

**REPORT OF  
EXAMINATION**

**OF**

**NATIONAL SECURITY FIRE & CASUALTY COMPANY**

**ELBA, ALABAMA**

**AS OF**

**DECEMBER 31, 2023**

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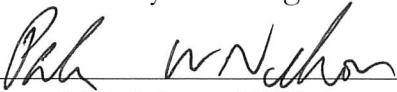
**EXAMINER'S AFFIDAVIT**

**STATE OF ALABAMA  
COUNTY OF COFFEE**

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

1. I have the authority to represent Alabama in the examination of National Security Fire & 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 National Security Fire & 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

Subscribed and sworn before me by Palmer W. Nelson on the 27<sup>th</sup> day of September 2024.

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

My commission expires **MY COMMISSION EXPIRES  
JANUARY 3, 2027** \_\_\_\_\_





KAY IVEY  
GOVERNOR

MARK FOWLER  
COMMISSIONER

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JIMMY W. GUNN  
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STATE FIRE MARSHAL  
SCOTT F. PILGREEN

GENERAL COUNSEL  
REYN NORMAN

September 27, 2024

Honorable Mark Fowler,  
Commissioner of Insurance  
Alabama Department of Insurance  
201 Monroe Street, Suite 502  
Montgomery, AL 36104

Dear Commissioner Fowler:

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, 2023, has been made of

**National Security Fire & Casualty Company  
Elba, AL**

at its home office located at 661 East Davis Street Elba, AL 36323. The report of examination is submitted herewith. Where the description "The Company" or "NSFC" appears herein, without qualification, it will be understood to indicate National Security Fire & Casualty Company.

## SCOPE OF EXAMINATION

We have performed an examination of National Security Fire & Casualty Company, a multi-state insurance company. The last examination covered the period of January 1, 2014 through December 31, 2018. The current examination covers the period of January 1, 2019 through December 31, 2023.

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.

This examination report includes significant findings of fact, as mentioned in the *Code of Alabama, 1975*, as amended and 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.

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 systems (IS) was conducted concurrently with the financial examination. The IS 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 provider 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 payment practices, advertising and marketing, underwriting and

rating, policyholders' complaints, compliance with producers licensing requirements, and privacy standards. See the "Market Conduct Activities" section of this report on page 11 for further discussion.

Warren Averett, LLC, was the Company's certified public accountant (CPA) for all years under examination. The examiners reviewed the CPA's workpapers, copies of which were incorporated into the examination as deemed appropriate. The workpapers of the Company's internal audit department were reviewed and considered in the examiner's identification and assessment of risks and controls.

A signed letter of representation was obtained at the conclusion of the examination. In this letter, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2023.

## **ORGANIZATION AND HISTORY**

The Company was incorporated on January 1, 1959, under the laws of the state of Alabama, as a wholly owned subsidiary of National Security Insurance Company (NSIC). Various changes in the amounts and par value of the Company's capital stock occurred between the date of incorporation and 1985. From 1985 through 1991, the authorized capital remained 1,500,000 shares of \$1.00 par value common stock of which 1,000,000 shares were issued and outstanding.

On December 31, 1990, all of the Company's outstanding capital stock was contributed to a newly formed holding company, The National Security Group, Inc. (NSG), a Delaware corporation. Simultaneously, an extraordinary cash dividend of \$10,000,000 was declared and paid by the Company's board of directors to The NSG. On June 30, 1992, the Company paid a stock dividend for 500,000 shares to The NSG, thereby increasing the Company's paid-up capital to \$1,500,000 consisting of 1,500,000 shares of \$1.00 par value common stock. During 2005, the Company received a capital contribution of \$6,000,000 from its sole owner, The NSG.

The Company's capital structure at December 31, 2023 consisted of 1,500,000 shares of common stock, issued and outstanding, for a total common stock par value of \$1,500,000. The Company also had \$6,360,000 in gross paid in and contributed surplus and reported \$18,006,280 of unassigned funds. The Company's capital and surplus at December 31, 2023 was \$35,866,281.

