REPORT ON EXAMINATION AS TO THE CONDITION OF

INTERNATIONAL FIDELITY INSURANCE COMPANY

NEWARK, NEW JERSEY 07102-5207

AS OF DECEMBER 31, 2019

NAIC GROUP CODE 4705

NAIC COMPANY CODE 11592

FILED

JUNE 17, 2021

COMMISSIONER

DEPARTMENT

OF

BANKING AND INSURANCE

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MARLENE CARIDE
Commissioner

April 16, 2021

Honorable Marlene Caride
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

A financial examination has been made of the condition and affairs of the:

International Fidelity Insurance Company
One Newark Center
Newark, New Jersey 07102-5207
NAIC Group Code 4705
NAIC Company Code 11592

a property and casualty insurance organization authorized to transact business in the State of New Jersey and hereinafter referred to in this report as the "Company" or "IFIC."

<u>SCOPE OF EXAMINATION</u>

The New Jersey Commissioner of Banking and Insurance called this examination in compliance with the requirements of <u>N.J.S.A.</u> 17:23-22. The examination was a full-scope comprehensive examination.

The examination was conducted using the risk-focused examination approach and addressed the four-year period from December 31, 2015, the date of the last financial condition examination. During this four-year period under examination, the Company's net admitted assets increased from $214,415,720 to $266,950,623. Liabilities increased from $125,306,898 to $158,469,068 and surplus as regards policyholders increased from $89,108,820 to $108,481,555.

The conduct of the examination was governed in accordance with the procedures of the National Association of Insurance Commissioners (NAIC) and followed regulatory procedures prescribed or permitted by the New Jersey Department of Banking and Insurance (NJDOBI). The scope of this examination focused on certain specific key risk areas as determined by a risk assessment analysis through the use of control testing. Risks were assessed based upon its impact to the Company's financial condition and its future results. An assessment of the Company's management, corporate governance and information systems was utilized to identify, control, assess and manage its business and financial reporting risks. The overall objectives of this examination are indicated below:

- Perform an examination utilizing business risk assessment activities, focusing examination procedures on those areas considered to have greater risk in order to identify significant operating issues and/or deviations from Statutory Accounting Practices that affect solvency assessment.
- Identify significant deviations from New Jersey insurance laws, regulations and NJDOBI directives.
- Conduct the examination in accordance with standards prescribed in the NAIC *Financial Condition Examiners Handbook*, NAIC Accreditation Standards and NJDOBI policy.
- Identify and report on significant operational and internal control deficiencies.
- Assess the governance structure, corporate culture and management processes in order to assess management's (including Board of Directors) ability to identify, evaluate and control its business risks.
- Identify and report any prospective risks for continued monitoring and surveillance by the NJDOBI.

In addition to the items hereinafter incorporated as part of the written report, the following items were reviewed and made part of the examination workpapers:

Commitments and Contingencies
Fraud
Treatment of Policyholders
Advertising
Policy Forms and Underwriting Practices

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

Corporate Records

Recommendation: It is recommended the Company maintain comprehensive minutes of its Board of Directors and committee meetings and maintain minutes of all shareholder meetings.

Compliance: A review of the Company's minutes confirmed the Company's compliance with the above recommendation.

HISTORY OF THE COMPANY

The Company was organized and incorporated on December 27, 1904, under the laws of the State of New Jersey and commenced business on January 5, 1905. The Company was originally formed as a subsidiary of the Singer Sewing Company as its captive provider of fidelity coverage.

The Monmouth Insurance Company (Monmouth) was incorporated and licensed under the laws of New Jersey and in 1964 was merged with and into IFIC. Monmouth shareholders, many of whom were insurance agents, exchanged shares in Monmouth for IFIC shares. The Company became a writer of surety bail bonds and has expanded into other types of surety business over the years. In 2009, IFIC purchased the shares of The Chestnut Group, who in turn owns 100% of Allegheny Casualty Company (ACC), a surety insurance company. In 2015, IFIC Surety Group, Inc. was incorporated in the State of New Jersey to hold all of the stock in IFIC. On August 31, 2015, the owners of IFIC exchanged 100% ownership in IFIC for 100% ownership in IFIC Surety Group, Inc.

