SEIBELS BRUCE GROUP INC
Form 10-K
March 29, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K
ANNUAL REPORT

(Mark one)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2001

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission file number 0-8804

THE SEIBELS BRUCE GROUP, INC.

(Exact name of registrant as specified in its charter)

South Carolina	**57-0672136**
(State or other jurisdiction of incorporation or organization)	(IRS employer identification no.)
1501 Lady Street (P.O. Box 1) Columbia, S.C.	**29201(2)**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code **(803) 748-2000**

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common stock, par value $1.00 per share
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of March 15, 2002, based on the closing sale price of the registrant's common stock, par value $1.00 per share, as reported on the National Association of Securities Dealers Over-the-Counter Bulletin Board on such date: $21,928,732.

The number of shares outstanding of the registrant's common stock as of March 15, 2002: 7,831,690.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement in connection with the annual meeting of shareholders to be held May 8, 2002 are incorporated by reference into Part III.

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ABBREVIATIONS

The following abbreviations used in the text have the meaning set forth below unless the context requires otherwise:

AFS	America's Flood Services, Inc.
Catawba	Catawba Insurance Company
CAIC	Consolidated American Insurance Company
FEMA	Federal Emergency Management Administration
GAAP	Generally Accepted Accounting Principles
Generali	Generali-U.S. Branch
Graward	Graward General Companies, Inc.
INS	Insurance Network Services, Inc.
Investors	Investors National Life Insurance Company of South Carolina
JUA	Joint Underwriting Association
LAE	Loss Adjustment Expenses
MGA	Managing General Agent
NC Facility	North Carolina Reinsurance Facility
NAIC	National Association of Insurance Commissioners
NASDAQ	National Association of Securities Dealers Automated Quotation System
NCDOI	North Carolina Department of Insurance
NFIP	National Flood Insurance Program
Norwest	Norwest Financial Resources, Inc.
OTC Bulletin Board	National Association of Securities Dealers Over-the-Counter Bulletin Board
PBP	Premium Budget Plan, Inc.
Premium	Premium Service Corporation of Columbia
QualSure	QualSure Insurance Corporation
QualSure Holding	QualSure Holding Corporation
RAD	Regulatory Action Division
RBC	Risk-Based Capital
SAP	Statutory Accounting Principles
The Company	The Seibels Bruce Group, Inc.
SBC	Seibels, Bruce & Company
SCAAIP	South Carolina Associated Auto Insurers Plan
SCDOI	South Carolina Department of Insurance
SCIC	South Carolina Insurance Company
SC Facility	South Carolina Reinsurance Facility
SFAS	Statement of Financial Accounting Standards
UIC	Universal Insurance Company

Part I

Item 1. Business

CORPORATE PROFILE AND DEVELOPMENT OF BUSINESS
(dollars in thousands except per share amounts)

Tracing its roots to 1869, The Seibels Bruce Group, Inc. (the "Company"), a South Carolina corporation, is a provider of a wide range of services to the insurance industry, as well as a provider of automobile, flood and other property and casualty insurance products. The Company is committed to providing quality customer service, building strong relationships with its customers, developing and capitalizing on territorial knowledge, and fostering the creativity and innovation of its associates. The Company's headquarters is located at 1501 Lady Street, Columbia, South Carolina 29201 and its telephone number is (803) 748-2000.

