



**EXAMINATION REPORT  
OF  
BRIDGEFIELD EMPLOYERS INSURANCE  
COMPANY**

**NAIC Company Code: 10701**

**Lakeland, Florida  
as of  
December 31, 2016**

**BY THE  
FLORIDA OFFICE OF INSURANCE REGULATION**

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December 19, 2017

David Altmaier  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), we have conducted an examination as of December 31, 2016, of the financial condition and corporate affairs of

**Bridgefield Employers Insurance Company**  
2310 Commerce Point Drive  
Lakeland, Florida 33801

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2012, through December 31, 2016, and commenced with planning at the Florida Office of Insurance Regulation ("Office") on April 11, 2017, to April 14, 2017. The fieldwork commenced on April 11, 2017, and concluded as of December 19, 2017. The Company's last full scope examination by representatives of the Office covered the period of January 1, 2007, through December 31, 2011.

The examination was a coordinated multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the examination be planned and performed 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. The lead state for this examination was Ohio; states that participated in this examination are as follows: Missouri, Texas, New York, California, Delaware, and Florida.

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 Statements of Statutory Accounting Principles ("SSAP").

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report, but separately communicated to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Examination Findings**

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements for the examination period.

### **Prior Examination Findings**

There were no findings, exceptions or corrective actions to be taken by the Company for the examination as of December 31, 2011.

## **COMPANY HISTORY**

### **General**

The Company commenced business in Florida on April 1, 1978. On May 28, 1998, the Company completed a conversion to a stock property and casualty workers compensation company and changed its name. As of December 31, 2016, the Company is authorized to provide workers compensation coverage, which is their only line of business.

### **Dividends**

The Company received a \$5,000,000 dividend from its subsidiary, Bridgefield Casualty Insurance Company ("BCIC") on December 14, 2016. In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholders in 2016 in the amount of \$10,000,000. There were no dividends paid to stockholders in the prior years during examination.

**Capital Stock and Capital Contributions**

As of December 31, 2016, the Company’s capitalization was as follows:

Number of authorized common capital shares	25,000
Number of shares issued and outstanding	25,000
Total common capital stock	\$2,500,000
Par value per share	\$100.00

**Surplus Notes**

The Company did not have any surplus notes during the period of this examination.

**Acquisitions, Mergers, Disposals, Dissolutions**

The Company was acquired on April 1, 2014, by American Financial Group Inc. (“AFG”), an Ohio Corporation, from Liberty Mutual Insurance Company.

**MANAGEMENT AND CONTROL**

**Corporate Governance**

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. The Directors serving as of December 31, 2016, are shown below:

**Directors**

<b>Name</b>	<b>City, State</b>	<b>Principal Occupation, Company Name</b>
Gary John Gruber <sup>1</sup>	Cincinnati, Ohio	Executive Vice President, Great American Insurance Company
Michael Eugene Sullivan, Jr.	Cincinnati, Ohio	Senior Vice President, Great American Insurance Company
Ronald James Brichler	Cincinnati, Ohio	Senior Vice President, Great American Insurance Company

Carol Prevatt Sipe	Lakeland, Florida	President and Chief Executive Officer, Summit Consulting, LLC
David John Witzgall	Villa Hills, Kentucky	Senior Vice President, Chief Financial Officer, and Treasurer, Great American Insurance Company
Donald Dumford Larson (a)	Cincinnati, Ohio	President and Chief Operating Officer, American Financial Group

<sup>1</sup> Chairperson

(a) Donald Larson retired on March 10, 2017.

In accordance with the Company's Bylaws, the Board of Directors ("Board") appointed the following Senior Officers:

#### **Senior Officers**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
Carol Prevatt Sipe	Lakeland, Florida	President and Chief Executive Officer
David John Witzgall	Villa Hills, Kentucky	Senior Vice President, Chief Financial Officer and Treasurer
David John Conway	Lakeland, Florida	Vice President and Chief Financial Officer
Eve Cutler Rosen	Cincinnati, Ohio	Secretary



The Company's Board appointed several committees. The following were the principal board committees and their members as of December 31, 2016:

**Executive Committee**

<b>Name</b>	<b>City, State</b>	<b>Title, Company Name</b>
Ronald James Brichler	Cincinnati, Ohio	Senior Vice President, Great American Insurance Company
Gary John Gruber	Cincinnati, Ohio	Executive Vice President, Great American Insurance Company
Donald Dumford Larson (a)	Cincinnati, Ohio	President and Chief Operating Officer, American Financial Group

(a) Donald Larson retired on March 10, 2017, and was replaced by Michael E. Sullivan Jr.