In 2018, TransGuard Insurance Company of American (TGIA), an Illinois-domiciled insurance company, purchased 100% of IFIC Surety Group, Inc., the former direct parent of IFIC. TGIA and IFIC are part of the IAT Insurance Group, Inc. (IIG), an insurance holding company. IAT Reinsurance Company Ltd. (IAT), a Cayman Island-based reinsurance company, owns the outstanding common stock of IIG. IAT is ultimately controlled by Goose Creek Capital, Inc., a Wyoming-based holding company. In 2019, IIG acquired 100% of TGIC and ACC from IFIC. IIG paid cash consideration of $24,800,000, which was the statutory carrying value of ACC and unamortized goodwill as of December 31, 2018.

Capitalization of the Company consists of total capital stock of $2,576,790 ($3,600,000 less Treasury Stock of $1,023,210) consisting of 1,000,000 shares of common stock with a par value of $3.60 per share. Surplus notes with private entities totaling $16,000,000 were issued as follows:

- A $6,000,000 surplus note was issued on December 16, 2003, to Wilmington Trust Company now held by US Bank NA as trustee for TruPS Financial Securitization 2017-2 Ltd. Interest rates on the note are based upon LIBOR (London InterBank Offered Rate) plus 4.10%. The notes mature on January 8, 2034, and any interest or repayment of principal on the notes is subject to the approval of the NJDOBI.

- A $10,000,000 surplus note was issued on December 16, 2005, to JP Morgan Chase Bank, National Association now held by Alesco Preferred Funding IX Ltd. Interest rates on the note are based upon LIBOR (London InterBank Offered Rate) plus 3.45%. The notes mature on December 15, 2035, and any interest or repayment of principal on the notes is subject to the approval of the NJDOBI.

The Company is authorized to transact the kind of business specified in paragraph "e" or "g" of N.J.S.A. 17:17-1. The Company's main administrative office is located at One Newark Center, Newark, New Jersey 07102.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to write business in all 50 states including the District of Columbia, Guam, Puerto Rico, and U.S. Virgin Islands. The Company provides a wide range of surety bonds including contract, commercial, bail, specialty and subdivision. It also offers fidelity bonds in several states as secondary cover on commercial business written. The Company is an authorized surety in all federal courts and is treasury listed by the United States Treasury Department.

The Company generates business through the use of over 700 independent agents nationwide. Agents are granted powers of attorney with business written subject to underwriting approval or through a granted account line of authority. Marketing and underwriting strategies are generally developed by the Home Office located in Newark, New Jersey with the execution of marketing and underwriting strategies occurring through 16 field office networks located in the following areas:

Birmingham, Alabama	Baltimore, Maryland
Anaheim, California	Newark, New Jersey
Walnut Creek, California	Charlotte, North Carolina
Denver, Colorado	Columbus, Ohio
Hartford, Connecticut	Philadelphia, Pennsylvania
Orlando, Florida	Dallas, Texas
Atlanta, Georgia	Houston, Texas

Chicago, Illinois	Seattle, Washington

In addition to the field offices listed above, the Company maintains claim and legal field offices throughout the country, which provides Company representations in specific areas. A list of these offices follows:

Anaheim, California	Newark, New Jersey
Chicago, Illinois	Dallas, Texas
Baltimore, Maryland	Seattle, Washington

IFIC has a managing general agent agreement with AIA Holdings, Inc. (AIA) to manage and process the Company's bail business. AIA was previously an affiliate of the Company.

