

REPORT ON EXAMINATION
OF
MID-CONTINENT EXCESS AND SURPLUS INSURANCE COMPANY
AS OF
DECEMBER 31, 2016

NAIC CODE 13794

Trinidad Navarro
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2016 of

MID-CONTINENT EXCESS AND SURPLUS INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: Raymond Brown

Date: June 1, 2018



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13 day of June, 2018.

Trinidad Navarro
Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF
MID-CONTINENT EXCESS AND SURPLUS INSURANCE COMPANY
AS OF
DECEMBER 31, 2016

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro
Insurance Commissioner

Dated this 13th day of June, 2018

TABLE OF CONTENTS

SUMMARY OF SIGNIFICANT FINDINGS	3
COMPANY HISTORY	3
Common Capital Stock.....	4
Dividends.....	4
Gross Paid-In and Contributed Surplus	4
MANAGEMENT AND CONTROL	4
Directors	4
Board Committees	5
Officers	6
Holding Company System.....	6
Affiliated Agreements	8
TERRITORY AND PLAN OF OPERATION	9
Territory.....	9
Plan of Operation.....	10
REINSURANCE.....	10
Intercompany Pooling Agreement.....	11
FINANCIAL STATEMENTS	11
Assets.....	12
Liabilities, Surplus and Other Funds	13
Statement of Income	14
Reconciliation of Capital and Surplus	15
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS FROM EXAMINATION	15
COMMENTS ON FINANCIAL STATEMENTS.....	15
SUBSEQUENT EVENTS	16
COMPLIANCE WITH PRIOR REPORT OF EXAMINATION	16
SUMMARY OF RECOMMENDATIONS	16
CONCLUSION.....	17

January 31, 2018

Honorable Trinidad Navarro
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Exam Authority No. 17.004, dated April 3, 2017, an examination has been made of the affairs, financial condition and management of

MID-CONTINENT EXCESS AND SURPLUS INSURANCE COMPANY

hereinafter referred to as (Company or MCES), incorporated under the laws of the State of Delaware, with its statutory home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the main administrative office of the Company, located at 301 East Fourth Street, Cincinnati, Ohio 45202.

The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) has performed a full-scope risk-focused surveillance examination of the Company. The last examination of the Company was conducted as of December 31, 2011. This examination covered the period of January 1, 2012 through December 31, 2016, and encompassed a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of

December 31, 2016. Transactions after the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of a multi-state coordinated examination of companies within the American Financial Group, Inc. (AFG) holding company system and specifically within the Great American Insurance Group (GAIG) Property and Casualty operations. The examination was conducted concurrently with that of its Delaware domiciled affiliate companies, Great American E & S Insurance Company (GAES), Great American Fidelity Insurance Company (GAFI), and American Empire Surplus Lines Insurance Company (AESLIC).

Delaware was a fully participating state on the coordinated examination, with the State of Ohio Department of Insurance (ODI) as the lead state regulator. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted the examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates

made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the examination, consideration was given to work performed by the Company's external independent accounting firm, Ernst & Young LLC (E&Y). Certain auditor work papers were incorporated into the work papers of the examiners and were utilized in determining the examination scope, areas of emphasis in conducting the examination, and in areas of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

This examination had no material adverse findings, significant non-compliance findings, material changes in financial statements, or updates on other significant regulatory information disclosed in the previous examination.

COMPANY HISTORY

The Company was incorporated under the laws of the State of Delaware on July 10, 2009, under its current name. On December 29, 2009, Mid-Continent Casualty Company (MCCC) purchased 100% of the authorized capital stock of the Company.

The Company, along with its direct parent MCCC and two (2) other affiliate companies, operates under terms of an intercompany reinsurance pooling arrangement, whereby MCCC retains 100% of the pooled business of its three (3) wholly owned subsidiary companies. The Mid-Continent Pool (Group) of companies focus on writing specialty casualty and marine insurance, by offering niche products and programs within the construction and energy insurance industry segments. The Group offers an array of products including general and product liability, commercial auto, surety, umbrella and inland marine insurance, with the majority of premium production in general liability.

Common Capital Stock

At December 31, 2016, the Company's authorized capital was \$2,500,000, consisting of 100 issued and outstanding shares of common stock at no-par value. There was no change in common capital stock during the examination period.

Dividends

During the period under examination, the Company did not pay any dividends.

Gross Paid-In and Contributed Surplus

There was no change in paid-in and contributed surplus during the examination period. On August 17, 2009, the Company received a \$12,500,000 capital contribution, which has been the only contribution to the Company's surplus.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or

under the direction of the Company's Board of Directors (Board). The Company's bylaws provide that the Company's business and affairs shall be under the control of its Board.