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

**Audit Committee**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
Terry Jacobs <sup>1</sup>	Cincinnati, Ohio	Chairman and Chief Executive Officer, JFP Group, LLC
Gregory Joseph	Cincinnati, Ohio	Executive Vice President, Attorney and Principal, Joseph Automotive Group
Virginia Gina Drosos	Cincinnati, Ohio	Chief Executive Officer and President, Assurex Health
John Von Lehman	Cincinnati, Ohio	(Retired) Executive Vice President, Chief Financial Officer, Secretary and Director, Midland Company

<sup>1</sup> Chairperson

### **Finance Committee**

<b>Name</b>	<b>City, State</b>	<b>Title</b>
Ronald James Brichler	Cincinnati, Ohio	Senior Vice President, Great American Insurance Company
Gary John Gruber	Cincinnati, Ohio	Executive Vice President, Great American Insurance Company
David John Witzgall	Villa Hills, Kentucky	Senior Vice President, Chief Financial Officer and Treasurer, Great American Insurance Company

### **Holding Company System**

Control of the Company is maintained by its parent, Summit Holding Southeast Inc. ("Summit Holding"), which owns one hundred percent (100%) of the stock issued by the Company. Summit Holding is one hundred percent (100%) owned by Great American Holding Inc. ("GAH"), which, in turn is one hundred percent (100%) owned by AFG. Additionally, the Company has one wholly-owned subsidiary BCIC.

The following agreements were in effect between the Company and its affiliates:

### **Tax Allocation Agreement**

The Company entered into a Tax Allocation Agreement with AFG on April 1, 2014. The Company participates in a consolidated federal income tax return. On December 31, 2016, the Company's method of allocation was on a separate-entity basis. Each member of the group recorded an inter-company income tax payable with AFG. Quarterly estimated tax payments are required to be paid to AFG at least three (3) days prior to the due date of the payment to the Internal Revenue Service. Annually, any adjustments to the quarterly payments are required to be paid by each member at least twenty-four (24) hours prior to the due date of such tax return.

### **Investment Services Agreement**

The Company entered into an Investment Services Agreement with American Money Management Corporation on April 1, 2014, to provide investment services. This would include

counseling, advising and managing the investment of the Company's portfolio, objectives, directions, and guidelines as established by the Board. The agreement shall remain in effect until terminated by any party at any time as long as ninety (90) days written notice was provided. The agreement is subject to a renegotiation upon request of either party every three (3) years. Services for rendering management services will be charged and paid quarterly on a prorated basis based on the proportion of the Company's portfolio. The expenses are determined to be estimated and subject to a year-end review and final adjustment if necessary to reflect actual costs and expenses incurred. Any balances should be settled within sixty (60) days after termination of the calendar year. Fees incurred under this agreement during 2016 were \$12,213.

### **Managing General Agent Agreement**

The Company entered into a Managing General Agency ("MGA") Agreement with Summit Consulting LLC ("Summit Consulting") on April 1, 2014. The agreement shall remain in effect until terminated as long as either party provides ninety (90) days written notice. If the contract is terminated, Summit Consulting will provide transitional services to the Company including services and terms necessary to fulfill the obligations of the agreement. For services provided by Summit Consulting, the Company agrees to pay an MGA fee of thirteen percent (13%) of the earned normal premium (annual premium less any approved discounts, credits, or adjustments) during any month with payment to be provided by the 15th of the following month. Fees incurred under this agreement during 2016 amounted to \$34,741,251.38.

### **General Services Agreement**

The Company entered into a General Services Agreement with GAH and Summit Holding on April 1, 2014, to provide services including, but not limited to, printing, office duplicating, telecommunications, purchasing, personnel, data processing, administrative, consultative, etc. The agreement shall remain in force and can be terminated at any time as long as thirty (30) days written notice is provided to GAH. Fees are charged based on the services furnished based on the cost as long as the cost is no greater than what the payer would expend if they provided such services for itself. Each performing party shall prepare statements of all services performed and fees charged and submitted to the requesting party no less than quarterly. The payment must be paid thirty (30) days from the date of the statement. The Company does not pay for fees for the

General Services Agreement. The fees incurred on the Company's behalf are charged to the MGA, Summit Consulting, which passes them onto the Company as part of their MGA fees.