REINSURANCE AND RETENTION

The Company cedes contract and commercial surety through a variable quota share reinsurance contract. Under the contract, effective January 1, 2019, business is ceded and accepted by the reinsurers as follows:

Class of Surety	Bond Amount	Company Retention	Ceded to Reinsurer
Contract and Commercial	$0 - $500,000	100.0%	0.0%
Contract and Commercial	$500,001 - $1,000,000	95.0%	5.0%
Contract and Commercial	$1,000,001 - $5,000,000	75.0%	25.0%
Contract and Commercial	$5,000,001 - $7,000,000	50.0%	50.0%
Contract	$7,000,001 - $50,000,000	35.0%	65.0%
Commercial	$7,000,001 - $30,000,000	35.0%	65.0%
Contract	$50,000,001 and greater		Submit for Special Acceptance
Commercial	$30,000,001 and greater		Submit for Special Acceptance

The quota share agreement is subject to a co-surety clause whereby certain bonds may be coinsured with Everest Reinsurance Company (Everest). Under such an arrangement, other reinsurers maintain a Hold Harmless Agreement with IFIC and Everest with reinsurers maintaining their reinsurance participation in the event Everest enters into a co-surety agreement.

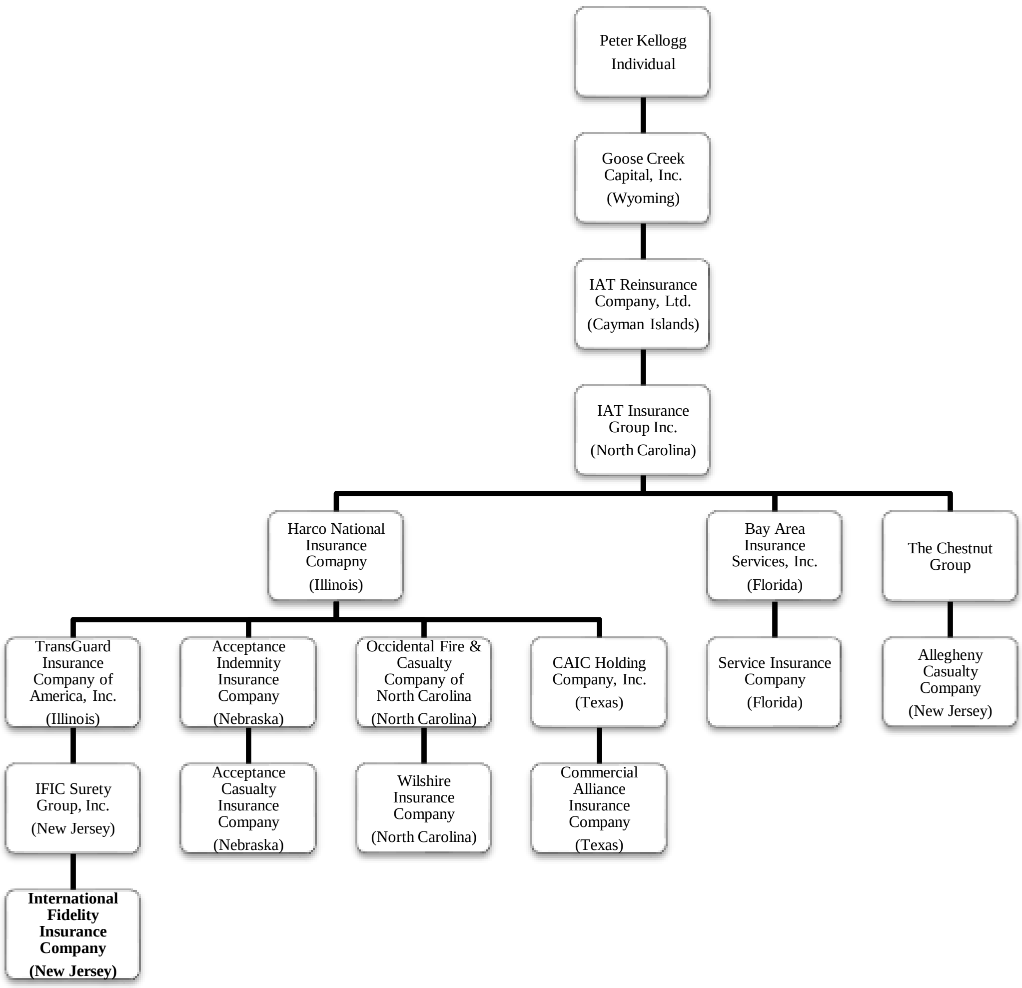
The Company cedes contract and commercial surety through an excess of loss reinsurance contract. Under the contract, effective January 1, 2019, business is ceded and accepted by the reinsurers as follows:

