STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

SAFECARD SERVICES INSURANCE COMPANY
BISMARCK, NORTH DAKOTA

AS OF
DECEMBER 31, 2017
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, 2017, 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 7th day of October, 2018.

Jon Goddard
Commissioner
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Honorable Jon Godfred
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, 2012, by the North Dakota Insurance Department (Department).

SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with North Dakota Century Code (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, 2013 to December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the Department and procedures recommended by the NAIC. In accordance with the NAIC Financial Condition Examiners Handbook, the examination was planned and performed 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. The examination also included 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 included 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 was identified, the impact of such adjustment was documented separately following the Company’s financial statements.
STATUS OF PRIOR EXAM FINDINGS

Our examination included a review to determine the current status of the three exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2008, to December 31, 2012. We determined that the Company had satisfactorily addressed all of these items, except the following:

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is again recommended that the Company require the directors, officers, and key management employees to sign conflicts of interest statements each year.</td>
<td>The Company did not fully comply. The Company implemented a conflict of interest disclosure process, but no disclosures were signed in 2013 or 2017. It is again recommended that the Company require the directors, officers and key management employees to sign conflicts of interest statements each year.</td>
</tr>
</tbody>
</table>

The finding and recommendation related to the issue above is addressed within the corporate records section below for the current period under examination.

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

No significant subsequent events were noted during the examination.

COMPANY HISTORY

General

The Company was incorporated on December 5, 1986, pursuant to the North Dakota Business Corporation Act, N.D.C.C. §§ 10-19.1, 26.1-05. The Company is authorized to transact accident and health and property and casualty 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 Affinage Group, Inc., a wholly owned subsidiary of the publicly traded Company, Affinage Group.
Holdings. During this restructuring, Affinion Group, LLC became the Company's parent and Trilegiant Corporation, the Company's sole policyholder, a sister corporation.

In 2011, Affinion Group Holdings entered into an agreement that resulted in the indirect acquisition of the capital stock of Webloyalty and the exchange of Webloyalty's securities for Affinion Group Holdings securities. After this merger, funds affiliated with Apollo Global Management, LLC (Apollo) owned 70 percent of Affinion Group Holding's common stock and General Atlantic, LLC owned 21 percent.

In 2015, Affinion Group Holdings completed a private offer to exchange outstanding debt for shares of common stock. Upon completion of this exchange, Apollo and General Atlantic, LLC ceased to have beneficial ownership of Affinion common stock.

At December 31, 2017, approximately 80 percent of the Affinion Group Holdings common stock with voting power was held by the following seven entities (listed by their more commonly known names):

- Intermediate Capital Group (ICG) 19.3%
- Allianz Global Investors 19.2%
- Empyrean Capital 13.9%
- PennantPark 11.0%
- Ares Management 5.9%
- Kamunting Street (Kamunting) 6.8%
- Elliot 4.7%

**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, 2017, 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:

- 2014 - $745,744
- 2017 - $275,453

**CORPORATE RECORDS**

**Articles of Incorporation and Bylaws**

The Company made no changes to its Articles of Incorporation or Bylaws during the exam period.

**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 in three of the five years under examination.

**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 consistently complete these disclosures on an annual basis.

It is again 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 one director and no more than fifteen 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 Directors serving the Company at December 31, 2017, was as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Business Affiliations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Todd Siegel</td>
<td>President &amp; CEO</td>
</tr>
<tr>
<td>Gregory Miller</td>
<td>Executive VP &amp; CFO</td>
</tr>
</tbody>
</table>

**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, 2017, were as follows:
name|office
---|---
Todd Siegel | President & CEO
Gregory Miller | CFO
David P. Vanderscoff | Vice President
Brian Fisher | EVP & Secretary
Lori Tansley | SVP & CAO
Fred Robertson | GVP, Tax & Treasurer

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, 2017 is presented in the following organizational chart:

INTERCOMPANY AGREEMENTS

The Company has intercompany agreements. Affinion performs various administrative services which involve or affect the Company, including asset management, accounting services, data processing, claims processing, and financial statement preparation.

Statement of Statutory Accounting Principles (SSAP) 70 states that holding companies must establish uniform expense allocation rules to classify expenses. For those expenses not directly incurred in the operation of the Company, such as shared resources, an allocation of expenses should be used, based upon pertinent factors or ratios such as studies of employee activities, salary ratios or similar analyses. This expense allocation agreement must address the shared use of employees among affiliates, any physical or digital file storage, and any fidelity or other insurance policy under which the Company is a named insured.
It is recommended that the Company comply with SSAP 70 and enter into an expense allocation agreement with its parent company in order to properly classify indirect expenses.

**FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2017, the Company was a named insured on a crime policy through Beazley Insurance Company. 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.