The Company conducts business in two primary categories: fee-for-service operations and traditional insurance operations. Its fee-for-service operations include the activities of Insurance Network Services, Inc. ("INS"), its flood operations, and its operations as a servicing carrier for the South Carolina Reinsurance Facility ("SC Facility") and the South Carolina Associated Auto Insurers Plan ("SCAAIP"). INS provides a variety of claims-related management and adjudication services to the insurance industry, including claims handling, networked glass claims handling and automobile appraisals. The Company's flood unit is a leading provider, and is an original participant, in the National Flood Insurance Program ("NFIP"), a flood insurance program administered by the federal government. In this capacity, the Company writes flood insurance for the NFIP in 46 states, and offers excess flood insurance through Lloyd's of London and Wilshire National Corporation. As such, the Company receives commissions and fees from the NFIP, Lloyd's of London and Wilshire National Corporation, but retains no underwriting risk. The Company's flood operations also offers flood zone determinations and flood compliance tracking services through its subsidiary, America's Flood Services, Inc. ("AFS"). The Company is a servicing carrier for the SC Facility and the SCAAIP. Under both of these pools, the Company issues policies and adjusts claims for a fee. The SC Facility is currently in runoff; however, the Company was permitted to cede premiums to the SC Facility through March 1, 2002, at which time final runoff of the SC Facility commenced. The Company is required to continue to adjudicate claims it ceded to the SC Facility during the final runoff, for which it will be paid a fee. The SCAAIP became effective in March 1999 and will survive the SC Facility. Although the SCAAIP offers the Company access to additional fee-based revenue with no underwriting risk, thus far into the runoff of the SC Facility, the Company has not experienced significant activity in the SCAAIP.

The Company's traditional insurance operations include its North Carolina nonstandard automobile subsidiary, Universal Insurance Company ("UIC"), and its commercial lines operations. UIC writes nonstandard automobile insurance primarily in the state of North Carolina. UIC cedes substantially all of its liability premiums to the North Carolina Reinsurance Facility ("NC Facility") and adjusts the related claims for the NC Facility for a fee. Substantially all of UIC's retained risk operations is on physical damage policies, which are minimum limit policies partially reinsured through a quota share reinsurance agreement. The Company also writes commercial lines insurance, which includes business owner's policies, commercial package policies and commercial automobile policies. These "main street" policies are sold primarily to small businesses. The Company reinsures the retained risk operations of UIC and its commercial lines operations through quota share, facultative, excess of loss, catastrophe and umbrella reinsurance agreements.

The Company seeks to balance its fee-based operations with selective risk underwriting to increase the Company's value for its shareholders, agents and employees by pursuing maximum growth with limited risk exposure.

The Company returned to profitability in 2001 after posting substantial net losses in 2000 and 1999 resulting primarily from the Nashville and South Carolina automobile components of its automobile segment. In June 2000, the Company announced the discontinuation of its Nashville operations under its subsidiary, Graward General Companies, Inc. ("Graward") and recorded $16,421 in special items charges in the second quarter of 2000. In July 2000, the Company announced its withdrawal from the South Carolina voluntary nonstandard automobile insurance market. In the fourth quarter of 2000, the Company recorded special items gains totaling $8,283 resulting from the settlement of purchase price disputes and the settlement of assumed liabilities, both of which were associated with the acquisition of Graward. During 2001, the Company continued its emphasis on fee-based operations begun in the third quarter of 2000, carefully balancing them with the risk-bearing business of its commercial and North Carolina automobile operations. Without the significant strain on earnings of the Nashville and South Carolina automobile operations, all of the Company's continued operations posted a profit for 2001. Although the All Other segment, which includes the Company's environmental, workers' compensation and general liability runoff operations, experienced a net loss for the year, the loss was substantially attributable to a strengthening of loss and loss adjustment expense ("LAE") reserves associated with the Company's environmental exposures. As these exposures near completion of runoff, management's estimation of the Company's ultimate liability and required loss and LAE reserves becomes less variable. Though management believes all of the Company's insurance reserves are adequate, establishing reserves is still an estimation process and adverse developments of its existing reserves in future years may occur and would be recorded in the year so determined.

The following is a brief description of each of the Company's business segments:

Automobile

The Automobile segment includes UIC's retained risk nonstandard automobile and premium finance operations, the runoff of the Company's Nashville and South Carolina automobile operations, and the fee-based NC Facility, SC Facility and SCAAIP operations.