	First Excess	**Second Excess**
Company's Retention	$3,000,000	$15,000,000
Reinsurer's Per Principal Limit	$12,000,000	$15,000,000
Reinsurer's Aggregate Limit	$24,000,000	$30,000,000
Annual Minimum Premium	$1,077,000	$353,000
Premium Rate	1.235%	0.405%
Annual Deposit Premium	$1,140,000	$374,000
Quarterly Deposit Premium	$285,000	$93,500

Reinsurance contracts were reviewed by NJDOBI to ensure there was adequate risk transfer on those contracts. Reinsurance agreements were also reviewed to ensure all contracts had acceptable clauses and conditions.

HOLDING COMPANY SYSTEM

The Company is a member of a holding company system as defined within N.J.S.A. 17:27A. The following is a summarized organizational chart as of December 31, 2019:



The Company has entered into a number of affiliated agreements as described below:

- On January 1, 2010, the Company entered into an expense sharing agreement with its affiliate, ACC. The Company incurs operational expenses on behalf of ACC and at the end of each quarter; the Company will charge ACC for their portion of those expenses.
- On January 1, 2010, the Company entered into a quota share reinsurance agreement with ACC, whereby the Company assumes 100% of ACC's surety business, excluding bail business. The Company pays a 3% ceding commission on the gross premium attributable to any and all ceded bonds and assumes all premium and losses related to this business.
- On October 1, 2018, the Company entered into a Tax Allocation Agreement by and among IAT and its subsidiaries. The provision for Federal income tax is computed as if the insurance companies were filing a separate income tax return. Benefits, which arise from

tax credits and net operating losses, are allocated to the company producing such results to the extent they are utilized in the consolidated income tax provision.

- On January 1, 2019, the Company entered into a quota share reinsurance agreement with ACC. Under this agreement, the Company cedes 100% of its bail business written to ACC.
- On January 1, 2019, the Company entered into a quota share reinsurance agreement with Harco National Insurance Company (HNIC). Under this Agreement, the Company cedes 100% surety bonds in excess of $10,600,000 to HNIC.

CORPORATE RECORDS

The Bylaws stipulate the Board of Directors (Board) manage the business and affairs of the Company. Elected Directors shall hold office until the next annual meeting of stockholders and until their successors have been elected and qualified. A majority of the entire Board shall constitute a quorum. A review of the corporate minutes indicated the Board held annual meetings in accordance with the Bylaws, for the purpose of nominating officers and transacting business.

A special meeting of the Board was held on January 24, 2018, where the Board approved an amendment to the Bylaws. Whereas Article II, Section 7 of the Bylaws was amended to allow removal of any one or more directors with or without cause, any vacancy among directors shall be filled by the vote of a majority of the remaining directors or by the vote of a majority of the stockholders.

MANAGEMENT AND CONTROL

The Bylaws stipulate an annual meeting of the shareholders shall be held at a place and time as determined by the Board. A majority of voting shareholders shall constitute a quorum. A review of the corporate minutes indicated the shareholders held annual meetings in accordance with the Bylaws, for the purpose of electing Board members and transacting business.

