

**REPORT ON EXAMINATION**  
**OF**  
**GREAT AMERICAN FIDELITY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2016**

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

**GREAT AMERICAN FIDELITY INSURANCE COMPANY**

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

Attest By: Reyn 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  
GREAT AMERICAN FIDELITY 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.

A handwritten signature in blue ink that reads "Trinidad Navarro".

Trinidad Navarro  
Insurance Commissioner

Dated this 15<sup>th</sup> day of June, 2018

## TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS .....	3
COMPANY HISTORY .....	3
Common Capital Stock.....	4
Dividends.....	4
Gross Paid-In and Contributed Surplus .....	5
MANAGEMENT AND CONTROL .....	5
Directors .....	5
Board Committees .....	6
Holding Company System.....	7
Affiliated Agreements .....	9
TERRITORY AND PLAN OF OPERATION .....	10
Territory.....	10
Plan of Operation.....	10
REINSURANCE.....	11
Intercompany Pooling Agreement.....	11
FINANCIAL STATEMENTS .....	12
Assets.....	13
Liabilities, Surplus and Other Funds .....	14
Statement of Income .....	15
Reconciliation of Capital and Surplus .....	16
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS FROM EXAMINATION .....	16
COMMENTS ON FINANCIAL STATEMENTS.....	16
SUBSEQUENT EVENTS .....	17
COMPLIANCE WITH PRIOR REPORT OF EXAMINATION .....	17
SUMMARY OF RECOMMENDATIONS .....	17
CONCLUSION.....	18

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. 17.003, dated April 3, 2017, an examination has been made of the affairs, financial condition and management of

**GREAT AMERICAN FIDELITY INSURANCE COMPANY**

hereinafter referred to as (Company or GAFI), 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), Mid-Continent Excess and Surplus Insurance Company (MCES) 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 originally incorporated under the laws of the State of Delaware on January 12, 1982 as the Stonewall Surplus Lines Insurance Company, a wholly owned subsidiary of the Stonewall Insurance Company. On March 31, 1991, the Company was sold to affiliate

AESLIC, which on December 30, 1994, sold the outstanding common stock of the Company to affiliate Great American Insurance Company (GAIC). Effective December 20, 1995, the Company's name was changed from Stonewall Surplus Lines Insurance Company to American Dynasty Surplus Lines Insurance Company. The Company's current name became effective June 27, 2001, after filing the name change with the Secretary of State of Delaware.

The Company, along with its direct parent GAIC and other affiliate companies, operates under terms of an intercompany reinsurance pooling arrangement, whereby GAIC retains 100% of the pooled business of its wholly owned subsidiary companies. The Great American Pool (Group) of companies focus on writing specialized commercial lines products that include inland and ocean marine, agricultural (primarily multi-peril crop insurance), equine mortality, executive liability, to include directors and officers and errors and omission, workers' compensation, fidelity and surety, trade credit, commercial auto, bonds, general liability, collateral protection, umbrella, excess liability and excess property.

#### Common Capital Stock

As of December 31, 2016, the Company's authorized capital was \$3,000,000, consisting of 2,500 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 paid two (2) ordinary dividends to its direct parent, GAIC. Both dividends were approved by the Department, as follows:

<u>Date Paid</u>	<u>Amount</u>
June 26, 2014	\$ 2,000,000
June 26, 2015	\$ 1,000,000



Gross Paid-In and Contributed Surplus

The Company had the following surplus adjustments paid-in and contributed during the period under examination:

At December 31, 2011	<u>\$ 19,550,000</u>
2012	10,000,000
2015	<u>500,000</u>
At December 31, 2016	<u><u>\$ 30,050,000</u></u>

Surplus adjustments during the examination period were related to operating results of the Company offset by approved dividend payments.