## MANAGEMENT AND CONTROL

### Stockholder

The Company is a stock corporation with ultimate control vested in its stockholders. On December 31, 2023, 100% of the Company's issued and outstanding common stock was owned by The NSG.

### Board of Directors

Members elected to the board of directors by the sole shareholder and serving on December 31, 2023, were as follows:

<u>Directors/Residence</u>	<u>Principal Occupation</u>
Ross Peter Aron New York, NY	President/CEO The National Security Group, Inc.
Kelly Holland Jackson Enterprise, AL	Vice President, CFO, Treasurer The National Security Group, Inc.
Tonya Mathews Jones Brantley, AL	Vice President, Secretary, Assistant Treasurer Human Resources Manager, COO The National Security Group, Inc.
Laura Williams Jordan Jack, AL	Vice President, Assistant Secretary, CAO The National Security Group, Inc.

### Officers

Officers of the Company elected by the board of directors and serving on December 31, 2023, were as follows:

<u>Position</u>	<u>Name</u>
President/CEO	Ross Peter Aron
Treasurer/Vice President/CFO	Kelly Holland Jackson
Secretary/Vice President/COO	Tonya Mathews Jones
Vice President/Assistant Secretary/CAO	Laura Williams Jordan
Vice President	Phillip Tarkington Curtis



## **Committees**

The Company had no board of director committees during the examination. The Audit Committee of the holding company serves as the Audit Committee of all insurance companies of the group.

## **Conflict of Interest**

The Company requires that conflict of interest statements be completed annually by all directors, officers and exempt status employees. In addition, the Company requires every new employee, whether they are exempt, non-exempt, full-time, part-time, or contracted to attend a Code of Business Conduct and Compliance Program. This program provides employees with a formal statement of the Company's standards and rules of ethical business. At the end of the program, the employees are required to sign a statement of understanding, which is maintained in the employees' personnel files. Officers, directors and managers are also required to complete a Code of Ethics Certification on an annual basis. This certifies their understanding and agreement to abide by the Company's ethical standards and expectations.

A review was conducted of all conflict-of-interest statements filed by the board of directors and officers during the 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.

## **CORPORATE RECORDS**

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practices and applicable regulations.

## **HOLDING COMPANY AND AFFILIATE MATTERS**

### **Holding Company**

The Company was subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE § 27-29-4(a)(1) (2022). VR Insurance Holdings, Incorporated was registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System.

Appropriate filings required under the Holding Company Act were made from time to time by the registrant. A review of the Company's filings during the period under review indicated that required disclosures were included in the Company's filings.

### **Dividends to Stockholders**

The following dividends were declared and paid to stockholders of the Company during the period under examination:

<b><u>Year</u></b>	<b><u>Dividend Paid</u></b>
2019	\$ 2,000,000
2020	\$ -0-
2021	\$ -0-
2022	\$ -0-
2023	\$ -0-

The dividends were reported to the Alabama Department of Insurance in accordance with ALA. CODE § 27-29-4(e) (2022), which states in part: "...each registered insurer shall so report all dividends and other distributions to shareholders within 15 business days following the declaration thereof."

### **Management and Service Agreements**

The following agreements between the Company and its affiliates were in effect during the examination period.

#### *Holding Company Management Service Agreement*

Effective July 1, 2010, The NSG entered into a Holding Company Management Service Agreement among and between, NSIC, NSFC, and Omega One Insurance Company (Omega). The purpose of the agreement is to provide remuneration for services provided by The NSG on behalf of and/or to the benefit of the subsidiaries. The primary intent of this fee is to cover operating costs of The NSG related to providing additional risk management, board oversight, and various other benefits to its subsidiaries. The management fee is calculated and paid on a monthly basis.