UIC Operations

UIC writes nonstandard automobile insurance (principally liability and physical damage coverages) primarily in the state of North Carolina. UIC cedes substantially all of its liability premiums, and the related claims, to the NC Facility, a state-sponsored plan for insuring North Carolina drivers outside of the voluntary market. UIC receives underwriting and claims commissions equal to approximately 28% and 14%, respectively, of premiums written in the NC Facility. Substantially all of UIC's retained risk operations is on physical damage policies, which are minimum limit policies partially reinsured through a quota share reinsurance agreement. In February 2001, a new management team with extensive experience in the North Carolina nonstandard automobile market was hired to oversee the Company's North Carolina operations and charged with the tasks of: 1) increasing the operation's direct written premium; 2) reducing the loss ratio on the operation's retained risk physical damage program; and 3) lowering the operation's operating costs and expenses. As a result, UIC's operations showed substantial improvements in 2001 as compared to 2000. As a result of improved agent relations, customer service and overall business performance measures implemented by the new management team, coupled with the relative lack of severe weather in the state of North Carolina in 2001 as compared to 2000, the loss ratio of the UIC operations improved from approximately 75% during 2000 to approximately 55% during 2001. In the second quarter of 2001, the Company consolidated its policy and claims processing systems in North Carolina into its primary processing and claims systems located in the Company's Columbia, SC corporate headquarters. This move, coupled with a host of additional expense reduction initiatives instituted by new management, resulted in substantial reductions of UIC's other operating costs and expenses in 2001 over 2000.

The majority of UIC's written premium has traditionally been financed through the Company's premium finance subsidiary, Premium Budget Plan, Inc. ("PBP"). PBP receives interest income from insureds on premiums it finances, as well as a variety of set up and maintenance fees associated with the related premium finance contracts. While PBP has proved to be an effective sales and marketing tool to facilitate premium growth for UIC over the years, management has continually struggled with the challenge of limiting the volume of bad debt expenses associated with its operations. As a result of PBP's operating losses and reassessments of its core competencies, the Company entered into a management contract with an unaffiliated company effective June 1, 2001 to manage the operations of PBP. In December 2001, UIC introduced an installment billing program to its insureds and PBP was placed into runoff. Additionally, UIC continues to offer premium finance alternatives to its insureds through a number of unaffiliated premium finance companies.

Nashville Operations

During 2000, the Company discontinued its Nashville operations and placed all of this business into runoff. Due to high loss ratios and an extremely high expense structure, this operation had suffered substantial operating losses in 1998 and 1999, with indications that the losses would continue throughout 2000 without expectation that it could become profitable in the foreseeable future. In the second quarter of 2000, the Company took a special items charge to earnings of $16,421, $15,678 of which were non-cash items, including impairment of goodwill associated with the Graward acquisition of $14,915. Other special items charges associated with exiting the operation included the write-down of certain fixed and operating assets, accrual of closure costs and accrual of severance and other personnel-related costs. On August 1, 2000, the Company moved all remaining business of the operation to its South Carolina headquarters to complete the runoff of this book of business.

South Carolina Nonstandard Automobile Operations

The Company has been a servicing carrier for the SC Facility, a state-sponsored plan for insuring South Carolina drivers outside of the voluntary market, since its creation in 1974 and has historically generated significant amounts of fee-based income in this capacity. The Company receives underwriting and claims commissions equal to approximately 11% of premiums written in the SC Facility and paid losses ceded to the SC Facility, respectively. The SC Facility began its three-year run off March 1, 1999. The Company ceased ceding premiums to the SC Facility March 1, 2002; however, it is required to adjudicate claims related to policies ceded to the SC Facility during the final runoff for which it will receive commissions. The Company also issues nonstandard automobile policies and adjusts the related claims for the SCAAIP, a joint underwriting association ("JUA") formed to replace the SC Facility. The Company is one of two servicing carriers for the SCAAIP. Although the SCAAIP offers the Company access to additional fee-based revenue with no underwriting risk, thus far into the runoff of the SC Facility the Company has not experienced significant activity in the SCAAIP. During 1997, in contemplation of the runoff of the SC Facility, the Company introduced a voluntary nonstandard automobile program in South Carolina. By the end of 1999, direct written premium volume under this voluntary program had escalated to approximately $28,288. Such rapid growth customarily strains earnings and results in higher than average loss ratios; however, the operation continued to experience substantial losses and substantially higher than acceptable loss ratios well into 2000, with no indication of reprieve. In July 2000, the Company concluded that the operation could not generate profits in the foreseeable future and, therefore, placed the business into runoff. The combined operations of the South Carolina voluntary nonstandard automobile program, the SC Facility and the SCAAIP posted net income in 2001 of $594 as a result of the same factors discussed above that lead to the 2001 net income of the Company's Nashville operations.

