelers Indemnity Company. Each company may convert its position in the pool into cash at any time and may also use its position in the pool to settle transactions with other affiliated participants in the pool. The position of each company in the pool is calculated and adjusted daily. Each participating insurance company carries its share of the pool as a short-term investment in Schedule DA.

FIDELITY BOND AND OTHER INSURANCE

The Company, along with its affiliates, is protected by a blanket bond which covers the fidelity of each officer and employee. The bond is written by an authorized insurer with coverage that meets the NAIC's suggested minimum amount of fidelity insurance.

Other insurable interests appeared to be adequately protected by insurance policies currently in force.

EMPLOYEES' WELFARE

The Company has no direct employees, as all personnel and related pension, stock ownership, and insurance plans are maintained by TRV or Travelers Property Casualty Corp., and any associated liabilities are recorded by these entities. All management and personnel services are allocated as per the Expense Allocation Agreement.

REINSURANCE

The Company is a participant in the TRV Reinsurance Pool and cedes 100% of its direct written premiums into the pool as governed by a Quota Share Reinsurance Agreement effective January 1, 2007. The lead company of the TRV Pool is The Travelers Indemnity Company (Indemnity). The Company's retrocession from Indemnity, as well as its quota share percentage of the pool's business is zero.

STATUTORY AND SPECIAL DEPOSITS

The Company had the following special deposits with a book value totaling \$9,329,240 and a fair value of \$9,702,402:

Purpose of Deposit	Book Adjusted Value	Fair Value
General Purpose		
Iowa	\$ 2,930,511	\$ 3,036,099
Arkansas	\$ 250,588	\$ 294,212
Georgia	\$ 92,094	\$ 96,478
New Mexico	\$ 744,127	\$ 777,168
North Carolina	\$ 348,294	\$ 353,045
Workers Comp		
California	\$ 105,816	\$ 107,986
Delaware	\$ 151,166	\$ 154,266
Idaho	\$ 1,477,321	\$ 1,497,635
Massachusetts	\$ 205,641	\$ 219,496
Montana	\$ 166,366	\$ 168,646
Nevada	\$ 351,308	\$ 391,860
Surety		
Oregon	\$ 463,833	\$ 520,621
South Carolina	\$ 460,135	\$ 489,349
Other – Department of Labor	\$ 1,582,039	\$ 1,595,541

These deposits were held with various jurisdictions in compliance with statutory requirements.

TERRITORY AND OPERATIONS

The Company is licensed in all fifty jurisdictions and the District of Columbia. The company's direct premiums written were in the workers' compensation and commercial multiple peril lines of business.

Growth of Company

The following historical financial data, as taken from the Company's annual statements for the years indicated, displays its growth:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Gross Premiums Written</u>
2015	\$20,636,253	\$1,344,326	\$19,291,926	\$ 564,491
2016	21,928,732	2,727,509	19,201,223	(6,355,131)
2017	20,065,561	2,320,216	17,745,345	(5,661,316)
2018	19,638,201	1,493,473	18,144,728	(677,335)
2019	21,650,093	3,088,137	18,561,956	6,847,114

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained on an electronic, accrual basis. Trial balances were prepared for the examination years under review. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for assets, liabilities, income or disbursements.

SUBSEQUENT EVENTS

COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy,

insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.

Effective January 1, 2020, the TRV Pool. The Company's retention of zero percent was unchanged. The percent of participation changed for the participants as indicated below:

<u>Pool Participant</u>	<u>Pool Participation</u>
The Travelers Indemnity Company	*25.20%
St. Paul Fire and Marine Insurance Company	24.79%
Travelers Casualty and Surety Company	20.36%
The Phoenix Insurance Company	5.00%
The Standard Fire Insurance Company	4.84%
United States Fidelity and Guaranty Company	4.41%
Travelers Casualty Insurance Company of America	2.73%
Farmington Casualty Company	1.48%
The Automobile Insurance Company of Hartford, Connecticut	1.37%
The Travelers Indemnity Company of Connecticut	1.37%
The Charter Oak Fire Insurance Company	1.27%
Northland Insurance Company	1.22%
The Travelers Indemnity Company of America	0.77%
St. Paul Protective Insurance Company	0.58%
Travelers Casualty Company of Connecticut	0.47%
Travelers Commercial Casualty Company	0.47%
Travelers Commercial Insurance Company	0.47%
St. Paul Mercury Insurance Company	0.40%
Travelers Property Casualty Company of America	0.36%
Travelers Property Casualty Insurance Company	0.30%
The Travelers Casualty Company	0.29%
Travelers Constitution State Insurance Company	0.29%
TravCo Insurance Company	0.27%
The Travelers Home and Marine Insurance Company	0.27%
Travelers Personal Security Insurance Company	0.27%
Travelers Personal Insurance Company	0.27%
Discover Property & Casualty Insurance Company	0.14%
Northland Casualty Company	0.14%
Fidelity and Guaranty Insurance Underwriters, Inc.	0.10%
St Paul Guardian Insurance Company	0.10%
American Equity Specialty Company	*0.00%
Discover Specialty Insurance Company	*0.00%
Northfield Insurance Company	*0.00%
St. Paul Surplus Lines Insurance Company	*0.00%
Travelers Excess and Surplus Lines Company	*0.00%
TRV Pool Total	<u>100.00%</u>