Article II, Section 6 of the Company's bylaws, states that the Board shall consist of no fewer than seven (7) and no more than twenty-one (21) directors. Directors are elected for a one-year term at the annual meeting of the stockholder. As of December 31, 2016, the members of the Board together with their principal business affiliations were as follows:

<u>Director's Name</u>	<u>Principal Business Affiliation</u>
Ronald J. Brichler	Director and Executive Vice President, Great American Insurance Company
Gary J. Gruber	Director and Executive Vice President, Great American Insurance Company
Donald D. Larson	Director, President and Chief Operating Officer, Great American Insurance Company
James S. Davis	Director, President and Chief Operating Officer, Mid-Continent Casualty Company
Eve Cutler Rosen	Director, Senior Vice President, Executive Counsel and Secretary, Great American Insurance Company
David J. Witzgall	Director, Senior Vice President, Chief Financial Officer and Treasurer, Great American Insurance Company

Board Committees

The Company's bylaws state that the Board may designate one or more committees, including an Executive Committee and Finance Committee. Article III, Section 1 and Article IV, Section 1 of the Company's bylaws authorizes an Executive Committee and Finance Committee, respectively, which shall consist of not less than three (3) or more than five (5) directors of the Company. The Executive Committee shall have and may exercise the powers of

the Board of Directors in the management of the business and affairs of the Company. As of December 31, 2016, the Board of Directors had designated the following committees:

Executive Committee

Ronald J. Brichler
Gary J. Gruber
Donald D. Larson

Finance Committee

Ronald J. Brichler
Gary J. Gruber
David J. Witzgall

Officers

The Company's bylaws state that the Company's officers shall consist of a Chairman of the Board, a President, one or more Senior Vice Presidents, Vice Presidents, a Treasurer, and one or more Secretaries. In addition, there may also be Assistant Vice Presidents, Assistant Treasurers, Assistant Secretaries, a Vice Chairman, or other officers, as the Board deems necessary or desirable in order to conduct affairs of the Company. At December 31, 2016, the Company's principal officers and their respective titles were as follows:

Officer's Name

Principal Occupation

Donald D. Larson

Chairman of the Board

Ronald J. Brichler

Vice Chairman

James S. Davis

President and Chief Operating Officer

Gregory P. Jones

Senior Vice President, Chief Financial Officer and Treasurer

Sharon L. Hackl

Secretary

Eve Cutler Rosen

Assistant Secretary

David J. Witzgall

Assistant Treasurer

Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* § 5001(6) "Insurance Holding Company System." The Company's Insurance Holding

Company Registration Statement (Annual Form B) was filed timely with the Department for each year under examination.

As mentioned above, the Company is a wholly owned subsidiary of MCCC, an insurance company incorporated in the State of Ohio. MCCC is a wholly owned subsidiary of Great American Holding, Inc. (GAHI), an insurance holding company incorporated in the State of Ohio. AFG is the ultimate parent within the holding company system and is also incorporated in the State of Ohio. Through its subsidiary insurance companies, AFG is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, along with the sale of fixed and fixed-indexed annuities.

The abbreviated organizational chart below reflects the identities and interrelationships between the Company, affiliated insurers and other members within the AFG holding company system as of December 31, 2016. The companies identified in italics were examined as part of the multi-state coordinated examination.

<u>AFG and Subsidiaries</u>	<u>Domiciliary State</u>
American Financial Group, Inc.	OH
American Money Management Corporation	OH
Great American Financial Resources, Inc.	DE
<i>Great American Life Insurance Company*</i>	<i>OH</i>
<i>Annuity Investors Life Insurance Company*</i>	<i>OH</i>
Manhattan National Holding Corporation	OH
<i>Manhattan National Life Insurance Company*</i>	<i>OH</i>
Great American Holding, Inc.	OH
Agricultural Services, LLC	OH
<i>American Empire Surplus Lines Insurance Company*</i>	<i>DE</i>
<i>American Empire Insurance Company*</i>	<i>OH</i>
American Empire Underwriters, Inc.	TX
<i>Mid-Continent Casualty Company*</i>	<i>OH</i>
<i>Mid-Continent Assurance Company*</i>	<i>OH</i>
<i>Mid-Continent Excess and Surplus Insurance Company*</i>	<i>DE</i>
<i>Oklahoma Surety Company*</i>	<i>OH</i>
<i>Republic Indemnity Company of America*</i>	<i>CA</i>