Flood

The Company's flood product line includes flood insurance, excess flood insurance, flood zone determinations, claims processing and flood compliance tracking services. The Company's basic flood insurance product is ceded entirely to the NFIP, a federal government program that establishes premium rates and coverage limits, bears all risk of loss and pays claims. Working through its independent agents located across the United States, the Company issues policies and processes claims on behalf of the NFIP. In this capacity, the Company receives commissions for the policies it processes and the related claims it services of 31% of direct premiums written and 3.3% of direct incurred losses, respectively. NFIP policies only cover losses up to $250 for residential buildings and $100 for contents. Further, the NFIP commercial coverage is limited to $500 for both buildings and contents. The Company's excess flood insurance product provides a level of protection above the NFIP's limits for residential and commercial properties. The Company, as broker, receives commissions for placing this business. The Company also believes that offering the excess flood product allows it to improve its relationships with its agency force by offering them a broader product portfolio. During 2001, the Company's NFIP written premium once again increased at a rate that surpassed that of the total NFIP, due primarily to obtaining several large books of flood business from independent insurance agents across the United States. This was facilitated by expanding the Company's product offering to independent agents and the introduction of new technology to its agency force, including internet-based policy rating and flood zone determination services.

Claims processing for the NFIP has been a substantial source of revenues and earnings for the Company over the past several years and is a weather-dependent component of its flood operations. Whereas most property and casualty insurance companies suffer losses during hurricanes and floods, the Company benefits strongly as a fee-based processor of claims for the NFIP. Due to the relatively quiet 2000 and 2001 hurricane seasons, the revenue generated from flood claims handling is down significantly from prior years. AFS provides the Company a presence for flood claims processing on both coasts, an important element of diversification and scale for weather-dependent operations.

The Company, through AFS, offers the additional flood-related services of flood zone determinations and flood zone mapping services to customers located throughout the United States. These services are provided primarily to mortgage originators to determine whether or not homes are located in flood zones and, therefore, require flood insurance. These services allow the Company to offer a more complete flood portfolio to both agents and financial institutions, provide the Company with a stronger presence in the flood market and expand the channels of distribution for the Company's complementary products. AFS' revenues can be substantially affected by increasing or decreasing general market interest rates due to the impact these fluctuations have on the mortgage industry.

Commercial

The Company reentered the risk-bearing commercial lines market in February 1998 when it converted a substantial amount of premiums written in a Managing General Agent ("MGA") capacity for another insurance carrier to retained risk premiums. Since that time, the Company has capitalized on the long-standing relationships of its commercial lines agents and benefited from the experience of its qualified underwriters. The Company's commercial lines have historically been reinsured primarily through quota share reinsurance agreements. From April 1, 1999 through March 31, 2000 the Company's commercial lines were subject to a 90% quota share reinsurance agreement. Effective April 1, 2000, the 90% quota share reinsurance agreement was amended to become a 70% quota share reinsurance agreement, and the amended agreement was terminated at the Company's request effective April 1, 2001. The Company's commercial lines are presently reinsured through facultative, excess of loss, catastrophe and umbrella coverages. Retaining a larger portion of its book of business had a positive impact on the operation's earnings in 2001 and was the primary reason for its turnaround over

2000. Further enhancing the results of the Company's commercial operations in 2001 was the introduction of a new technology initiative. This initiative centered on a web-based rating and underwriting system that allows the Company's agents to provide real time quotes on commercial business owners' policies, store those quotes and then submit the policy over the internet. During 2002, the Company looks to expand the use of this technology to other lines of its commercial operations.

