STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

CASUALTY UNDERWRITERS INSURANCE COMPANY

of

Murray, Utah

as of

December 31, 2014

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May 9, 2016

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with statutory requirements, a multi - state examination, as of December 31, 2014, has been made of the financial condition and business affairs of:

CASUALTY UNDERWRITERS INSURANCE COMPANY
Murray, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was conducted as of December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2014, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. Key activities examined included: Investments, Reinsurance, Reserves/Claims Handling, and Underwriting.

Examination Procedures Employed

We conducted our examination 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.

This examination report includes significant findings of fact, as mentioned in Utah Code Annotated (U.C.A.) §31A-2-204(6)(a) and general information about the insurer and its financial condition.

SUMMARY OF SIGNIFICANT FINDING AND RECOMMENDATION

One item of significance in this report is summarized below:

1. As of the examination date, the Company had no fidelity bond or crime insurance to cover actions of its officers, directors, and contractors. The minimum fidelity bond coverage suggested by the NAIC for the Company's size and premium volume is $100,000.

   We recommend that the Company obtain fidelity bond coverage in the suggested NAIC amount.

COMPANY HISTORY

General

The Company was incorporated on May 28, 1986, as a stock company under the name Commercial Underwriters Insurance Company. On May 30, 1986, the Company was issued a certificate of authority to transact property and liability insurance business in the State of Utah. On October 31, 1986, the Company's Articles of Incorporation were amended to change its name to Casualty Underwriters Insurance Company. Effective November 12, 1997, the Company was granted additional authority to transact marine & transport, surety, vehicle liability and workers compensation. During late 1998, the Company began writing substandard private passenger automobile insurance.

On January 1, 2007, the American Sheep and Goat Center (ASGC) acquired the Company by purchasing 100% of the Company's issued and outstanding stock.

The Company's Articles of Incorporation and bylaws were restated coinciding with the ASGC acquisition in February 2007. The articles and bylaws were further restated and amended to replace all other articles and any amendments thereto, and were approved by the Utah Insurance Department on October 30, 2007. The bylaws were again amended on March 23, 2008 in order to be consistent with the terms of the Articles of Incorporation.

In 2012, AGSC merged into the American Sheep Industry Association, Inc. (ASI) and all existing authorities and assets of ASGC were transferred to ASI. ASI is a not-for-profit entity owned by and for the United States sheep and goat industry. ASI has 100% ownership of Sheep Venture Company (SVC), a for-profit company. Upon completion of the 2012 merger of ASGC and ASI, the Company became a wholly-owned subsidiary of SVC, with 1,000,000 shares of $2.00 par value common stock issued and outstanding.

Dividends and Capital Contributions

On January 20, 2011, the Company's board of directors declared a dividend of $50,000, payable to ASGC; subsequently the decision was made to not pay this dividend.

In 2011, the Company's parent, ASGC, contributed $300,000 in additional surplus.

Mergers and Acquisitions

There were no mergers or acquisitions during the period of this examination.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Company indicated the number of directors may be not less the five (5) members, nor more than fifteen (15) members, with the exact number of members to be set from time to time by action of the Board of Directors. The following persons served as directors for the Company as of December 31, 2014:

Name and Location	Title and Principal Occupations
David Bossman Sun City Center, Florida	Consultant
Julie LeBrun Laguna Hills, California	Reinsurance Consultant
Kent Forney Des Moines, Iowa	Shareholder/Attorney Bradshaw, Fowler, Proctor & Fairgrave, P.C.
Ted Lewis Salt Lake City, Utah	Legal/Insurance Consultant
Clark Willis Logan, UT	Rancher Willis Ranch

On May 8, 2015, Clark Willis was involved in a fatal car accident in Smoot, Wyoming. Effective June 10, 2015, Patricia Willis was elected as a director of the Company.

The Company's bylaws provide for officers to consist of a President, a Vice President, a Secretary, and a Treasurer. Any two or more offices may be held by the same person, except the principal offices shall be held by three separate natural persons. The officers of the Company as of December 31, 2014 were as follows:

Name and Location	Title
Clark Willis	President
Kent Forney	Secretary
David Bossman	Treasurer

On June 10, 2015, David Bossman was elected as President and Treasurer, succeeding Clark Willis as President. On November 30 and December 1, 2015, Patricia Willis was retroactively elected Vice President, effective June 10, 2015.