<i>Republic Indemnity Company of California*</i>	CA
Summit Holding Southeast, Inc.	FL
<i>Bridgefield Employers Insurance Company*</i>	FL
<i>Bridgefield Casualty Insurance Company*</i>	FL
<i>Great American Insurance Company*</i>	OH
American Signature Underwriters, Inc.	OH
FCIA Management Company, Inc.	NY
Global Premier Finance Company	OH
<i>Great American Alliance Insurance Company*</i>	OH
<i>Great American Assurance Company*</i>	OH
<i>Great American Casualty Insurance Company*</i>	OH
<i>Great American Contemporary Insurance Company*</i>	OH
<i>Great American E & S Insurance Company*</i>	DE
<i>Great American Fidelity Insurance Company*</i>	DE
<i>Great American Insurance Company of New York*</i>	NY
<i>Great American Lloyd's Insurance Company*</i>	TX
<i>Great American Protection Insurance Company*</i>	OH
<i>Great American Security Insurance Company*</i>	OH
<i>Great American Spirit Insurance Company*</i>	OH
National Interstate Corporation	OH
National Interstate Insurance Agency, Inc.	OH
<i>National Interstate Insurance Company*</i>	OH
<i>National Interstate Insurance Company of Hawaii, Inc.*</i>	OH
<i>Triumphe Casualty Company*</i>	OH
<i>Vanliner Insurance Company*</i>	MO

Affiliated Agreements

The Company was party to several affiliated agreements, which were disclosed in its annual Form B filings with the Department. As of December 31, 2016, the Company was party to the following affiliated agreements:

General Services Agreement

The Company is a party to a General Services Agreement with certain affiliates of AFG, whereby any member of the holding company may provide administrative services as requested by any of the other parties. The original agreement became effective August 1, 1996. Fees payable for services furnished are based on cost.

Tax Allocation Agreement

The Company is a party to a Tax Allocation Agreement with its ultimate parent, AFG, which became effective December 31, 2005. In accordance with the terms of the agreement, AFG will prepare and file a consolidated federal tax return on behalf of the subsidiary companies. The purpose of the agreement is to provide the methodology and procedures for allocating AFG's consolidated federal tax liability (or benefit) to and amongst each participating subsidiary company.

Investment Services Agreement

Effective August 17, 2009, the Company entered into an Investment Services Agreement with American Money Management Corporation (AMM), whereby AMM provides trading, investment, management and accounting services related to the Company's investment portfolios. The fees charged by AMM for their services under the agreement are based on cost.

Intercompany Pooling Arrangement

As mentioned above in the History section, the Company is party to an intercompany reinsurance pooling arrangement. Refer to the Reinsurance section of this report for further terms of the intercompany pooling arrangement.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2016, the Company was licensed to transact business solely in the State of Delaware and was eligible to write surplus lines in 48 states, including the District of Columbia. Specifically, the Company was authorized to transact the business of property, casualty, and marine and transportation insurance, as defined in 18 *Del. C.* § 904 "Property

insurance", 18 *Del. C.* § 906 "Casualty insurance" and 18 *Del. C.* § 907 "Marine and transportation, 'wet marine' insurance".

Plan of Operation

In 2016, the Company had approximately 42.1% of its direct premiums written in six (6) states. The geographical breakdown of the Company's 2016 direct premiums written is reflected below.

State	Direct Premiums Written	Percentage
Oklahoma	\$ 316,744	11.2%
New Jersey	201,080	7.1%
Florida	189,141	6.7%
Pennsylvania	171,130	6.1%
Georgia	166,329	5.9%
Hawaii	141,615	5.0%
Other States	1,634,351	57.9%
Total	\$ 2,820,390	100.0%

The Company offers surplus lines through an affiliated wholesale agency, Mid-Continent Specialty Insurance Services, Inc. (MCSIS), which provides the Company direct access to the surplus lines market, lessening the need to broker business through the traditional wholesale broker/retail agent model.

REINSURANCE

For the year ended December 31, 2016, the Company reported the following components of net premiums written:

Direct	\$ 2,820,390
Reinsurance assumed	-
Total direct and assumed	\$ 2,820,390
Reinsurance ceded (to affiliates)	2,820,390
Net premiums written	\$ -

Intercompany Pooling Agreement

Effective January 1, 2016, the Company entered into an Amended and Restated Pooling Agreement, whereby the Company, along with other affiliates, cedes all premiums, liabilities and expenses to the direct parent, MCCC. MCCC retains 100% of the pooled business with no retrocessions back to the participating subsidiary companies. Prior approval was received by the Department on March 10, 2016.

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, 2016:

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Reconciliation of Capital and Surplus

Refer to the section “Comments on Financial Statements” to explain significant annual statement balances and examination adjustments, if applicable. The amounts reported in the filed annual statements with the Department should be considered an integral part of the Company’s financial statements.