Agreement for the Allocation of General and Administrative Expenses

On December 1, 2011, an amendment to the Management Agreement for Allocation of General and Administrative Expenses, Adjuster Employees, and Income Taxes was filed. A Form D Prior Notice of a Transaction was filed with the Alabama Department of Insurance by The NSG on behalf of NSIC, NSFC, Omega, and NATSCO, Inc. The amendment provided for allocation of common expenses, adjuster fees, and income taxes between The NSG and its subsidiaries. In consideration for the settlement of common expenses, adjuster fees, and income taxes between The NSG and its subsidiaries, each subsidiary agreed to pay the respective amounts to the respective company as calculated using the most pertinent means which shall be construed as reimbursement of all direct costs.

The term of the agreement was for one-year, renewable for successive one-year periods until any party elects to terminate or until modified, amended, or superseded by a subsequent agreement.

Investment Management Agreement

On June 16, 2022, a Form D Prior Notice of a Transaction for an Investment Management Agreement was filed with the Alabama Department of Insurance by VR Insurance Holdings, Incorporated. The agreement was approved by the Commissioner on June 17, 2022. VR Asset Management, LLC, a direct wholly owned subsidiary of VR Insurance Holdings, Inc., NSIC, NSFC, and Omega entered into an Investment Management Agreement effective July 1, 2022, whereby VR Asset Management, LLC manages the investment portfolios of NSIC, NSFC, and Omega within each insurer's investment guidelines for a flat fee of 55 basis points.

The agreement shall be effective for a period ending on the five-year anniversary of the effective date. The agreement may be extended by mutual agreement of the Company and investment manager, but the extension is subject to the approval of the Alabama Department of Insurance. If the Company or investment manager does not perform satisfactorily under the agreement, the agreement may be terminated with 30 days prior written notice by either party. The Company or investment manager may terminate the agreement upon 180 days prior written notice or a shorter period of time if the parties agree in writing. A prior notice shall also be provided to the Commissioner.

## ORGANIZATIONAL CHART

The following chart presents the affiliations of the entities affiliated with the Company.



## **FIDELITY BONDS AND OTHER INSURANCE**

The Company was a named insured with Liberty Mutual Insurance Company for an aggregate amount, which met the suggested minimum requirements of the *NAIC Financial Condition Examiners Handbook*. In addition to this coverage, the Company also had insurance coverage for the following:

- Auto Coverage provided by Cincinnati Insurance Company.
- Cyber Liability Policy provided by Accredited Specialty Insurance Company

The Company was an insured on all policies. Each policy included all subsidiaries as a group or by entity name.

## **EMPLOYEE AND AGENT WELFARE**

The Company did not have any employees on December 31, 2023; therefore it had no employee benefit plans. All functions of the Company were performed by employees of NSIC via the terms of an administrative services agreement. The Company utilized an independent agent distribution system.

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

The examiners reviewed the Company's internal procedures to determine if prospective and current employees and/or contractors are in compliance with 18 U.S.C. § 1033, which prohibits persons with certain felony offenses from participating in the business of insurance. Also, compliance with ALA. ADMIN. CODE 482-1-146 (2009) was examined.

A sample of NSIC employees was selected. The employees of the affiliated insurer are contractors as respects the Company. For the sample of employees that were reviewed, the examiners verified that the Company performed criminal background checks of prospective employees as is required. The review also indicated that the Company performed criminal background checks of existing employees every three years, unless a background check had just been run during the past year for a newly hired employee on the date of obtaining the background checks. The managers indicated that those that were excluded because of a recent background check will be tested on the date that background checks will be obtained again for all existing employees. The Company did not have a documented procedure with the details of the intervals in which background checks would be obtained to verify that existing

employees did not have a felony conviction. ALA. ADMIN. CODE 482-1-146.11 (2009) states:

(1) a Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:

...(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.

## **MARKET CONDUCT ACTIVITIES**

### **Territory**

As of December 31, 2023, the Company was licensed to write business in the following states: Alabama, Arkansas, California, Florida, Georgia, Kentucky, Mississippi, Oklahoma, South Carolina, Tennessee, and West Virginia.

