

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION**

**OF**

**SAFECARD SERVICES INSURANCE COMPANY  
BISMARCK, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2012**

STATE OF NORTH DAKOTA  
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

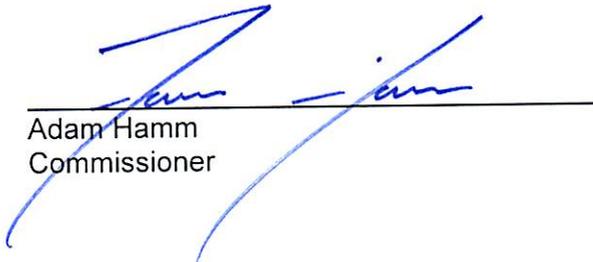
**Safecard Services Insurance Company**

**Bismarck, North Dakota**

as of December 31, 2012, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.



IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 17<sup>th</sup> day of June, 2014.

  
\_\_\_\_\_  
Adam Hamm  
Commissioner

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Bismarck, North Dakota  
May 7, 2014

Honorable Adam Hamm  
Commissioner  
North Dakota Insurance Department  
600 East Boulevard Avenue, Dept. 401  
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**Safecard Services Insurance Company  
Bismarck, North Dakota**

Safecard Services Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2007, by the North Dakota Insurance Department (Department).

**SCOPE OF EXAMINATION**

This examination was a risk-focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five-year period from January 1, 2008, to and including December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination also included assessment of the accounting principles used and significant estimates made by management as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles, annual statement instructions, and when applicable, to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process.

## STATUS OF PRIOR EXAM FINDINGS

The examination included a review to determine the current status of the 10 exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2003, to December 31, 2007. We determined that the Company had satisfactorily addressed all of these items, except the following:

<u>Recommendation</u>	<u>Response</u>
It is again recommended that the Company comply with the investment authorization provisions of the N.D.C.C. § 26.1-05-18 and N.D. Admin. Code § 45-03-12-05(3).	The Company minutes do not show approval of investment transactions by the Board of Directors.
It is again recommended that the Company report investment income that is due and accrued at year-end by received in the following year.	The Company did not report investment income due and accrued correctly.

Additional detail for this recommendation is addressed under the Corporate Records section of this report.

## SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

## SUBSEQUENT EVENTS

On February 28, 2014, the Company requested payment of a special dividend in the amount of \$745,744 to its immediate parent company, Affinion Group LLC. On March 11, 2014, the North Dakota Insurance Department approved the extraordinary dividend as requested. The Company's Board of Directors approved this payment on April 7, 2014.

## COMPANY HISTORY

### General

The Company was incorporated on December 5, 1986, pursuant to the North Dakota Business Corporation Act, N.D.C.C. Chapters 10-19.1 and 26.1-05. The Company is authorized to transact accident and health, burglary and theft, credit card multi-peril, prepaid legal services, fidelity and surety, and inland marine insurance in North Dakota.

The Company was a wholly-owned subsidiary of SafeCard Services, Inc. ("SSI") until 2001. SSI ownership was traded publicly until it was acquired by the Ideon Group, Inc. in 1995. In 1996, CUC International acquired Ideon Group, Inc. Cendant Corporation, created through a merger of CUC International and HFS Incorporated, acquired ownership of SSI in December 1997. Effective July 2, 2001, Trilegiant Corporation, a nonpublic company, became the Company's

direct parent pursuant to an Outsourcing Agreement between Cendant Corporation, Cendant Membership Services Holding Subsidiary, Inc., Cendant Membership Services, Inc., and Trilegiant Corporation. In 2005, Cendant Corporation and all its holdings were acquired by Affinion Group, Inc. During the restructuring, Affinion Group, LLC became the Company's parent and Trilegiant Corporation, its sole policyholder, a sister corporation.

In 2010, General Atlantic and Affinion Group reached an agreement for a merger of Webloyalty into Parker Holding, LLC, a newly formed merger subsidiary of Affinion Group under which Webloyalty will be the surviving party and become a new indirect, wholly-owned subsidiary of Affinion Group. As a result of the merger transaction, General Atlantic acquired control of Affinion Holdings and its subsidiaries, including Safecard. General Atlantic, LLC is a Delaware limited liability corporation founded in 1980, is a private equity fund that together with its affiliates manages \$17 billion in capital and invests in private and public companies as minority or majority investors.