The duly elected members of the Board serving at December 31, 2019, were as follows:

Name	Principal Occupation
Todd E. Bateson	Vice President and Chief Underwriting Officer, IAT
Michael D. Blinson	Senior Vice President and Corporate Secretary, McM Corporation
Kenneth C. Coon	Senior Vice President, IAT
William E. Cunningham, Jr.	Chief Executive Officer, IAT
Gregory M. Even	Director of ACC and IFIC
Alisa L. Miller	Chief Human Resources Officer, IAT
David G. Pirrung	Chief Financial Officer, IAT

The Bylaws provide for the appointment of one or more committees, each committee to consist of two or more directors of the Board. At December 31, 2019, the Company had one committee consisting of the following members:

Executive Committee
Todd E. Bateson
Michael D. Blinson
William E. Cunningham, Jr.
David G. Pirrung

In accordance with the Bylaws, the Board held annual meetings for the purpose of nominating officers. The elected officers of the Company serving at December 31, 2019, were as follows:

Michael D. Blinson	Senior Vice President and Corporate Secretary
Kenneth S. Chapman	Executive Vice President
George R. James	Senior Vice President
John M. Mruk	Treasurer
Adrian Oddi	Senior Vice President
David G. Pirrung	President
Frank J. Tanzola, Jr.	Senior Vice President and Assistant Secretary

POLICY OF CONFLICT OF INTEREST

The Company has established a procedure for disclosure in advance of engaging in any activity or employment that poses any conflict of interest or apparent or potential conflict of interest.

On an annual basis, officers, directors and key employees are required to complete a conflict of interest statement. The Corporate Secretary directs the distribution of the annual conflict of interest statements. The Chief Human Resources Officer maintains oversight over employee compliance with the corporate ethics policies.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company is insured under a Bond Form C. The assured is IAT, including its subsidiaries. The Bond Form C has an aggregate limit of liability of $2,250,000. The coverage is deemed adequate to satisfy the minimum amount of fidelity insurance coverage as suggested by the NAIC exposure index amount.

The Company also maintains additional insurance coverage for the protection of its assets on the various policies in effect at December 31, 2019, as follows:

- Business Automobile Policy
- Excess-Umbrella Policy
- Financial Institutions Package Policy
- Fiduciary Liability Policy

- Foreign Package Policy
- Workers' Compensation Policy

ACCOUNTS AND RECORDS

The Company utilizes the IBM iSeries as its book of record for new business, accounts payable, accounts receivable, and general ledger. The Company's IBM iSeries server infrastructure is located at the Company's home office data center in Newark, New Jersey.

In 2019, the Company transitioned to the StoneRiver general ledger system that is utilized by the parent company and all of the other entities in the IAT Insurance Group. Premium and loss transactions are manually entered into the system through journal entries.

U.S. Bank National Association manages investments under investment guidelines established by the Company. Securities market value is obtained from ICE Pricing & Reference Data LLC and uploaded to the Company's investment system.

The Company has its own programming group that maintains the administrative system for the Company that feed the IAT Insurance Group's general ledger and financial reporting system. The systems currently used at IAT Insurance Group are summarized below:

Underwriting Database – An internally-developed application to monitor performance (both financially and job specific) of its principals/contractors.

Lines of Credit – An internally-developed application that utilizes SharePoint to track bond dollar amounts that are granted to principals/contractors.

Bond Approval System – An internally-developed application used to track approvals greater than $1,000,000.