**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 any management specific needs.

**TERRITORY AND PLAN OF OPERATION**

Trilegiant, an affiliate of the Company, 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 Trilegiant 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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$160,000</td>
<td>$160,000</td>
<td>$160,000</td>
<td>$160,000</td>
<td>$160,000</td>
</tr>
<tr>
<td>Net Premiums</td>
<td>$160,000</td>
<td>$160,000</td>
<td>$160,000</td>
<td>$160,000</td>
<td>$160,000</td>
</tr>
<tr>
<td>Surplus</td>
<td>$1,766,205</td>
<td>$1,897,528</td>
<td>$1,775,453</td>
<td>$1,641,716</td>
<td>$2,245,744</td>
</tr>
</tbody>
</table>

| Premium-to-Surplus Ratio | 9.1% | 8.4% | 9.0% | 9.7% | 7.1% |

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:

<table>
<thead>
<tr>
<th>Losses and LAE Incurred</th>
<th>Loss reserves</th>
<th>LAE reserves</th>
<th>Total Reserves</th>
<th>Losses and LAE Incurred</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$10,000</td>
<td>0</td>
<td>$10,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>$10,000</td>
<td>0</td>
<td>$10,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>$10,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>$10,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

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, 2017, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2017 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, quarterly financial statements, RBC report, and actuarial opinion during the period under examination.

STATUTORY DEPOSITS

Deposits maintained by or through regulatory agencies are as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Type of Asset</th>
<th>Statement Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Dakota</td>
<td>Certificate of Deposit</td>
<td>$1,500,000</td>
<td>$1,500,000</td>
</tr>
</tbody>
</table>

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2017. This statement is followed by supporting statements and reconciliations presented in the following order:

  Statement of Assets, Liabilities, and Other Funds, December 31, 2017
  Summary of Income, Year 2017
  Reconciliation of Capital and Surplus, January 1, 2013 through December 31, 2017

These financial statements are based on the statutory statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2017.
SafeCard Services Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2017

Assets

<table>
<thead>
<tr>
<th>Assets</th>
<th>Non-admitted Assets</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1,914,554</td>
<td>$1,914,554</td>
</tr>
<tr>
<td>Totals</td>
<td>$1,914,554</td>
<td>$0</td>
</tr>
</tbody>
</table>

Liabilities and Surplus

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses</td>
<td>$10,000</td>
</tr>
<tr>
<td>Loss adjustment expenses</td>
<td>0</td>
</tr>
<tr>
<td>Other expenses</td>
<td>0</td>
</tr>
<tr>
<td>Taxes, licenses, and fees</td>
<td>5,016</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>133,333</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$148,349</td>
</tr>
<tr>
<td>Common capital stock</td>
<td>$500,000</td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>500,000</td>
</tr>
<tr>
<td>Unassigned funds (surplus)</td>
<td>766,206</td>
</tr>
<tr>
<td>Surplus as regards policyholders</td>
<td>1,766,206</td>
</tr>
<tr>
<td>Total</td>
<td>$1,914,554</td>
</tr>
</tbody>
</table>
SafeCard Services Insurance Company
Statement of Income
December 31, 2017

Underwriting Income

Premiums earned $160,000

Deductions:
Losses incurred $ 0
Loss adjustment expenses incurred 0
Other underwriting expenses incurred 17,574

Total underwriting deductions 17,574

Net underwriting gain (loss) $142,426

Investment Income

Net investment income earned $1,705

Net realized capital gains (losses) 0

Net investment gain (loss) $1,705

Other Income

Total other income 0

Net income before federal income taxes $144,130

Federal income taxes incurred 0

Net income $144,130
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Surplus, December 31, previous year</td>
<td>$1,897,528</td>
<td>$1,775,453</td>
<td>$1,641,716</td>
<td>$2,245,744</td>
<td>$2,101,723</td>
</tr>
</tbody>
</table>
CONCLUSION

The financial condition of the Company, as of December 31, 2017, as determined by this examination is summarized as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admitted Assets</td>
<td>$1,914,554</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$ 148,349</td>
</tr>
<tr>
<td>Surplus as Regards Policyholders</td>
<td>1,766,205</td>
</tr>
<tr>
<td>Liabilities, Surplus, and Other Funds</td>
<td>$1,914,544</td>
</tr>
</tbody>
</table>

Since the last examination conducted as of December 31, 2012, the Company’s admitted assets have decreased $325,518, its total liabilities have increased $10,000, and its surplus as regards policyholders has decreased $335,518.

In addition to the undersigned, Andrea Rebsom participated in this examination.

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

Respectfully submitted,

[Signature]

Colton Schulz, CFE
Supervising Examiner
North Dakota Insurance Department
COMMENTS AND RECOMMENDATIONS

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

It is recommended that the Company comply with SSAP 70 and enter into an expense allocation agreement with its parent company in order to properly classify indirect expenses.