### **Amended and Restated Services Agreement**

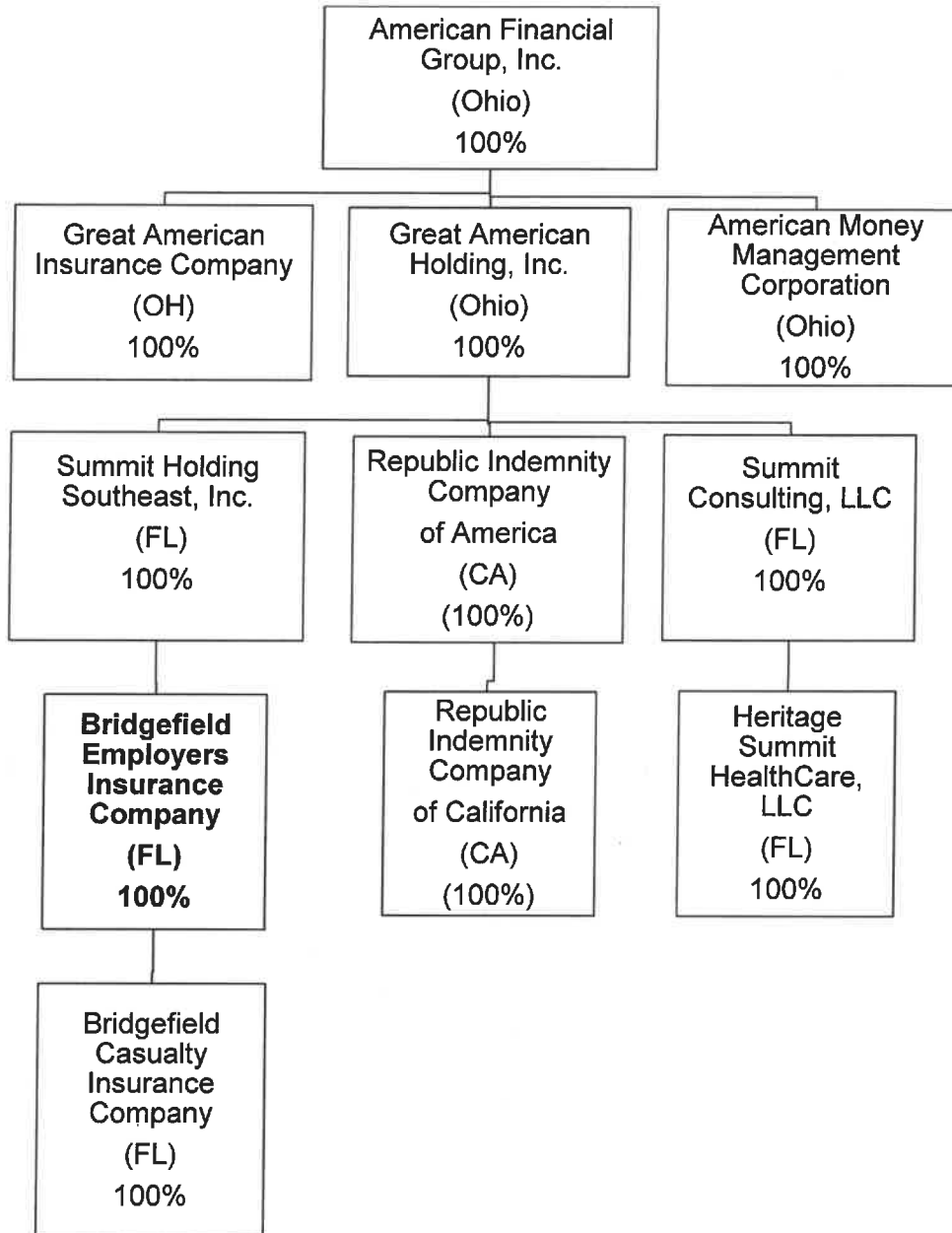
The Company entered into a Management Agreement with Republic Indemnity Company of America ("Republic America"), on April 1, 2014, to provide services including, but not limited to, actuarial services, telecommunication services, facilities, software programming, hardware utilization, legal services, purchasing, payroll, and employee relations. The agreement shall remain in force for a term of three (3) years, unless otherwise terminated wholly or partially by mutual consent by any party within the guidelines of the agreement. Republic America does not charge a management fee for the services provided within this agreement.