### **Capital Stock**

The corporation is authorized to operate on the stock plan. The aggregate number of shares which the corporation has authority to issue is 5,000 shares of single class (common), with a par value of \$100 per share per the stock certificate. All of the authorized shares were outstanding at December 31, 2012, and were owned by Affinion Group, LLC, a Delaware corporation.

### **Dividends to Stockholders**

During the period under examination, the following dividends were paid to the sole stockholder:

2008 - \$222,000  
2009 - \$434,000

## **CORPORATE RECORDS**

### **Articles of Incorporation and Bylaws**

The Company made no changes to its Articles of Incorporation during the exam period. Amended Bylaws were approved by the Board of Directors in 2010. Changes were made to allow for written consent statements in lieu of meetings of the Board of Directors, to allow for unanimous written consent of the shareholders, and to reduce the minimum number of Board members to one.

### **Stockholder and Board of Directors Meetings**

The minutes of the Board of Directors, and shareholders meetings for the period under examination were read.

In lieu of meetings, stockholder and Board actions were taken by unanimous written consent and resolution. Written consent and resolutions by the sole stockholder were noted for each

year under examination. Written consent and resolutions by the Board of Directors were noted for each year under examination.

In reviewing the Company's compliance with its Articles, Bylaws and the statutory reporting requirements, the examiner noted the following exception:

- The Company's Investment transactions are not approved by the full board as required by N.D. Admin. Code § 45-03-12-05(3) which states:

Investments shall be acquired and held under the supervision and direction of the board of directors and the board shall evidence by formal resolution, at least annually, that it has determined whether all investments have been made in accordance with delegations, standards, limitations, and investment objectives prescribed by the board or a committee of the board charged with the responsibility to direct its investments.

**It is again recommended that the Company comply with the investment authorization provisions of N.D.C.C. § 26.1-05-18 and N.D. Admin. Code § 45-03-12-05(3).**

### **Conflict of Interest**

The Company has an established procedure for disclosing potential conflicts of interest to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is in or likely to conflict with the official duties of such person. The board does not complete these disclosures on an annual basis.

**It is recommended that the Company require the directors, officers, and key management employees to sign conflict of interest statements each year.**

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Bylaws provide that the number of directors shall consist of a minimum of 1 director and no more than 15 directors. The Board of Directors is elected at the annual meeting of the Company which is held on the first Thursday in March, unless all actions are taken by written consent in lieu of meeting.

The minutes show that the annual meetings of the Board were taken by written consent in each year during the examination period.

The sole director serving the Company at December 31, 2012, was as follows:

<b><u>Name and Address</u></b>	<b><u>Business Affiliations</u></b>
Todd Siegel	President & CEO

**Officers**

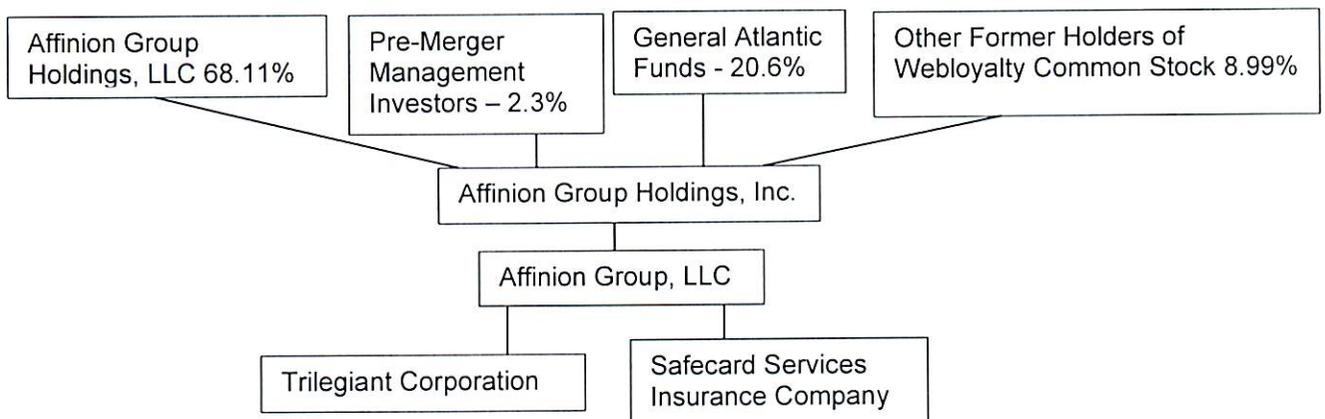
According to the Bylaws, the officers shall consist of a President, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. The offices of President, Secretary and Treasurer may be held by the same person.