Mid-Continent Excess and Surplus Insurance Company

Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	\$ 10,161,508	\$ -	\$ 10,161,508	1
Cash, cash equivalents and short-term investments	7,506,791		7,506,791	
Aggregate write-ins for invested assets (rounding)	(1)		(1)	
Investment income due and accrued	107,806		107,806	
Current federal and foreign income tax recoverable and interest thereon	398		398	
Net deferred tax asset	20,300		20,300	
Total	\$ 17,796,802	\$ -	\$ 17,796,802	

Liabilities, Surplus and Other Funds
As of December 31, 2016

		Notes
Losses	\$ -	2
Loss adjustment expenses	-	2
Other expenses	334	
Payable to parent, subsidiaries and affiliates	8,000	
Total Liabilities	\$ 8,334	
Common capital stock	2,500,000	
Gross paid-in and contributed surplus	12,500,000	
Unassigned funds	2,788,468	
Surplus as regards policyholders	17,788,468	
Total Liabilities, Capital and Surplus	\$ 17,796,802	

Statement of Income
For the Year Ended December 31, 2016

UNDERWRITING INCOME

Premiums earned	\$	-
 <u>DEDUCTIONS</u>		
Losses incurred	\$	-
Loss adjustment expenses incurred		-
Other underwriting expenses incurred		-
Total Underwriting Deductions	<u>\$</u>	<u>-</u>
Net Underwriting Gain or (Loss)	<u>\$</u>	<u>-</u>

NET INVESTMENT INCOME

Net investment income earned	\$	362,506
Net realized capital gains (losses) less capital gains tax		<u>11,656</u>
Net investment Gain or (Loss)	<u>\$</u>	<u>374,162</u>

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	\$	-
Aggregate write-ins for miscellaneous income		<u>(2,576)</u>
Total Other Income	<u>\$</u>	<u>(2,576)</u>

Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$	371,586
Dividends to policyholders		<u>-</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$	371,586
Federal and foreign income taxes incurred		<u>30,526</u>
Net Income (Loss)	<u>\$</u>	<u>341,060</u>

Reconciliation of Capital and Surplus
December 31, 2011 to December 31, 2016

	Common Capital Stock	Gross Paid-In and Contributed Surplus	Unassigned Surplus	Total
December 31, 2011	\$ 2,500,000	\$ 12,500,000	\$ 861,269	\$ 15,861,269
Operations 2012 (1)			434,202	434,202
Operations 2013 (1)			407,687	407,687
Operations 2014 (1)			395,459	395,459
Operations 2015 (1)			349,491	349,491
Operations 2016 (1)			340,360	340,360
December 31, 2016	<u>\$ 2,500,000</u>	<u>\$ 12,500,000</u>	<u>\$ 2,788,468</u>	<u>\$ 17,788,468</u>

(1) Operations defined as: Net income (loss) and change in net deferred income tax.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS FROM EXAMINATION

There were no financial adjustments to the Company's financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

(1) Bonds \$ 10,161,508

Long-term bonds constitute the largest category of cash and invested assets as of December 31, 2016, comprising 57.5% of total cash and invested assets. With respect to credit quality standards, approximately \$9,818,973 or 96.6% of the Company's total bond holdings were categorized as NAIC Class 1 investment grade bonds. Investment grade NAIC Class 2 bonds totaled approximately \$342,535 or 3.4% of total bond holdings. The Company had no

bond holdings categorized as NAIC Class 3, 4, 5 or 6, which are considered non-investment grade.

(2) Losses	\$	-0-
Loss adjustments expenses	\$	-0-

The Company is party to an intercompany reinsurance pooling arrangement, whereby the Company cedes all of its direct insurance liabilities to its direct parent, MCCC. MCCC retains 100% of the pooled business with no retrocessions back to the Company.

SUBSEQUENT EVENTS

There were no significant subsequent events that warranted disclosure in this examination report.

COMPLIANCE WITH PRIOR REPORT OF EXAMINATION

There were no recommendations in the prior report of examination.

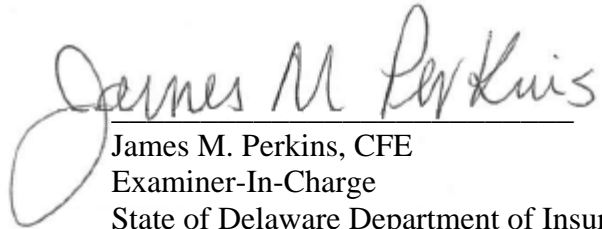
SUMMARY OF RECOMMENDATIONS

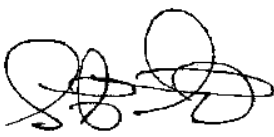
No examination report recommendations were noted as a result of this examination.

CONCLUSION

The assistance and cooperation of examiners representing the ODI, as well as examiners from the other state departments on the coordinated examination, is acknowledged. In addition, the assistance of INS Consultants, the Company's outside audit firm, E&Y, the AFG Internal Audit Department and the Company's management and staff was appreciated and is also acknowledged.

Respectfully submitted,


James M. Perkins, CFE
Examiner-In-Charge
State of Delaware Department of Insurance


Steve Guest, CFE, CPA, ACI
Supervising Examiner
State of Delaware Department of Insurance