The Company was also approved to write business on a surplus lines basis in Idaho, Louisiana, Missouri, and Texas.

### **Plan of Operation**

The Company's primary line of business is property and casualty. The types of products written were property, dwelling fire/mobile home, limited homeowners, comprehensive mobile homeowners, dwelling, and tenant scheduled options. As of December 31, 2023, the Company's agency force consisted of approximately 1,600 independent producers with a small staff of home service captive producers.

### **Advertising and Marketing**

The NSG did general corporate advertising with very little specific advertisement of its products. The Company had a limited number of advertisements appearing in insurance periodicals during the examination period. Brochures and advertising materials were distributed to potential customers through the Company's agents.

The Company's website ([www.nationalsecuritygroup.com](http://www.nationalsecuritygroup.com)) provided information about its products, access to claim forms that can be submitted over the website, information to help customers find an agent, information for prospective agents, investor information, and instructions for customers to submit premium payments on-line. NSFC does not utilize social media to market or advertise products.

## **Policyholders' Complaints**

The Company had adequate complaint procedures in place for the distribution of complaints and obtaining and recording responses to those complaints. The examiner reviewed all the Company's Alabama complaints during the examination period, a total of 15 complaints forwarded by the Alabama Department of Insurance. No consumer direct complaints were received by the Company during the examination period. It was determined that the complaints were responded to timely. The Company fully addressed the issues raised by the complainants. The Company properly documented its complaint register in the required format.

## **Claims Payment Practices**

### *Paid Claims*

A sample of 110 Alabama paid claims was selected from a population of 6,982 transactions from the examination period (2019-2023). The sample was reviewed for compliance with the Company's policy provisions, timeliness of payment, and adequacy of documentation. The examination found that the claims were paid in compliance with ALA. ADMIN CODE 482-1-125-.07(1) (2020).

### *Closed Without Payment/Denied Claims*

A sample of 107 Alabama denied claims was selected from a population of 1,562 denied claims during the examination period. The examiner obtained and reviewed denial letters to the claimants. The denials were determined to be reasonable and based on specific policy provisions and/or exclusions.

### *Closed Litigated Claims*

The entire population of 15 closed litigated claims during the examination period, 2019 - 2023, was reviewed. No problematic claim handling practices were noted during the review.

## **Compliance with Producer Licensing Requirements**

### *Appointment*

A random sample of 114 transactions was selected from the Alabama written premium transactions that took place during the examination period. The examiners used the NAIC's State Based System and verified that all of the producers that



produced the business represented in the sample were appropriately licensed and appointed by the Company prior to each producer writing the subject business.

### Termination

A random sample of 113 Alabama terminated producers was selected from a population of 803 terminations. The examiners reviewed the producer termination notifications on the State Based System and termination notification letters sent to the producers. The Company did not send a termination notification to one of its terminated producers in accordance with ALA. CODE § 27-7-30.1(a) (2001), which states: "Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address."

### Underwriting and Rating

#### Policy Forms

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 116 Alabama premium transactions was selected from the premium transactions in 2019 - 2023. The examiners recalculated the premium amounts and verified that the premium was 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 examiners also reviewed a sample of 116 Alabama canceled policies and a sample of 116 rejected applications for insurance for completeness and accuracy and whether notices were sent timely. No discrepancies were noted during the review.

### Privacy Standards

The Company's privacy notice was reviewed for compliance to ALA. ADMIN. CODE 482-1-122 (2001). The Company sent out the notices to policyholders when a policy was written or renewed and annually thereafter. The Company provided notices to its customers that indicated the types of information collected, the way the

information is used, and the manner that it is collected. The notice also informed the customer that the Company did not disclose any information to any nonaffiliated third parties.

The Company's privacy notice emphasized and explained the Company's policies. The Company's policies followed the guidelines established in ALA. ADMIN. CODE 482-1-122 (2001).