*Pool participation changed effective January 1, 2020

FINANCIAL STATEMENTS
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2019.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Non- Admitted</u>	<u>Admitted</u>
Bonds	\$ 15,956,006	\$0	\$ 15,956,006
Cash and short-term investments	1,918,326	0	1,918,326
Investment income due and accrued	161,620	0	161,620
Amounts recoverable from reinsurers	3,117,253	0	3,117,253
Guaranty funds receivable or on deposit	128,011	0	128,011
Aggregate write-ins for other-than-invested assets	<u>368,877</u>	<u>0</u>	<u>368,877</u>
Total	<u>\$ 21,650,093</u>	<u>\$ 0</u>	<u>\$ 21,650,093</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Other expenses	\$ 3,151
Current federal and foreign income taxes	3,464
Net deferred tax liability	14,297
Ceded reinsurance premiums payable	410,297
Payable to parent subsidiaries and affiliates	<u>2,656,928</u>
Total liabilities	<u>\$ 3,008,137</u>
Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	8,600,000
Unassigned funds (surplus)	<u>4,961,956</u>
Surplus as regards policyholders	<u>\$18,561,956</u>
Total	<u>\$21,650,093</u>

UNDERWRITING AND INVESTMENT EXHIBIT
ONE YEAR PERIOD ENDING DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Investment Income</u>		
Net investment income earned	\$ 509,497	
Net realized capital gains or (losses)	<u>(22,186)</u>	
Net investment gain or (loss)		<u>\$ 487,311</u>
 <u>Other Income</u>		
Aggregate write-ins for miscellaneous income	<u>(31,374)</u>	
Total other income		<u>\$ (31,374)</u>
Net Income before federal income tax		\$ 455,936
Less: Federal income taxes incurred		<u>71,766</u>
Net income		<u>\$ 384,170</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018	<u>\$ 18,144,728</u>
Gains and (Losses) in Surplus	
Net income	\$ 384,170
Change in deferred income tax	33,058
Dividends to stockholders	<u>0</u>
Change in surplus as regards policyholders for the year	<u>\$ 417,228</u>
Surplus as regards policyholders, December 31, 2019	<u>\$ 18,561,956</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$ 815,960
Net investment income	569,780
Miscellaneous loss	<u>(31,374)</u>
Total	\$1,354,365
Benefit and loss related payments	\$ 964,740
Commissions, expenses paid and aggregate write-in for deductions	(14,189)
Federal and foreign income taxes paid	<u>94,861</u>
Total	<u>1,045,411</u>
Net cash from operations	<u>\$ 308,954</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	<u>\$ 2,052,729</u>
Total investment proceeds	\$ 2,052,729
Cost of investments acquired:	
Bonds	\$ 2,517,664
Total investments acquired	<u>2,517,664</u>
Net cash from investments	<u>\$ (464,935)</u>

Cash from Financing and Miscellaneous Sources

Cash applied:	
Dividends to stockholders	\$ 0
Other cash provided	<u>1,225,644</u>
Net cash from financing and miscellaneous sources	<u>\$ 1,225,644</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ 1,069,663
Cash and short-term investments:	
Beginning of year	848,663
End of year	<u>\$ 1,918,326</u>

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

Respectfully submitted,

/s/ Jan M. Moenck
JAN M. MOENCK, CFE
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the State of Iowa

/s/ Daniel Mathis
Daniel Mathis, CFE
Supervisor and Assistant Chief Examiner
Iowa Insurance Division