Claims Workflow – The claim systems that manages paperwork and claim files.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Financial statements are presented in the following pages as listed below:

Exhibit A:	Statement of Financial Position As of December 31, 2019
Exhibit B:	Statement of Operating Results For the Four-Year Period Ending December 31, 2019
Exhibit C:	Changes in Capital and Surplus For the Four-Year Period Ending December 31, 2019

International Fidelity Insurance Company

EXHIBIT A: Statement of Financial Position

As of December 31, 2019

ASSETS	Balance per Examination @ 12/31/19	Balance per Company @ 12/31/19	Examination Change	Note
Bonds	$ 178,431,082	$ 186,249,854	$ (7,818,772)	1, 2
Preferred Stocks	1,066,851	1,066,851		
Common Stocks	26,110,556	28,494,265	(2,383,709)	1
Cash and Cash Equivalents	31,515,325	31,515,325		2
Subtotal Cash and Invested Assets	237,123,814	247,326,295	(10,202,481)	
Investment Income Due and Accrued	1,981,457	1,981,457		
Uncollected Premiums	7,789,433	7,789,433		
Amounts Recoverable from Reinsurers	3,752,635	3,752,635		
Net Deferred Tax Asset	2,223,432	2,223,432		
Electronic Data Processing Equipment and Software	284,336	284,336		
Receivables from Parent, Subsidiaries and Affiliates	572,107	572,107		
Aggregate Write-ins	3,020,928	3,020,928		
Total Net Admitted Assets	**$ 256,748,142**	**$ 266,950,623**	**$ (10,202,481)**	
LIABILITIES				
Losses	$ 13,464,213	$ 13,464,213	$ -	3
Reinsurance Payable	(164,338)	(164,338)		
Loss Adjustment Expenses	4,563,322	4,563,322		3
Commissions Payable	1,060,931	1,060,931		
Other Expenses	4,442,312	4,442,312		
Current Federal and Foreign Income Taxes	2,351,114	2,351,114		
Unearned Premiums	38,746,310	38,746,310		
Policyholders Dividends Declared and Unpaid	700,000	700,000		
Ceded Reinsurance Premiums Payable	2,908,367	2,908,367		
Funds Held by Company Under Reinsurance Treaties	1,031	1,031		
Amounts Withheld or Retained by Company	84,668,733	84,668,733		
Provision for Reinsurance	99,540	99,540		
Payable to Parent, Subsidiaries and Affiliates	5,598,524	5,598,524		
Aggregate write-ins for liabilities	29,009	29,009		
Total Liabilities	**$ 158,469,068**	**$ 158,469,068**	**$ -**	
CAPITAL AND SURPLUS				
Common Capital Stock	$ 3,600,000	$ 3,600,000	$ -	
Surplus Notes	16,000,000	16,000,000		
Gross Paid-in and Contributed Surplus	374,600	374,600		
Unassigned Funds	84,259,054	94,461,535	(10,202,481)	
Less Treasury Stock, as Cost Shares Common	5,954,580	5,954,580		
Surplus as Regards Policyholders	**$ 98,279,074**	**$ 108,481,555**	**$ (10,202,481)**	
Total Liabilities, Capital and Surplus	**$ 256,748,142**	**$ 266,950,623**	**$ (10,202,481)**	

International Fidelity Insurance Company

EXHIBIT B: Statement of Operating Results

For the Four-Year Period Ended December 31, 2019

	2019	2018	2017	2016
UNDERWRITING INCOME				
Premiums Earned	$ 87,165,028	$ 100,308,775	$ 100,087,522	$ 97,054,266
Deductions:				
Losses Incurred	9,244,164	8,975,750	6,341,054	6,236,255
Loss Adjustment Expenses Incurred	7,491,927	7,130,825	5,599,433	7,631,382
Other Underwriting Expenses Incurred	55,951,452	75,836,338	77,748,054	75,326,408
Total Deductions	72,687,543	91,942,913	89,688,541	89,194,045
Net Underwriting Gain or (Loss)	14,477,485	8,365,862	10,398,981	7,860,221
INVESTMENT INCOME				
Net Investment Income Earned	6,181,301	1,901,428	1,140,284	116,449
Net Realized Capital Gains (Losses)	2,388,249	(1,864,495)	1,911,501	962,370
Net Investment Gain or (Loss)	8,569,550	36,933	3,051,785	1,078,819
OTHER INCOME				
Net Gain (Loss) from Agents' Balances Charged O	(72,423)	20,043	(215,271)	28,572
Aggregate Write-ins for Misc. Income	20,319	7,603	13,587	28,831
Total Other Income	(52,104)	27,646	(201,684)	57,403
Net Income Before Dividends to Policyholders, and Other Federal and Foreign Income Ta	22,994,931	8,430,441	13,249,082	8,996,443
Dividends to Policyholders	605,238	536,610	547,608	888,658
Federal and Foreign Income Taxes	4,244,844	438,582	4,196,770	2,767,553
Net Income	**$ 18,144,849**	**$ 7,455,249**	**$ 8,504,704**	**$ 5,340,232**