The Company does not share consumer personal information with any nonaffiliated third parties. The Company had proper controls in place for employees and producers for the disclosure of nonpublic personal financial or health information.

### **SPECIAL DEPOSITS**

The Company maintained the following deposit with the respective statutory authority at December 31, 2023, as required or permitted by law.

<u>State</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Alabama	1,065,139	864,970
Georgia	50,000	51,300

### **FINANCIAL CONDITION AND GROWTH OF THE COMPANY**

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Underwriting Income</u>
2019	\$76,993,242	\$40,729,429	\$36,263,814	\$(13,451,147)
2020	78,573,356	42,068,625	36,504,732	(874,787)
2021	80,950,843	45,545,077	35,405,312	(1,414,095)
2022	83,372,441	43,956,601	39,415,843	3,884,138
2023	79,373,837	43,507,558	35,866,281	(8,544,626)

### **REINSURANCE**

#### Assumed Reinsurance

The Company did not assume any reinsurance in 2023.

## Ceded Reinsurance

### Property Catastrophe Multi-Layered Excess of Loss Reinsurance Agreement

The term of the reinsurance agreement was 12:01 A.M. Central Standard Time, January 1, 2023 to 12:01 A.M. Central Standard Time, January 1, 2024. The ceding companies were NSFC and Omega. The agreement included three excess of loss layers of reinsurance with each layer layered upon the other. There were no gaps of losses that were not reinsured after the retention is exceeded for the first excess layer up to the limit of the third excess of loss layer. The ultimate limit of the agreement was \$72.5 million, which is the sum of the limits for each of the three excess of loss layers. The retention of the first excess of loss layer was \$6 million. There is an aggregate limit for each excess of loss layer that is twice the amount of the respective per occurrence limit for each layer. The excess of loss retentions and limits were as follows:

<u>Layer</u>	<u>Retention</u>	<u>Limit</u>
1 <sup>st</sup> Excess of Loss Layer	\$6 million	\$11.5 million
2 <sup>nd</sup> Excess of Loss Layer	17.5 million	25 million
3 <sup>rd</sup> Excess of Loss Layer	42.5 million	30 million

The reinsurance retentions and limits were for one catastrophe occurrence. The reinsurance limits could be reinstated by payment of a reinstatement premium. The reinstatement premium is determined on a pro rata basis based on the extent of the reinsurance limit that has been exhausted by a catastrophe occurrence.

The reinsurance intermediary was Guy Carpenter. The participating reinsurers were as follows.

<u>Reinsurer</u>	<u>1<sup>st</sup> Excess Layer</u>	<u>2<sup>nd</sup> Excess Layer</u>	<u>3<sup>rd</sup> Excess Layer</u>
Allied World Insurance Company	6.00%	3.00%	3.00%
American Family Connect Property and Casualty Insurance Company	3.50%	3.50%	4.00%
Arch Reinsurance Company	4.25%	4.25%	4.50%
Devk Ruckversicherungs Und Beteiligungs AG	3.50%	3.50%	3.50%

Everest Reinsurance Company	5.00%	5.00%	5.00%
Farm Mutual Reinsurance Plan, Inc.	8.00%	5.00%	3.00%
Hannover Ruck SE	10.00%	15.50%	6.50%
Lloyd's London #2791	9.75%	2.00%	
Lloyd's London #1729	1.50%	2.00%	1.50%
Lloyd's London #1955	3.50%		2.00%
Lloyd's London #2001		8.00%	8.00%
Lloyd's London #4444		6.00%	6.00%
R+V Versicherung AG	30.00%	30.00%	30.00%
Swiss Reinsurance America Corporation	10.00%	10.00%	10.00%
Taiping Reinsurance Company, Limited			10.00%
Validus Reinsurance, Limited	5.00%	2.25%	3.00%