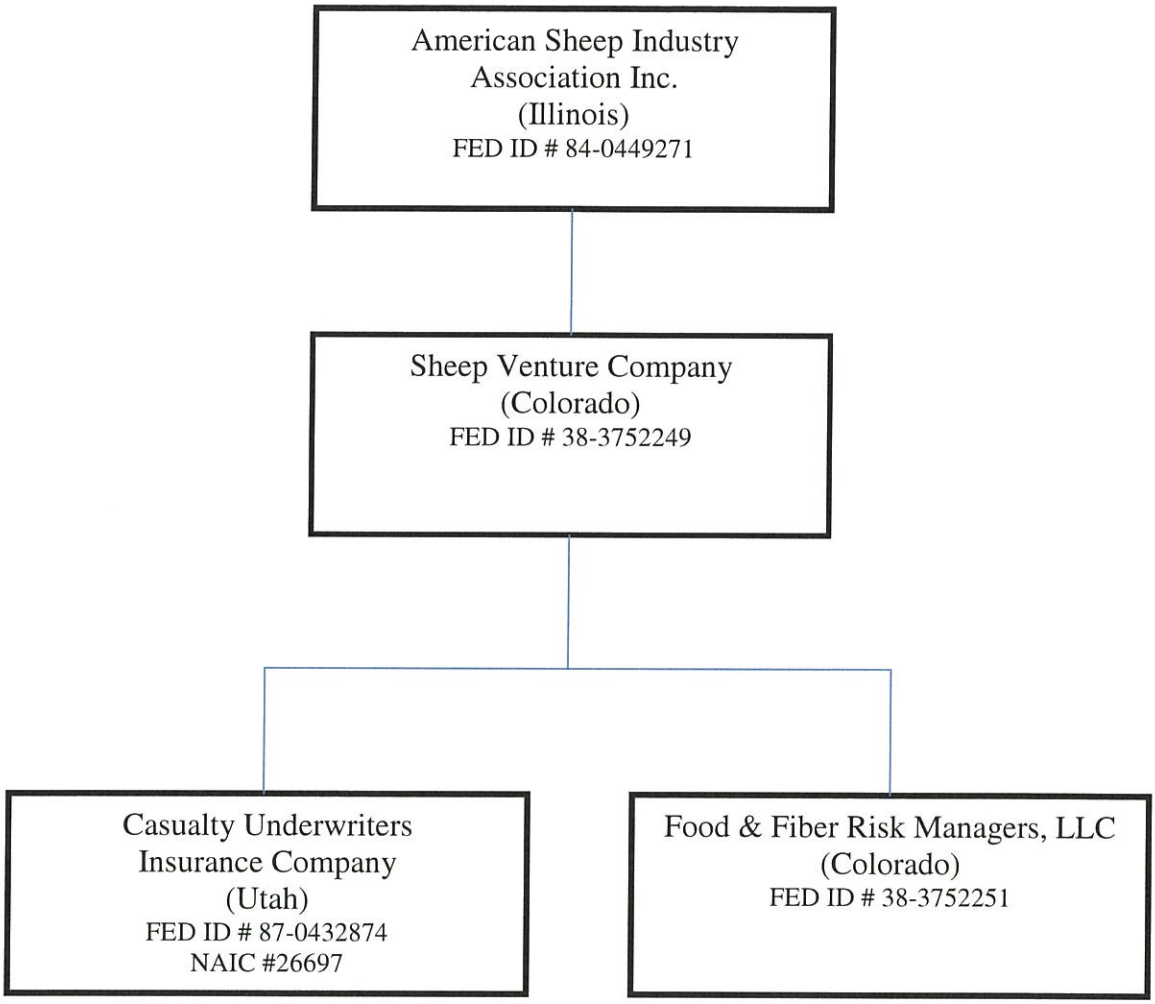
The entire board of directors serves as the Audit Committee. Therefore, the Audit Committee and the respective committee members of the Company as of the December 31, 2014 were as follows:

Name and Location	Title and Principal Occupation
David Bossman	Consultant
Julie LeBrun	Reinsurance Consultant
Kent Forney	Shareholder/Attorney, Bradshaw, Fowler, Proctor & Fairgrave, P.C.
Ted Lewis	Legal/Insurance Consultant
Clark Willis	Rancher, Willis Ranch

Holding Company

The Company is a wholly-owned subsidiary of Sheep Venture Company (SVC), a for-profit company that is one hundred percent (100%) owned by American Sheep Industry Association, Inc., a not-for-profit entity owned by and for the United States sheep and goat industry. SVC is the sole shareholder of the Company.