International Fidelity Insurance Company

EXHIBIT C: Changes in Capital and Surplus

For the Four-Year Period Ended December 31, 2019

	2019	2018	2017	2016
Capital and Surplus				
December 31, Previous Year	$ 95,875,210	$ 94,248,899	$ 89,108,820	$ 83,877,023
Net Income	18,144,849	7,455,249	8,504,704	5,340,232
Change in Net Unrealized Capital Gains or (Losses)	2,646,568	(119,101)	(1,638,400)	(523,385)
Change in Net Deferred Income Tax	531,216	(1,868,161)	(2,020,893)	257,004
Change in Non-admitted Assets	(9,350,859)	2,268,527	745,619	(542,193)
Change in Provision for Reinsurance	(67,910)	40,756	(28,721)	7,719
Transferred from Surplus (Stock Dividend)	-	2,100,000	-	-
Transferred to Capital (Stock Dividend)	-	(2,100,000)	-	-
Dividend to Stockholders	(9,500,000)	(949,343)	(1,226,352)	(484,782)
Change in Treasury Stock	-	(5,449,590)	473,490	846,630
Aggregate Write-ins for Gains and Losses in Surplus	-	247,974	330,632	330,572
Total Adjustments	(15,740,985)	(5,828,938)	(3,364,625)	(108,435)
Net Change in Capital and Surplus for the Year	2,403,864	1,626,311	5,140,079	5,231,797
Capital and Surplus				
December 31, Current Year	**$ 98,279,074**	**$ 95,875,210**	**$ 94,248,899**	**$ 89,108,820**

* 2019 Examination Adjustment totaling $10,202,481

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds and Stocks

The Company reported admitted assets for bonds, preferred stocks and common stocks of $186,249,854, $1,066,851 and $28,494,265, respectively at December 31, 2019.

It was determined by this examination that investments in foreign securities would not be allowed as admitted assets. However, these items qualify as admitted assets under the basket clause. For further information, please see the subsection titled Investment Basket Clause Provision.

Investment Basket Clause Provision

The investment “basket clause” provision allows the Company the flexibility to invest in certain securities that may not otherwise be considered permissible investments under N.J.S.A. 17:24-1, which includes a limitation ranging from a minimum of 5% of prior year total admitted assets, to a maximum of 10% of prior year total admitted assets or some amount in between. Specifically, the provision allows loans or investments (not otherwise permitted) not exceeding at any one time in the aggregate the greater of 5% of total admitted assets, or 50% of the excess of total admitted assets over the sum of liabilities, plus capital and surplus required to transact business, but in any event, not to exceed 10% of total admitted assets as of the prior year-end. This limitation is placed on the carrying value of investments that can be classified under this “basket clause” provision.

Basket Clause Provision:

Basket Clause Limit	$	22,814,962
Basket Clause assets at December 31, 2019		
Investments in foreign securities – N.J.S.A. 17:24-10:		
Bonds		25,303,243
Common Stocks		7,714,200
Sub-total	$	33,017,443
Over Basket Clause Provision	$	10,202,481

Upon review, and in accordance with N.J.S.A. 17:24-1(g), it was determined by this examination that the above investments do not fall within the provision of the investment basket clause. As such, those securities classified as foreign investments should be reported as non-admitted assets under the investment basket clause provision.