**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 8 of the Company's bylaws, states that the Board shall consist of no fewer than four (4) and no more than twelve (12) directors. 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, GAIC
Gary J. Gruber	Director and Executive Vice President, GAIC
Donald D. Larson	Director, President and Chief Operating Officer, GAIC
Aaron B. Latto	Director and Senior Vice President, GAIC
Michael D. Pierce	Director and Senior Vice President, GAIC
Eve Cutler Rosen	Director, Senior Vice President, Executive Counsel and Secretary, GAIC



Eve Cutler Rosen	Senior Vice President, Executive Counsel and Secretary
Sue A. Erhart	Senior Vice President and General Counsel
David J. Witzgall	Senior Vice President, Chief Financial Officer and Treasurer
Lisa A. Hays	Vice President and Actuary
Robert J. Schwartz	Vice President and Controller
Annette D. Gardner	Vice President and 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 GAIC, an insurance company incorporated in the State of Ohio. GAIC is a wholly owned subsidiary of AFG, a holding company incorporated in the State of Ohio. AFG, through its subsidiaries, is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in 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.

Domiciliary

<u>AFG and Subsidiaries</u>	<u>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>	OH
<i>Annuity Investors Life Insurance Company*</i>	OH
Manhattan National Holding Corporation	OH
<i>Manhattan National Life Insurance Company*</i>	OH
Great American Holding, Inc.	OH
Agricultural Services, LLC	OH
<i>American Empire Surplus Lines Insurance Company*</i>	DE
<i>American Empire Insurance Company*</i>	OH
American Empire Underwriters, Inc.	TX
<i>Mid-Continent Casualty Company*</i>	OH
<i>Mid-Continent Assurance Company*</i>	OH
<i>Mid-Continent Excess and Surplus Insurance Company*</i>	DE
<i>Oklahoma Surety Company*</i>	OH
<i>Republic Indemnity Company of America*</i>	CA
<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 &amp; S Insurance Company*</i>	DE
<b><i>Great American Fidelity Insurance Company*</i></b>	<b>DE</b>
<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

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:

*Custodial and Management Agreement*

Effective January 1, 1984, the Company entered into a Custodial and Management Agreement with American Money Management Corporation (AMM), whereby AMM provides trading, investment, management and accounting services related to the Company's investment portfolios. The services are provided to the Company at no greater than cost.

*Underwriting Management Agreement*

Effective November 1, 1989, as amended most recently April 1, 2008, the Company, along with other affiliated companies, are parties to an Underwriting Management Agreement with National Interstate Insurance Agency, Inc. (National Interstate), whereby National Interstate will perform underwriting, claims, premium and data entry activities on all business produced by National Interstate.

*General Services Agreement*

Effective August 1, 1996, the Company entered into a General Services Agreement with certain AFG affiliate companies, whereby each member of the holding company has agreed to provide administrative services as requested by any of the other parties. 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.

#### *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 all 50 states and the District of Columbia. Specifically, the Company was authorized to transact the business of property, surety, casualty, and marine and transportation insurance, as defined in 18 *Del. C.* § 904 "Property insurance", 18 *Del. C.* § 905 "Surety 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 61.6% of its direct premiums written in five states. The geographical breakdown of the Company's 2016 direct premiums written is reflected below.

<u>State</u>	Direct Premiums <u>Written</u>	<u>Percentage</u>
California	\$ 6,492,204	39.4%
New York	1,428,211	8.7%
Florida	818,519	5.0%
Texas	736,064	4.5%
Georgia	674,266	4.1%
<u>Other States</u>	<u>6,326,347</u>	<u>38.4%</u>
Total	<u>\$ 16,475,611</u>	<u>100.0%</u>

The primary source utilized by the Company for obtaining business is through surplus lines brokers, known as wholesalers. The wholesalers obtain their business from individual agents or agencies that are licensed to write surplus and excess lines coverages in their applicable state. In 2016, the Company's business was written through approximately 100 agencies, consisting of approximately 190 offices.

### **REINSURANCE**

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

Direct	\$ 16,475,611
Reinsurance assumed	<u>-</u>
Total direct and assumed	\$ 16,475,611
Reinsurance ceded (to affiliates)	<u>16,475,611</u>
Net premiums written	<u>\$ -</u>

### **Intercompany Pooling Agreement**

The Company is party to a Pooling Agreement, last amended December 31, 2004, whereby the Company, along with other affiliates, cedes all premiums, liabilities and expenses to the direct parent, GAIC. GAIC retains 100% of the pooled business with no retrocessions back to the participating subsidiary companies.