The following organizational chart depicts the holding company system as of December 31, 2014:



FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity bond coverage suggested by the NAIC for the Company's size and premium volume is $100,000. As of the examination date, the Company had no fidelity bond or crime insurance to cover actions of its officers, directors, and contractors.

We recommend that the Company obtain fidelity bond coverage in the suggested NAIC amount.

The Company has a Directors', Officers', Insured Entity and Employment Practices Liability Insurance policy that provides coverage for securities and employment practices claims.

TERRITORY AND PLAN OF OPERATION

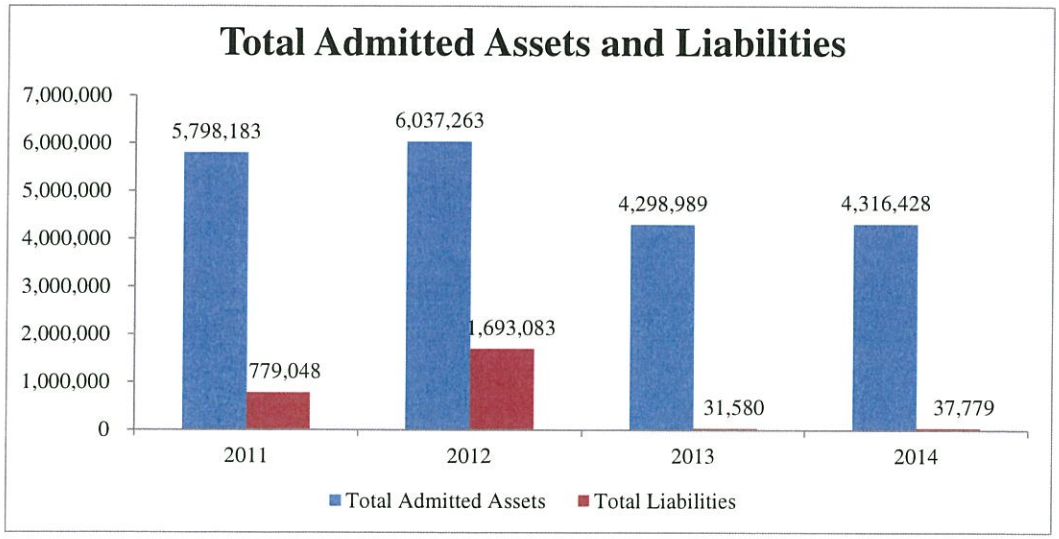
The Company is currently licensed to do business in the following thirteen states: Arizona, Arkansas, Idaho, Indiana, Kansas, Montana, Nevada, North Dakota, Oklahoma, South Dakota, Utah, West Virginia, and Wisconsin. As of the date of our examination, the Company had 152 individual and 70 agency producers.

The Company actively writes automobile physical damage and private passenger automobile insurance. This business is primarily marketed and sold in Utah and Idaho through independent agents.