Adjusting Services

The Company's premium concentration in the catastrophe-heavy Southeast led to the 1996 creation of INS to manage the Company's internal claims. INS currently offers a wide array of services: automobile appraisals, automobile liability claims handling, catastrophe claims handling, claims administration, direct reporting, general liability claims handling, glass claims handling, property claims handling, subrogation and recovery and total loss claims handling. These services expand the Company's business opportunities by allowing it to offer services to other insurance companies. The Company's experience in processing flood claims led to the award of two statewide Wind and Hail Association contracts, a strong indication of its growing presence in the catastrophe claims handling market. INS is an important part of the Company's corporate structure. It has over 50 unaffiliated customers and can accommodate claims services requests from anywhere in the United States. INS claims representatives are differentiated from their counterparts at traditional claims adjusting companies by having an insurance company background, an important characteristic when equitably settling claims.

Effective January 21, 2000, three of the Company's insurance subsidiaries made a combined investment totaling $4,900 in the common stock of QualSure Holding Corporation ("QualSure Holding"), representing a combined ownership interest of 30.625%. QualSure Holding owns 100% of the issued and outstanding stock of QualSure Insurance Corporation ("QualSure"), a homeowners take out insurance company domiciled in the state of Florida, and QualSure Underwriting Agencies, Inc., an MGA for QualSure. QualSure was formed to take out approximately 44,000 homeowners policies from the Florida Windstorm Underwriting Association and approximately 40,000 homeowners policies from the Florida Residential Property & Casualty Joint Underwriting Association. In connection with this investment, INS entered into a Claims Administration Services Agreement with QualSure to adjudicate all of its claims for a fee based upon subject earned premium. This investment capitalizes upon its considerable experience in claims adjudication and provides a substantial source of fee-based income to supplement its risk-bearing operations.

The two most significant components of the segment's revenues are its Claims Administration Services Agreement with QualSure and the loss adjusting services provided in connection with the SC Facility. The SC Facility began its planned runoff effective March 1, 1999, at which time no new business was accepted into the SC Facility. Effective October 1, 1999, voluntary renewals were no longer accepted by the SC Facility. However, servicing carriers were able to cede renewals to the SC Facility until March 1, 2002, at which time final runoff of the SC Facility commenced. Commission and service income from these two components of the adjusting services segment represent approximately 54% and 62% of the segment's total commission and service income in 2001 and 2000, respectively.

All Other

The Company continues to maintain reserves and pay significant claims with respect to its runoff operations. These operations consist primarily of general liability policies that include contractors' liability and environmental coverages primarily in California and commercial (including workers' compensation) and personal lines policies in the Southeast. The runoff of claims on these policies has resulted in substantial losses to the Company over the past 10 years. In addition, the Company's runoff segment contains the management of runoff reserves from prior business in the 1980's and runoff from a nonstandard homeowners MGA book of business in Kentucky and Tennessee entered into in early

1997. The Company discontinued writing new business in this MGA book of business in October of 1998. Approximately 66% and 50% of the Company's total net reserves for losses and LAE at December 31, 2001 and 2000, respectively, relate to these runoff operations.

Reinsurance

The Company utilizes reinsurance in certain business segments to reduce its exposure and to provide protection against large catastrophic occurrences. Reinsurance contracts do not relieve the Company of its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurer to minimize its exposure to significant losses from reinsurer insolvency.

The Company currently reinsures its North Carolina-based UIC nonstandard automobile business through a quota share reinsurance agreement with Scandinavian Re that became effective July 1, 2000. Under this arrangement, UIC cedes 75% of its risk-bearing premiums to the reinsurer, net of a ceding commission, and collects the same portion of claims payments from the reinsurer. This type of reinsurance is designed to increase a company's capacity to write new and renewal business.

From April 1, 1999 through March 31, 2000 the Company's commercial lines were subject to a 90% quota share reinsurance agreement with Erie Insurance Exchange. Effective April 1, 2000, the 90% quota share reinsurance agreement was amended to become a 70% quota share reinsurance agreement, and the amended agreement was terminated at the Company's request effective April 1, 2001. The Company's commercial lines are presently reinsured through facultative, excess of loss, catastrophe and umbrella coverages.