The officers of the Company are to be elected by the Board of Directors annually after each annual meeting of the shareholders. Each officer holds his seat until a qualified successor is duly elected or until his death, resignation, or removal. Officers serving at December 31, 2012, were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Todd Siegel	President & CEO
Mark Gibbens	CFO
David P. Vanderscoff	Vice President
Brian Dick	SVP & CAO
Albert Fino	VP & Assistant Treasurer
Sloan Levy	EVP & Secretary

**AFFILIATED COMPANIES**

The Company is a wholly-owned subsidiary of Affinion Group, LLC, a Delaware corporation. A representation of the holding company structure as it relates to Safecard Services Insurance Company as of December 31, 2012, is presented in the following organizational chart:



## **INTERCOMPANY AGREEMENTS**

The Company has no employees. Affinion performs various administrative services which involve or affect the Company, including asset management, accounting services, data processing, claims processing, and financial statement preparation.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2012, the Company was a named insured on a commercial crime policy issued to the Affinion Group by the Chubb Group. The bond insures the Company up to \$10 million on employee theft, forgery, credit card, and computer fraud claims which is in compliance with the NAIC suggested minimum amount of fidelity insurance.

The Company has other types of coverage including general commercial liability, umbrella liability, and directors & officers coverage which were considered adequate.

## **PENSION AND INSURANCE PLANS**

The Company has no employees. Affinion performs various administrative services which involve or affect the Company, including asset management, accounting services, data processing, claims processing, and financial statement preparation. The Company contracts with Dave Vanderscoff for the management needs specific to the Company.

## **TERRITORY AND PLAN OF OPERATION**

Trilegiant markets various products and services to individuals through client proprietary lists (i.e., banks, financial institutions, retailers, oil companies and internet service providers) for a membership fee. Credit charge card customers are offered membership services including the following major product lines:

Hot-Line Credit Card Protection – These services enable consumers to register all of their credit and debit cards. If the cards are lost or stolen, the card holder contacts Trilegiant to report the problem. Additionally, Hot-Line members receive services including insurance liability coverage for fraudulent card charges, emergency cash advances, and change of address service.

Fee Card – This product offers customers of credit card issuers the opportunity to upgrade to a premium or gold card. A gold card entitles the holder to a variety of special benefits.

CreditLine Credit Monitoring Service – This service helps subscribers to obtain and understand personal credit reports.

To enhance its service programs, Trilegiant offers insurance coverage underwritten by the Company. Under this arrangement, the Company issues group master policies to its sister and all subscribers to a particular service program become members of the group by receiving a

certificate of participation in the group master policy. Group members are located in all 50 states and receive notice of participation in the group.

The Company is licensed only in the State of North Dakota.

## GROWTH OF THE COMPANY

The table below shows the Company's written premium activity compared to its surplus over the examination period:

	Premiums Written				
	2012	2011	2010	2009	2008
Direct	\$160,000	\$160,000	\$160,000	\$160,000	\$160,000
Net Premiums	\$160,000	\$160,000	\$160,000	\$160,000	\$160,000
Surplus	\$2,102,000	\$1,957,000	\$1,805,000	\$1,643,000	\$1,935,000
 Premium-to-Surplus Ratio	 7.6%	 8.2%	 8.9%	 9.7%	 8.3%

The Company's net written premiums are generated through a single policy issued to an affiliate which is renewed annually.

## LOSS EXPERIENCE

The table below shows the Company's loss reserves and losses incurred over the exam period:

	2012	2011	2010	2009	2008
Loss reserves	\$0	\$1,000	\$6,000	\$11,000	\$9,000
LAE reserves	0	0	0	0	0
Total Reserves	\$0	\$1,000	\$6,000	\$11,000	\$9,000
Losses and LAE Incurred	-\$1,000	-\$5,000	-\$5,000	\$2,000	\$0

Losses and LAE incurred were negative from 2010 through 2012. This was the result of reserve releases carried over from prior years. The Company did not pay any claims during the examination period.