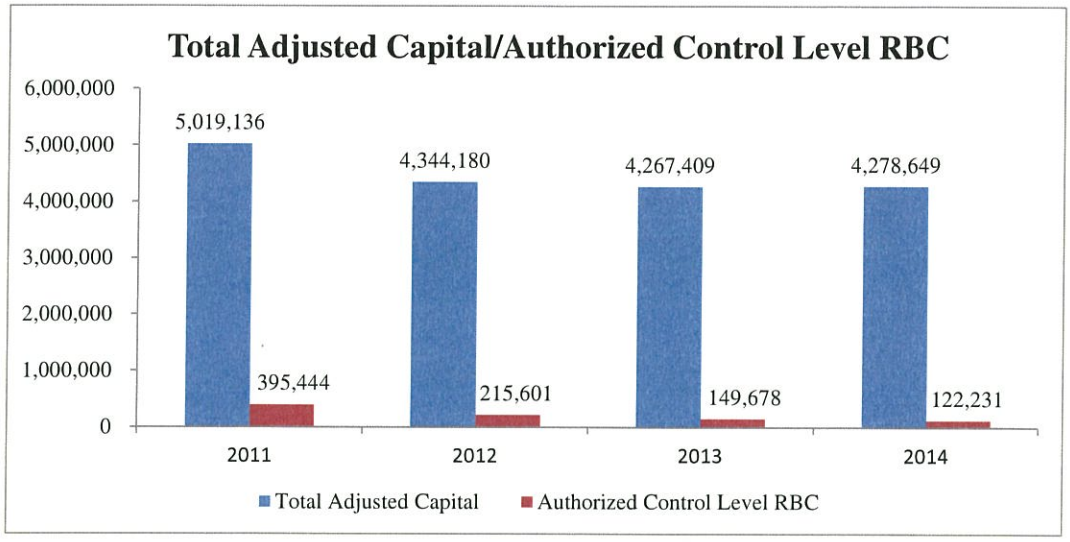
Since 2009, the Company's primary focus has been on the Livestock Risk Protection (LRP) product. The Company writes LRP coverage for slaughter lambs (LRP-Lamb) under approval from the Federal Crop Insurance Corporation (FCIC). LRP-Lamb is an insurance product marketed to sheep and goat producers. Without an active futures market as utilized by producers of other livestock, this product provides a useful hedge against price declines. The Company has a Managing General Agent (MGA) agreement with Food & Fiber Risk Managers, LLC (FFRM) to market this product. Because of unusually low lamb prices in 2012 resulting in very high loss ratios, there were significant changes made to the LRP program and the U.S. Department of Agriculture (USDA) suspended sales of the product for an extended period of time. Marketing of the LRP product resumed in May 2015.

GROWTH OF COMPANY

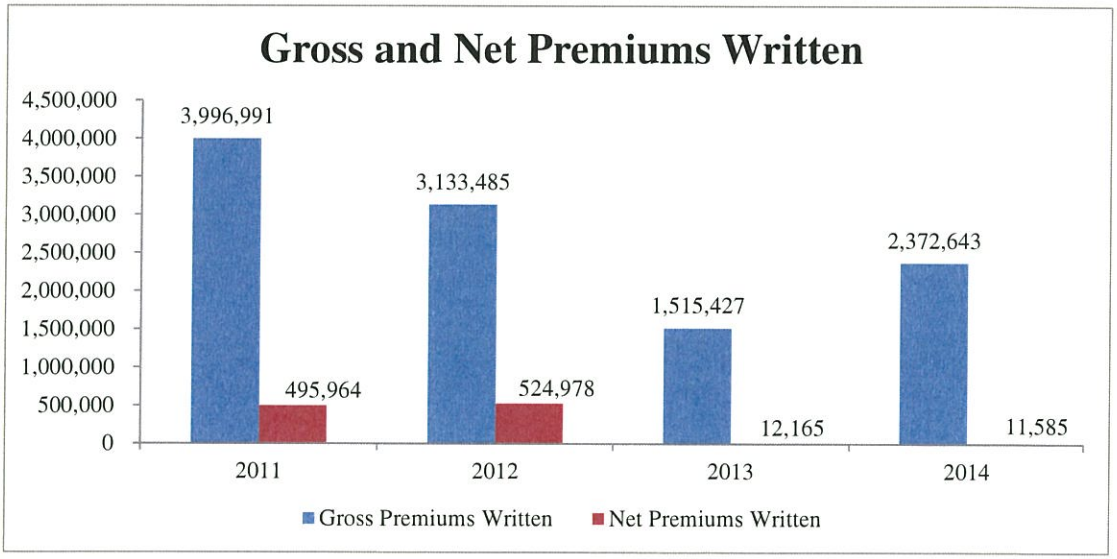
The Company's total admitted assets have decreased 26% from 2011 to 2014. During the same period total liabilities decreased 95%. These decreases can be primarily attributed to unusually low lamb prices and associated high losses from the LRP-Lamb product in 2012 and the subsequent USDA suspension of sales of this product in 2013 and 2014.