*Underlying Property Catastrophe Excess of Loss Reinsurance Agreement*

The agreement is a catastrophe excess of loss reinsurance agreement that underlies the multi-layered Property Catastrophe Excess of Loss Agreement. The term of the reinsurance agreement was 12:01 A.M. Central Standard Time, January 1, 2023 to 12:01 A.M. Central Standard Time, January 1, 2024. The ceding companies were NSFC and Omega. The retention is \$3 million, however, there is a \$3 million aggregate deductible that must be met first. The reinsurance limit is \$3 million. There is also a \$1 million limit per mobile home park, unless the reinsurer allows a special acceptance. There is an aggregate limit of \$9 million. The retention and limit are applied on a per occurrence basis. The reinsurance limit could be reinstated with payment of a reinstatement premium that is based on the pro rata diminishment of the reinsurance limit.

The reinsurance intermediary was Guy Carpenter. The agreement was 86.5% placed with reinsurers. The participating reinsurers were as follows.

<u>Reinsurer</u>	<u>Percentage Participation</u>
Allied World Insurance Company	25.0%
Devk Ruckversicherungs Und Beteiligungs AG	3.5%
Farm Mutual Reinsurance Plan, Inc	8.0%
Hannover Ruck SE	50.0%

Reinstatement Premium Protection Reinsurance Contract

The term of the reinsurance agreement was 12:01 A.M. Central Standard Time, January 1, 2023 to 12:01 A.M. Central Standard Time, January 1, 2024. The ceding companies were NSFC and Omega. The business covered under the agreement was the liability incurred for the reinstatement premium under the multi-layered excess of loss reinsurance agreement. The agreement had two excess layers. The first excess layer provides reinsurance for up to \$11.5 million in excess of the retention of \$6 million. The second excess layer provides \$25 million in excess of \$17.5 million. The aggregate limits are \$23 million for the first excess layer and \$50 million for the second excess layer.

The reinsurance intermediary was Guy Carpenter. The agreement was partially placed with reinsurers with the first layer placed 52.5% and the second layer placed 55%. The participating reinsurers were as follows.

<u>Reinsurer</u>	<u>1<sup>st</sup> Excess Layer</u>	<u>2<sup>nd</sup> Excess Layer</u>
Farm Mutual Reinsurance Plan, Inc.	2.5%	5%
Hannover Ruck SE	50%	50%

Affiliated Property Catastrophe Excess of Loss Reinsurance Agreement

NSFC had a Property Catastrophe Excess of Loss Reinsurance Agreement with Omega, the assuming reinsurer. The original agreement was for the term February 15, 2015 to February 15, 2016, and has been renewed for each annual period since the original term as is allowed by the agreement provisions. The retention is \$3 million per catastrophe occurrence. The reinsurance limit is \$1 million per catastrophe occurrence. There is an aggregate limit of \$2 million. The agreement provisions allow the reinsurance limit to be reinstated by payment of a reinstatement premium that is based on the pro rata diminishment of the reinsurance limit.

**ACCOUNTS AND RECORDS**

The Company maintained its accounting, premiums, and losses data electronically. The Company maintained additional electronic workpapers, reconciliations, and statements in its database of imaged records.

The Company's independent audit was performed by Warren Averett, a certified public accounting firm of Birmingham, Alabama.

Unclaimed Property

The review of Alabama unclaimed property determined that the Company properly escheated unclaimed property to the state of Alabama.

## FINANCIAL STATEMENTS

The following financial statements are 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, 2023. 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.

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**National Security Fire & Casualty Company**  
**Statement of Assets, Liabilities, Surplus and Other Funds**  
**For the Year Ended December 31, 2023**

Amounts recoverable from reinsurers	199,833	44,746	155,087
Current federal and foreign income tax recoverable and interest thereon	1,552,337	-	1,552,337
Net deferred tax asset	2,601,960	946,014	1,655,946
Electronic data processing equipment and software			
Furniture and equipment, including health care delivery assets	5,778	5,778	-
Receivables from parent, subsidiaries and affiliates	3,176	-	3,176
Aggregate write-ins for other-than-invested assets	3,750,780	18,163	3,732,167
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	80,392,211	1,018,374	79,373,837
<b>TOTAL ASSETS</b>	<b>\$ 80,392,211</b>	<b>\$ 1,018,374</b>	<b>\$ 79,373,837</b>