## REINSURANCE

The Company did not cede any business during the period under review.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2012, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2012 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company was granted a waiver by the North Dakota Insurance Department from the filing requirements for the annual audited financial statement, RBC report, and actuarial opinion during the period under examination.

## STATUTORY DEPOSITS

Deposits maintained by or through regulatory agencies are as follows:

<u>Location</u>	<u>Type of Asset</u>	<u>Statement Value</u>	<u>Market Value</u>
North Dakota	Certificate of Deposit	\$1,500,000	\$1,500,000

## FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

- Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2012
- Statement of Income, Year Ended December 31, 2012
- Reconciliation of Capital and Surplus, January 1, 2008 through December 31, 2012

**Safecard Services Insurance Company**  
**Statement of Assets, Liabilities, Surplus and Other Funds**  
**December 31, 2012**

**Assets**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Cash	\$2,240,072		\$2,240,072
	\$2,240,072	\$0	\$2,240,072
<b>Totals</b>			<b>\$2,240,072</b>

**Liabilities and Surplus**

Losses		\$0
Loss adjustment expenses		0
Other expenses		0
Taxes, licenses, and fees		5,016
Unearned premiums		133,333
Total Liabilities		\$138,349
Common Capital Stock	\$ 500,000	
Gross Paid In and Contributed Surplus	500,000	
Unassigned Funds (Surplus)	1,101,723	
Surplus as Regards Policyholders		2,101,723
Total		<b>\$2,240,072</b>

**Safecard Services Insurance Company**  
**Statement of Income**  
**December 31, 2012**

**Underwriting Income**

Premiums earned		\$160,000
Deductions:		
Losses incurred	\$ (1,020)	
Loss expenses incurred	0	
Other underwriting expenses incurred	<u>17,594</u>	
Total underwriting deductions		<u>16,574</u>
Net underwriting gain (loss)		\$143,426

**Investment Income**

Net investment income earned	\$1,318	
Net realized capital gains (losses)	<u>0</u>	
Net investment gain (loss)		1,318

**Other Income**

Total other income		<u>0</u>
Net income before federal income taxes		\$144,745
Federal income taxes incurred		<u>0</u>
Net income		<u><u>\$144,745</u></u>

**Safecard Services Insurance Company  
Reconciliation of Capital and Surplus Accounts  
January 1, 2008, Through December 31, 2012**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and Surplus, December 31, previous year	<u>\$1,956,977</u>	<u>\$1,804,608</u>	<u>\$1,643,144</u>	<u>\$1,934,707</u>	<u>\$1,964,113</u>
Net income	144,745	152,370	161,464	142,437	192,593
Dividends to Stockholders				(434,000)	(222,000)
Net change in Capital and Surplus for the year	<u>\$144,745</u>	<u>\$ 152,370</u>	<u>\$ 161,464</u>	<u>\$ (291,563)</u>	<u>\$ (29,407)</u>
Capital and Surplus, December 31, current year	<u>\$2,101,723</u>	<u>\$1,956,977</u>	<u>\$1,804,608</u>	<u>\$1,643,144</u>	<u>\$1,934,707</u>

## COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2012, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

### **Interest Income Due and Accrued**

The Company did not accrue interest due on a certificate of deposit as of December 31, 2012. No adjustment has been made to the financial statements as the amount is not material. However, since the exception was noted in the prior report on examination, the issue is included in this report.

**It is again recommended that the Company report due and accrued investment income in its financial statements.**

## CONCLUSION

The financial condition of the Company, as of December 31, 2012, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$2,240,072</u>
Total Liabilities	\$ 138,349	
Surplus as Regards Policyholders	<u>2,101,723</u>	
Liabilities, Surplus, and Other Funds		<u>\$2,240,072</u>

Since the last examination conducted as of December 31, 2007, the Company's admitted assets have increased \$128,670, its total liabilities have decreased \$8,940, and its surplus as regards policyholders has increased \$137,610.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,



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Colton Schulz  
Examiner  
North Dakota Insurance Department

## **COMMENTS AND RECOMMENDATIONS**

It is again recommended that the Company comply with the investment authorization provisions of N.D.C.C. § 26.1-05-18 and N.D. Admin Code § 45-03-12-05(3).

It is recommended that the Company require the directors, officers, and key management employees to sign conflict of interest statements each year.

It is again recommended that the Company report due and accrued investment income in its financial statements.