### **Reinsurance Pooling Agreement**

The Company entered into a Reinsurance Pooling Agreement with Republic America on April 1, 2014. The agreement continues to be in force unless otherwise terminated within the guidelines of the agreement. The participating companies agree to cede and transfer to Republic America all premiums and losses and Republic America agrees to assume and reinsure all underwriting liabilities. Reinsurance ceded by the Company is considered reinsurance of Republic America (ceded reinsurance) and agree to allow Republic America to secure such reinsurance as it may deem necessary or appropriate for liabilities assumed. Expenses that are related to the operation of insurance, taxes and MGA are paid by the Company and reimbursed by Republic America. The Company is responsible for settling accounts within fifteen (15) days following the receipt of the monthly statement provided by Republic America. Republic America does not charge a management fee for the pooling of reinsurance or services therein.

Schedule Y of the Company's 2016 annual statement provided a list of all related companies of the holding company group. A simplified organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page.

**Bridgefield Employers Insurance Company**  
**Simplified Organizational Chart**  
**December 31, 2016**



## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Lakeland, Florida.

### **Corporate Records Review**

The recorded minutes of the Shareholders, the Board and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Bank of New York Mellon executed on March 24, 2014. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

An independent CPA, Ernst and Young ("EY") audited the Company's statutory basis financial statements annually for the years 2014, 2015 and 2016 in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA firm, as required by Rule 69O-137.002, Florida Administrative Code.

## TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Alabama	Indiana	North Carolina
Arkansas	Kentucky	South Carolina
Florida	Louisiana	Tennessee
Georgia	Mississippi	Texas

The Company was authorized to transact insurance in Florida on April 1, 1978, and is authorized for Workers' Compensation coverage as of December 31, 2016.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)(3)(a), Florida Statutes. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(j), Florida Statutes.

## REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

### **Reinsurance Assumed**

The Company did not assume any reinsurance during the period of this examination.

### **Reinsurance Ceded**

The Company has reinsurance in place to cede risk on a quota share and excess of loss basis to related and unrelated reinsurers.

The Company and BCIC entered into a quota share and excess of loss agreement for Workers Compensation with Safety National Casualty Corporation ("Safety National") on January 1, 2012, through April 1, 2017.

As aforementioned, the Company entered into a Reinsurance Pooling Agreement to cede all premium and losses to Republic America on April 1, 2014.

### **INFORMATION TECHNOLOGY REPORT**

Rich Sowalsky, CISA, IT Senior Manager, of Baker Tilly, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.



## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	USTNTS	\$ 7,046,237	\$ 7,130,908
TOTAL FLORIDA DEPOSITS		<u>\$ 7,046,237</u>	<u>\$ 7,130,908</u>
GA	USTNTS	\$ 90,016	\$ 89,845
NC	USTNTS	\$ 200,037	\$ 199,656
TOTAL OTHER DEPOSITS		<u>\$ 290,053</u>	<u>\$ 289,501</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 7,336,290</u>	<u>\$ 7,420,409</u>

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages.

**Bridgefield Employers Insurance Company**

**Assets**

**December 31, 2016**

Bonds	\$ 66,511,374		\$ 66,511,374
Stocks:			
Preferred stocks	\$ 917,500		\$ 917,500
Common stocks	\$ 45,832,220		\$ 45,832,220
Cash, cash equivalents and short-term investments	\$ 8,562,864		\$ 8,562,864
Subtotals, cash and invested assets	\$ 121,823,959		\$ 121,823,959
Investment Income due and accrued	\$ 526,172		\$ 526,172
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	\$ 272,385		\$ 272,385
Net deferred tax asset	\$ 4,504		\$ 4,504
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	\$ 122,627,020		\$ 122,627,020
TOTAL	<u>\$ 122,627,020</u>	<u>\$ -</u>	<u>\$ 122,627,020</u>