It was determined by the examination that the Company should non-admit those securities classified as foreign investments under the basket clause provision in the amount of $10,202,481.

It is recommended by this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit assets, which exceed the basket clause limits at year-end.

Note 2 – Special Deposits

The following securities were held on deposit by states and territories on behalf of the Company as of December 31, 2019:

State	Book Value	Fair Value
Arkansas	$ 174,818	$ 175,677
Delaware	10,000	10,000
Florida	600,603	611,390
Georgia	35,963	36,139
Massachusetts	55,000	55,000
Missouri	10,000	10,000
New Hampshire	529,130	534,611
New Jersey	1,637,132	1,637,132
New Mexico	620,869	626,268
North Carolina	1,315,729	1,315,729
Oklahoma	1,965,796	2,000,102
Oregon	267,000	267,000
Pennsylvania	100,000	100,000
South Carolina	255,393	259,413
Tennessee	125,000	125,000
Texas	8,114,950	8,114,950
Virginia	200,563	200,648
U.S. Virgin Islands	500,000	500,000

United States Treasury Notes with a book value of $1,637,132 were held for the benefit of policyholders as statutory deposits on behalf of the State of New Jersey in accordance with N.J.S.A. 17:20-1.

Note 3 – Loss and Loss Adjustment Expense Reserves

The Company reported net loss and loss adjustment expense reserves of $18,027,535 at December 31, 2019. The NJDOBI, Office of Solvency Regulation, Property and Casualty Actuarial Unit performed a review of both the gross and net loss and loss adjustment expense reserves. On the basis of this review, the Company's net loss and loss adjustment expenses reserves were found to be reasonably stated and were accepted without adjustment.

Actuarial findings as stated above and in this examination report are the sole responsibility of the NJDOBI’s Property and Casualty Actuarial Unit.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared coronavirus disease a pandemic. As of the date of this report, significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy and the Company at large. The examination's review of the impact to the Company through the date of this report noted that there has not been a significant impact to the Company overall; however, due to the various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to the Company or if it will escalate. The NJDOBI continues to closely monitor the impact of the pandemic on the Company and will take necessary action if warranted.

As discussed in the Section: History of the Company, surplus notes with private entities totaling $16,000,000 were issued. In non-disapproval letters issued by the NJDOBI, signed May 28, 2021, both notes have been authorized to have the principal repaid in full.

REPORT RECOMMENDATIONS

Notes to Financial Statements – Page 15

In accordance with N.J.S.A. 17:24-1(g), it was determined by this examination certain of the Company's investments do not fall within the provision of the investment basket clause. As such, those securities classified as foreign investments should be reported as non-admitted assets under the investment basket clause provision.

It is recommended the Company comply with N.J.S.A. 17:24-1(g) and non-admit assets, which exceed the basket clause limits at year-end.

CONCLUSION

The examination of the International Fidelity Insurance Company was conducted by the undersigned remotely from the Company's main administrative office.

The courteous cooperation extended to the examination staff by the officers and employees of the Company is acknowledged.

Respectfully submitted,

Robin Brown, CFE
Examiner-in-Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:

Nancy Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

AFFIDAVIT

I, Robin Brown, the undersigned, hereby certify that the foregoing Report of Examination accurately discloses, to the best of my knowledge, all material and relevant information related to the financial condition of International Fidelity Insurance Company in accordance with the NAIC *Financial Condition Examiners Handbook* and New Jersey State Regulations.

Respectfully submitted,

SRKBrown

Robin Brown, CFE
Examiner-in-Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:

Nancy Lee Chice

Nancy Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila M. Tkacs, on this 28th day of May, 2021.

Sheila M. Tkacs
Notary Public of New Jersey

My commission expires: July 2025