The Company's total adjusted capital decreased 15% from 2011 to 2014. Nevertheless, it has always been significantly above the authorized control level risk-based capital (RBC) requirement.



Premiums decreased over the period of this examination. Gross premiums written decreased 62% from 2011 to 2013, then increased 56% from 2013 to 2014, for an overall decrease of 41% from 2011 to 2014. The Company ceded 100% of its automobile business, which explains the large disparity between gross and net premiums written. Net premiums written decreased 98% from 2011 to 2014, primarily due to USDA suspension of sales of the LRP-Lamb product in 2013 and 2014.



REINSURANCE

Assumed
The Company does not assume any reinsurance.

Ceded
The Company provides a fronting and reinsurance arrangement for all business generated by Inter-Americas Insurance Corporation, Inc. (IAI), written on CUIC paper. As part of this arrangement, the Company has a reinsurance agreement with First Financial Insurance Company, Ltd. (FFIC), an unrated offshore insurance company domiciled on the island of Nevis, under which it automatically reinsures all IAI-generated business, consisting of automobile insurance and related insurance products, written on CUIC paper on a 100% coinsurance basis. FFIC is owned by the Hawkins family, former owners of the Company. The reinsurance agreement with FFIC provides for a trust agreement entered into between the Company, FFIC, and Southwest National Bank. Under the trust agreement, a trust account was created that meets the requirements of Utah Administrative Code (U.A.C.) R590-173-9 and R590-173-8, which allows credit for reinsurance cessions to unauthorized reinsurers.

The Company has a Livestock Price Reinsurance Agreement (LPRA) with the Federal Crop Insurance Corporation (FCIC), an agency of the United States Department of Agriculture (USDA), under which it reinsures its Livestock Risk Protection (LRP) products. Under this agreement, the Company cedes to FCIC no more than 65% of total net book premium and associated liability for ultimate net losses on eligible livestock price insurance contracts, as designated in its Plan of Operations for the reinsurance year. Retained premium and associated liability from eligible livestock contracts are subject to the following two layers of stop-loss coverage and premium: (1) 90% of the amount by which the Company's aggregate net losses exceed 150% but less than 500% of aggregate net book premium retained by the Company, and (2) 100% of the amount by which the Company's aggregate ultimate net losses exceed 500% of aggregate net book premium retained by the Company. The Company pays FCIC a reinsurance premium of 4.5%.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Utah Insurance Department and present the financial condition of the Company for the period ending December 31, 2014. The accompanying COMMENTS ON 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.

CASUALTY UNDERWRITERS INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2014

ASSETS

	Net Admitted Assets
Bonds	$ 2,214,498
Preferred stocks	203,649
Common stocks	1,227,282
Cash and short-term investments	653,145
Investment income due and accrued	13,571
Current federal and foreign income tax recoverable and interest thereon	1,736
Aggregate write-ins for other-than-invested assets	2,546
Total Assets	$ 4,316,428

LIABILITIES, SURPLUS AND OTHER FUNDS

	Current Year
Commissions payable, contingent commissions and other similar charges	$ 2,763
Other expenses (excluding taxes, licenses and fees)	15,311
Taxes, licenses and fees (excluding federal and foreign income taxes)	16,232
Unearned premiums	3,473
Total Liabilities	$ 37,779
Common capital stock	2,000,000
Surplus notes	1,000,000
Gross paid in and contributed surplus	850,100
Unassigned funds (surplus)	428,549
Total Surplus as regards policyholders	4,278,649
Total Liabilities, Surplus and Other Funds	$ 4,316,428

CASUALTY UNDERWRITERINSURANCE COMPANY
STATEMENT OF INCOME
for the Year Ended December 31, 2014

	Current Year
Underwriting Income	
Premiums earned	$ 10,775
Deductions:	
Losses incurred	$ 6,270
Loss adjustment expenses incurred	8,514
Other underwriting expenses incurred	133,122
Total underwriting deductions	$ 147,907
Net underwriting gain (loss)	$ (137,132)
Investment Income	
Net investment income earned	$ 208,492
Net realized capital gains (losses)	(31,555)
Net investment gain (loss)	$ 176,937
Net income before dividends to policyholders	$ 39,805
Dividends to policyholders	0
Net income after dividends to policyholders	$ 39,805
Federal and foreign income taxes incurred	0
Net income	$ 39,805