**Bridgefield Employers Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2016**

	Per Company	Examination Adjustments	Per Examination
Reinsurance payable on paid losses and loss adjustment expenses	\$ 37,492		\$ 37,492
Current federal and foreign income taxes	\$ 32,766		\$ 32,766
Payable to parent, subsidiaries and affiliates	<u>\$ 9,093,900</u>		<u>\$ 9,093,900</u>
Total Liabilities	\$ 9,164,158		\$ 9,164,158
Common capital stock	\$ 2,500,000		\$ 2,500,000
Gross paid in and contributed surplus	\$ 41,819,265		\$ 41,819,265
Unassigned funds (surplus)	<u>\$ 69,143,597</u>		<u>\$ 69,143,597</u>
Surplus as regards policyholders	<u>\$ 113,462,862</u>		<u>\$ 113,462,862</u>
TOTAL	<u><u>\$ 122,627,020</u></u>		<u><u>\$ 122,627,020</u></u>

**Bridgefield Employers Insurance Company**  
**Statement of Income**  
**December 31, 2016**

**Investment Income**

Net investment income earned	\$7,242,794
Net realized capital gains or (losses)	\$4,591
	\$7,247,385
Net investment gain or (loss)	\$7,247,385

**Other Income**

Net income before dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes	\$7,247,385
Net Income, after dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes	\$7,247,385
Federal & foreign income taxes incurred	613,868
	\$6,633,517
Net Income	\$6,633,517

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$121,111,974
Net Income	\$6,633,517
Change in net unrealized capital gains or (losses)	(4,286,294)
Change in net deferred income tax	3,665
Dividends to stockholders	(10,000,000)
	(\$7,649,112)
Change in surplus as regards policyholders for the year	(\$7,649,112)
Surplus as regards policyholders, December 31 current year	\$113,462,862

**Bridgefield Employers Insurance Company**  
**Reconciliation of Capital and Surplus**  
**December 31, 2016**

No adjustments were made to surplus as regards policyholders as a result of this examination.

**Capital/Surplus Change during Examination Period**

Surplus at December 31, 2011, per Examination	<u>Increase</u>	<u>Decrease</u>	\$109,204,735
Net Income	\$12,568,886		\$12,568,886
Change in Net Unrealized Cap Gain		(\$91,112)	(\$91,112)
Change in net deferred income tax	\$176,568		\$176,568
Change in nonadmitted assets			\$0
Change in provision for reinsurance	\$609,010		\$609,010
Paid in Surplus Adjustments	\$994,775		\$994,775
Dividends on stockholders		(\$10,000,000)	(\$10,000,000)
Net increase (or decrease)			<u>\$4,258,127</u>
Surplus at December 31, 2016, per Examination			<u><u>\$113,462,862</u></u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### Liabilities

#### Losses and Loss Adjustment Expenses

Lisa A. Hays, Vice President and Actuary of GAIC, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The examination team was a participating state in a coordinated examination with Ohio (lead state), on the parent Company GAIC, and the overall parent AFG. The examination team noted that the Company relies on the actuarial services of the parent; as such, Florida did not perform independent actuarial services, but relied on the lead state's conclusion.

Thomas Botsko, Property and Casualty Chief Actuary of the Ohio Insurance Department, reviewed the loss and loss adjustment expense workpapers provided by the Company and he was in concurrence with this opinion.

#### Capital and Surplus

The amount of capital and surplus reported by the Company of \$113,462,862, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

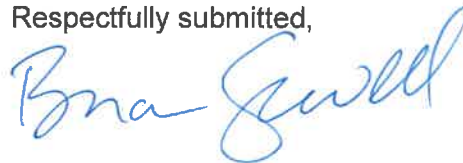
## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Bridgefield Employers Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

The amount of capital and surplus reported by the Company of \$113,462,862, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, CFE, CIA, Examiner-In-Charge, and Rachel Myslinski, CPA, Michael Costa and Michelle January, Participating Examiners of Baker Tilly, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, MBA, FCCM, Financial Examiner/Analyst Supervisor, Examination Manager, and Paula Bowyer, APIR, Financial/Analyst II, Participating Examiner. Additionally, Rich Sowalsky, CISA, IT Senior Manager of Baker Tilly, is recognized for participation in the examination.

Respectfully submitted,



Brian Sewell, CFE, MCM  
Chief Examiner  
Florida Office of Insurance Regulation