**LIABILITIES**

Losses		\$ 6,739,565
Loss adjustment expenses		234,585
Commissions payable, contingent commissions and other similar charges		1,000,266
Other expenses		1,148,139
Taxes, licenses and fees		896,973
Unearned premiums		32,421,255
Advance premium		859,914
Ceded reinsurance premiums payable		174
Funds held by company under reinsurance treaties		41,041
Provision for reinsurance		19,000
Payable to parent, subsidiaries and affiliates		146,646
<b>TOTAL LIABILITIES</b>		<b>\$ 43,507,558</b>

**SURPLUS**

Common capital stock		\$ 1,500,000
Surplus notes		10,000,000
Gross paid in and contributed surplus		6,360,000
Unassigned funds		18,006,280
Surplus as regards policyholders		\$ 35,866,280

**TOTAL LIABILITIES, SURPLUS AND OTHER FUNDS** **\$ 79,373,838**

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF**



**National Security Fire & Casualty Company**  
**Statement of Income**  
**For the Years Ended December 31, 2019-2023**

<u>UNDERWRITING INCOME</u>	2023	2022	2021	2020	2019
Premiums earned	\$ 54,724,652	\$ 56,741,563	\$ 55,345,559	\$ 54,585,973	\$ 53,455,983
DEDUCTIONS					
Losses incurred	36,267,546	27,881,102	31,880,512	42,457,386	29,946,289
Loss adjustment expenses	4,832,537	3,983,697	4,389,080	5,647,808	4,632,529
Other underwriting expenses incurred	22,167,220	20,990,773	20,498,614	19,925,619	19,750,178
Aggregate write-ins for underwriting deductions	1,976	1,854	447	6,309	1,775
Total underwriting deductions	<u>\$ 63,269,279</u>	<u>\$ 52,857,426</u>	<u>56,768,653</u>	<u>\$ 68,037,121</u>	<u>\$ 54,330,770</u>
Net underwriting gain (loss)	<u>\$ (8,554,626)</u>	<u>\$ 3,884,138</u>	<u>\$ (1,414,094)</u>	<u>\$ (13,451,147)</u>	<u>\$ (874,787)</u>
<u>INVESTMENT INCOME</u>					
Net investment income earned	\$ 1,109,685	\$ 1,080,307	\$ 1,022,371	\$ 962,154	\$ 1,136,716
Net realized capital gains	\$ (300,124)	\$ (60,581)	\$ 8,169	\$ 756,224	\$ (8,000)
Net investment gain (loss)	<u>\$ 809,560</u>	<u>\$ 1,019,726</u>	<u>\$ 1,030,541</u>	<u>\$ 1,718,379</u>	<u>\$ 1,128,716</u>
<u>OTHER INCOME</u>					
Finance and service charges not included premiums	\$ 398,545	\$ 436,441	\$ 491,957	\$ 536,906	\$ 551,823
Aggregate write-ins for miscellaneous items	1,856,778	(1,094,273)	97,024	394,341	2,111,361
Total other income	<u>\$ 2,255,323</u>	<u>\$ (657,832)</u>	<u>\$ 588,981</u>	<u>\$ 931,247</u>	<u>\$ 2,663,184</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ (5,479,743)	\$ 4,246,032	\$ 205,427	\$ (10,801,522)	\$ 2,917,113
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(5,479,743)	4,246,032	205,427	(10,801,522)	2,917,113
Federal and foreign income taxes incurred	<u>\$ (1,565,825)</u>	<u>\$ 443,893</u>	<u>\$ 1,176,569</u>	<u>\$ (1,978,713)</u>	<u>\$ 273,101</u>
Net income	<u>\$ (3,913,919)</u>	<u>\$ 3,820,139</u>	<u>\$ (971,142)</u>	<u>\$ (8,822,808)</u>	<u>\$ 2,644,012</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL  
PART THEREOF**