**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 ended 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.



Assets  
As of December 31, 2016

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 34,074,227	\$ -	\$ 34,074,227	1
Stocks:				
Preferred stocks	467,500		467,500	
Cash, cash equivalents and short-term investments	12,224,896		12,224,896	
Receivables for securities	1,532		1,532	
Investment income due and accrued	269,759		269,759	
Net deferred tax asset	82,436		82,436	
Total Assets	<u>\$ 47,120,350</u>	<u>\$ -</u>	<u>\$ 47,120,350</u>	

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

		Notes
Losses	\$ -	2
Loss adjustment expenses	-	2
Other expenses	1,250	
Current federal and foreign income taxes	17,842	
Total Liabilities	\$ 19,092	
Common capital stock	3,000,000	
Gross paid-in and contributed surplus	30,050,000	
Unassigned funds	14,051,258	
Surplus as regards policyholders	47,101,258	
Total Liabilities, Capital and Surplus	\$ 47,120,350	

Statement of Income  
For the Year Ended December 31, 2016

UNDERWRITING INCOME

Premiums earned	\$	-
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DEDUCTIONS

Losses incurred	\$	-
Loss adjustment expenses incurred		-
Other underwriting expenses incurred		-
Total Underwriting Deductions	\$	-
Net Underwriting Gain or (Loss)	\$	-

NET INVESTMENT INCOME

Net investment income earned	\$	1,053,827
Net realized capital gains (losses) less capital gains tax		-
Net investment Gain or (Loss)	\$	1,053,827

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	\$	-
Aggregate write-ins for miscellaneous income		(49)
Total Other Income	\$	(49)

Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$	1,053,778
Dividends to policyholders		-
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$	1,053,778
Federal and foreign income taxes incurred		162,840
Net Income (Loss)	\$	890,938

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

	Common Capital Stock	Gross Paid-In and Contributed Surplus	Unassigned Surplus	Total
December 31, 2011	\$ 3,000,000	\$ 19,550,000	\$ 13,287,392	\$ 35,837,392
Operations 2012 (1)			772,589	772,589
Paid-in Surplus 2012 (2)		10,000,000		10,000,000
Operations 2013 (1)			719,254	719,254
Operations 2014 (1)			652,258	652,258
Dividends 2014 (3)			(2,000,000)	(2,000,000)
Operations 2015 (1)			717,146	717,146
Paid-in Surplus 2015(2)		500,000		500,000
Dividends 2015 (3)			(1,000,000)	(1,000,000)
Operations 2016 (1)			902,619	902,619
December 31, 2016	<u>\$ 3,000,000</u>	<u>\$ 30,050,000</u>	<u>\$ 14,051,258</u>	<u>\$ 47,101,258</u>

(1) Operations defined as: Net income (loss), change in net unrealized capital gains or (losses) and change in net deferred income tax.

(2) Surplus adjustments Paid-in.

(3) Dividends to stockholders.

**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 \$ 34,074,227

Long-term bonds constitute the largest category of cash and invested assets as of December 31, 2016, comprising 72.9% of total cash and invested assets. With respect to credit

quality standards, approximately \$33,574,044 or 98.5% of the Company's total bond holdings were categorized as NAIC Class 1 investment grade bonds. Investment grade NAIC Class 2 bonds totaled approximately \$500,183 or 1.5% 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, GAIC. GAIC 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.

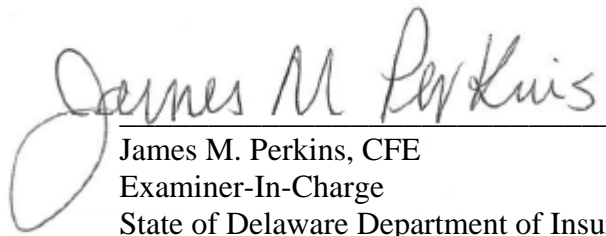
#### **SUMMARY OF RECOMMENDATIONS**

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

**CONCLUSION**

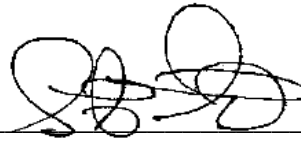
The assistance and cooperation of examiners representing the ODI, as well as examiners from the other state departments on the coordinated examination, is acknowledged. In addition, the assistance of INS Consultants, the Company's outside audit firm, E&Y, the AFG Internal Audit Department and the Company's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

Respectfully submitted,



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



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