The Company issues a substantial number of automobile and flood insurance policies for, and fully reinsures those risks with, the NC Facility, the SC Facility and the NFIP. While the amount of reinsurance recoverable under these arrangements is significant, the Company believes the balances due from the NC Facility, the SC Facility and the NFIP are fully collectable due to the governmental agency's ability to assess policyholders and member companies for deficiencies.

Investment and Investment Results

The Company's investment portfolio is managed by the Investment Committee of its Board of Directors. In addition to complying with regulatory guidelines, the Company's investment policy stresses preservation of capital, market liquidity and diversification of risk. The Company's cash and investments are as follows at December 31:

	2001 Asset Values	%	2000 Asset Values	%
U.S. Government, government agencies and authorities	$ 14,605	31.8	$ 15,009	30.8
States, municipalities and political subdivisions	388	0.9	383	0.8
Corporate bonds	18,545	40.4	16,598	34.1
Total debt securities	33,538	73.1	31,990	65.7
Equity securities	5,961	13.0	6,307	12.9
Cash and short-term investments	6,375	13.9	10,410	21.4
Total cash and investments	$ 45,874	100.0	$ 48,707	100.0

Asset values represent market values at December 31, 2001 and 2000, respectively. Effective January 21, 2000, three of the Company's insurance subsidiaries made a combined investment totaling $4,900 in the common stock of QualSure Holding, representing a combined ownership interest of 30.625%. QualSure Holding owns 100% of the issued and outstanding stock of QualSure, a

homeowners take out insurance company domiciled in the state of Florida formed to take out approximately 44,000 homeowners policies from the Florida Windstorm Underwriting Association and approximately 40,000 homeowners policies from the Florida Residential Property & Casualty Joint Underwriting Association. During the fourth quarter of 1997, the Company invested $854 in Sunshine State Holding Corporation for an ownership interest of 21.49%. Sunshine State Holding Corporation owns 100% of the issued and outstanding stock of Sunshine State Insurance Company, a Florida-based writer of homeowners insurance. As each of these investments exceeds 20% of the equity of each respective company, the Company's equity in the undistributed earnings of the unconsolidated affiliates, using a computed equity method, are included in current earnings.

The following table sets forth the consolidated investment results for the three years ended December 31:

	2001	2000	1999
Total average investments (1)	$ 47,841	$ 47,780	$ 60,531
Net investment income	$ 2,500	$ 2,660	$ 2,835
Average yield	5.2%	5.6%	4.7%
Net realized investment gain (loss)	$ 90	$ (236)	$ (91)

(1) Average of the aggregate invested amounts (market values) as of the beginning of the year, March 31, June 30, September 30, and year-end.

Regulation

State Regulation. Insurance companies are subject to supervision and regulation in the jurisdictions in which they transact business. Such supervision and regulation relate to numerous aspects of an insurance company's business and financial condition. The primary purpose of such supervision and regulation is the protection of policyholders. The extent of such regulation varies but generally derives from state statutes which delegate regulatory, supervisory and administrative authority to state insurance departments. Accordingly, the state insurance departments have the authority to establish standards of solvency that must be met and maintained by insurers to license insurers and agents and to approve policy forms. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies.

Most states have enacted legislation that regulates insurance holding company systems, including acquisitions, dividends, the terms of surplus notes, the terms of affiliate transactions and other related matters. Three of the Company's insurance subsidiaries are domiciled in the state of South Carolina and are principally regulated by the South Carolina Department of Insurance ("SCDOI"). UIC is domiciled in North Carolina and is principally regulated by the North Carolina Department of Insurance ("NCDOI"). A fifth insurance company, Investors National Life Insurance Company of South Carolina ("Investors"), was dissolved effective December 1, 2000. Investors had been in runoff for several years and, effective October 1, 2000, executed a portfolio assumption agreement with an unaffiliated company for all remaining policy liabilities. Upon completion of the portfolio assumption agreement, and receiving approval from the SCDOI, Investors issued a liquidating dividend to its parent, South Carolina Insurance Company ("SCIC"), and returned its insurance license to the SCDOI.