CASUALTY UNDERWRITERS INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2011 through 2014

	2011*	2012*	2013*	Per Exam 2014
Surplus as regards policyholders, prior reporting year	$ 4,185,788	$ 5,019,136	$ 4,344,180	$ 4,267,409
Net income (loss)	(376,159)		55,025	39,805
		(697,686)		
Change in net unrealized capital gains (losses)	(90,493)	22,730		
			(131,796)	(28,566)
Change in net deferred income tax	60,169	120,042	27,870	
				(7,948)
Change in nonadmitted assets	(60,169)			7,948
		(120,042)	(27,870)	
Change in surplus notes	1,000,000			
Surplus adjustments: Paid in	300,000			
Change in surplus as regards policyholders	833,348	(674,956)	(76,771)	11,240
Surplus as regards policyholders, current reporting year	$ 5,019,136	$ 4,344,180	$ 4,267,409	$ 4,278,649

* Per the regulatory financial statements filed with the Utah Insurance Department.

COMMENTS ON FINANCIAL STATEMENTS

Capital and surplus	$4,278,649

The Company's capital and surplus was determined to be the same as reported in the Company's annual statement as of December 31, 2014. No adjustments were made to surplus as a result of the examination.

The Company's minimum capital requirement was $1,000,000 as defined in U.C.A. § 31A-5-211(2)(b). As defined by U.C.A. § 31A-17 Part 6, the Company had total adjusted capital of $4,278,649, which significantly exceeded the company action level risk-based capital (RBC) requirement of $244,462 by $4,034,187.

SUBSEQUENT EVENTS

In October 2015, the Company formed a Utah captive insurance company, Bear Lake Insurance Company (Captive), to provide working dog liability insurance to ranchers.

The Captive was granted a certificate of authority on October 30, 2015. As its parent, the Company owns 100% of Bear Lake Insurance Company and initially provided $275,000 capital upon its formation. The Captive was initially organized as a pure captive insurance company as defined in U.C.A. § 31A-37-102(23) and 31A-37-202(1)(b)(i).

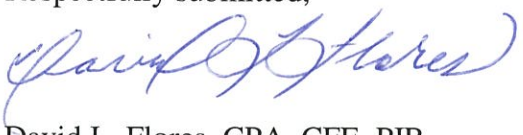
After review as part of this examination and additional review by the Utah Insurance Department Captive Division, the Captive was reorganized as an association captive insurance company as defined in U.C.A. § 31A-37-102(4) and 31A-37-202(1)(b)(ii) and was reissued a certificate of authority to conduct association captive insurance business on February 4, 2016. Reorganization of the captive as an association captive insurance company was necessary in order insure the proposed risks – guardian dogs and herding dogs for sheep and other livestock. Policyholders must be members of an individual state sheep or wool grower association or a member of the American Sheep Industry Association, in accordance with U.C.A. §31A-37-202(1)(b)(ii).

The Company's $275,000 capital investment in the Captive was properly recorded in Schedule D – Part 2 – Section 2 in the Company's Annual Statement as of December 31, 2015. On January 19, 2016, the Company invested an additional $1,000 capital in the Captive. On April 20, 2016, in order to meet the minimum capital requirement of $750,000 for an association captive insurance company, the Company invested an additional $516,671 capital in the Captive, for a total capital investment in the Captive of $792,671, which exceeds the minimum capital requirement of $750,000 for an association captive insurance company required by U.C.A § 31A-37-204(1)(a)(ii).

ACKNOWLEDGEMENT

Alan Kaliski, FCAS, MAAA, of AGI Services performed the actuarial phases of the examination. Tracy Gates, CFE, CISA, CPA, Principal and IT Specialist of Highland Clark, LLC, performed the information systems review. Jaimee George, CFE, PIR, Audit Manager, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,



David L. Flores, CPA, CFE, PIR
Examiner-in-Charge
Utah Insurance Department