**National Security Fire & Casualty Company**  
**Capital and Surplus**  
**For the Years Ended December 31, 2019-2023**

	2023	2022	2021	2020	2019
<b>Surplus as regards policyholders, December 31 prior year</b>	<u>\$ 39,415,843</u>	<u>\$ 35,405,312</u>	<u>\$ 36,504,732</u>	<u>\$ 36,263,814</u>	<u>\$ 34,644,777</u>
Net income	(3,913,919)	3,802,139	(971,142)	(8,822,808)	2,644,012
Change in net unrealized capital gains or (losses) less capital gains tax	310,486	425,765	(136,890)	(1,034,145)	741,874
Change in net deferred income tax	(10,890)	(851,560)	1,204,858	513,878	94,029
Change in nonadmitted assets	63,761	590,187	(1,479,246)	(70,005)	107,122
Change in provision for reinsurance	1,000	44,000	283,000	(346,000)	32,000
Change in surplus notes				10,000,000	
Dividends to stockholders					(2,000,000)
Change in surplus as regards policyholders for the year	(3,549,562)	4,010,530	10,099,420	240,918	1,619,037
<b>Surplus as regards policyholders, December 31 current year</b>	<u>\$ 35,866,281</u>	<u>\$ 39,415,843</u>	<u>\$ 35,405,312</u>	<u>\$ 36,504,732</u>	<u>\$ 36,236,814</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL  
PART THEREOF**

## NOTES TO FINANCIAL STATEMENTS

### Analysis of Changes to Surplus

No changes were made to surplus.

## COMMENTS AND RECOMMENDATIONS

### Compliance with 18 U.S.C § 1033 – Page 10

**It is recommended** that the Company have a documented procedure that effectively ensures that none of the Company's employees and/or contractors are prohibited from engaging in the business of insurance in accordance 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:

...(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.

### Compliance with Producer Licensing Requirements – Page 12

**It is recommended** that the Company comply with ALA. CODE § 27-7-30.1(a) (2001) which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address.

## COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was performed to determine if the Company had complied with the recommendations made in the last examination report. The review indicated that the Company had complied with the recommendations contained in the most recent report of examination with the exception of the item noted below.

During the last examination it was recommended that the Company comply with ALA. CODE § 27-7-30.1(a) (2001) which states, "Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a

copy of the notification to the producer at his or her last known address." The examination indicated that the Company did not comply with the previous recommendation.

## **CONTINGENT LIABILITIES AND PENDING LITIGATION**

The examination for contingent liabilities and pending litigation included a review of the Company's annual statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of the accounts for unrecorded items. The review did not identify any items that would have a material impact on the Company's financial statements in the event of an adverse outcome.

## **SUBSEQUENT EVENTS**

A review of events after December 31, 2023, showed that the Company submitted a Form A for acquisition by PhenixFIN. There was a hearing with the ALDOI on August 21, 2024, to consider the acquisition's approval. The ALDOI approved the Form A filing on September 12, 2024, but the acquisition has not occurred.

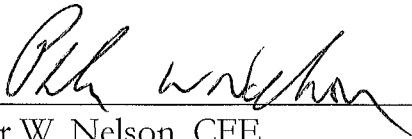
## CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing NSFC during the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Theo Goodin, AIE, ALMI, MCM, Mora Perkins-Taylor, MCM, David Martin, Andarius Vincent, David Abbot, Cristi Owen, CPA, CFE, AMCM, CPM, David Gordon, CISA, CIA, CFE (Fraud), CDFE, Lisa Bringman, CRP, CBA, Solomon Frazier, FSA, FCAS, MAAA, and Kirk Braunius, ASA, MAAA; all representing the Alabama Department of Insurance, participated in the examination of NSFC.

Respectfully submitted,



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Palmer W. Nelson, CFE  
Examiner-in-charge  
Alabama Department of Insurance