Insurance companies are required to file detailed annual statements with the state insurance regulators in each of the states in which they conduct business. Their business and accounts are subject to examination by such regulators at any time. In addition, these insurance regulators periodically examine the insurer's financial condition, adherence to statutory accounting principles and compliance with insurance department rules and regulations. South Carolina and North Carolina law, rather than

federal bankruptcy law, would apply to the liquidation or reorganization of any of the Company's insurance companies. An examination by the SCDOI of SCIC and its subsidiary companies, Consolidated American Insurance Company ("CAIC"), Catawba Insurance Company ("Catawba") and Investors, as of December 31, 1998 was completed during 1999 with no material findings. An examination by the NCDOI of UIC as of December 31, 2000 was begun in the fourth quarter of 2001 and has not yet been completed.

Effective January 1, 2001, both the North and South Carolina Departments of Insurance adopted the Codification of Statutory Accounting Principles ("Codification") as the prescribed basis of accounting for insurance companies domiciled in their respective states. Accordingly, all of the Company's statutory subsidiaries adopted Codification effective January 1, 2001. Adoption of Codification did not have a material effect on the financial statements of any of the Company's statutory subsidiaries.

Since before the Company's acquisition of UIC in 1997, UIC has operated, and continues to operate, under the Regulatory Action Division ("RAD") of the NCDOI. Under the requirements of the RAD, UIC is required to submit monthly financial statements to the NCDOI.

NAIC Guidelines. The National Association of Insurance Commissioners ("NAIC") has adopted Risk-Based Capital ("RBC") requirements for property and casualty insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks such as asset quality, asset and liability matching, loss reserve adequacy and other business factors. The RBC formula is used by state insurance regulators as an early warning tool to identify, for the purpose of initiating regulatory action, insurance companies that may be inadequately capitalized. Compliance is determined by the ratio of the Company's regulatory total adjusted capital to its company action level RBC (as defined by the NAIC). Companies which fall below the company action level RBC are required to disclose plans to remedy the situation. As of December 31, 2001, all of the insurance subsidiaries have ratios in excess of the level which would prompt regulatory action.

Regulation of Dividends and Other Payments from Insurance Subsidiaries

The Company is a legal entity separate and distinct from its subsidiaries. As a holding company, the primary sources of cash needed to meet its obligations, including the redemption of its special stock and principal and interest payments on its outstanding debt, are dividends and other permitted payments, including management fees, from its subsidiaries and affiliates.

Except in limited circumstances, South Carolina and North Carolina insurance laws and regulations require a domestic insurer to report any action authorizing distributions to shareholders and material payments from subsidiaries and affiliates at least 30 days prior to distribution or payment. Additionally, those laws and regulations provide the SCDOI and the NCDOI the right to disapprove and prohibit distributions meeting the definition of an "Extraordinary Dividend" under applicable statutes and regulations.

The South Carolina Insurance Holding Company Regulatory Act provides that, without prior approval of the Commissioner of Insurance of the State of South Carolina, dividends within any 12-month period may not exceed the greater of (i) 10% of a domestic insurer's surplus as regarding policyholders as shown in the insurer's most recent annual statement or (ii) the net income, not including realized capital gains or losses as shown in the insurer's most recent annual statement. Furthermore, dividends may only be paid out of positive earned surplus unless approved by the Commissioner. As of December 31, 2001, SCIC had an accumulated deficit.

The North Carolina Insurance Holding Company System Regulatory Act provides that, without prior approval of the Commissioner of Insurance of the State of North Carolina, dividends within any 12-month period may not exceed the lessor of (i) 10% of a domestic insurer's surplus as regarding

policyholders as of the preceding December 31 or (ii) the net income, not including realized capital gains, for the 12-month period ending the preceding December 31. For 2002, dividends of approximately $522 are available from UIC to the Company.

Payment of cash dividends by the Company is at the discretion of its Board of Directors and is based on its earnings, financial condition, capital requirements and other relevant factors. If the ability of the Company's insurance subsidiaries to pay dividends or make other payments to the Company is materially restricted by regulatory or Credit Facility requirements, it could affect the Company's ability to service its debt and special stock and/or pay dividends. In addition, no assurance can be given that North Carolina or South Carolina will not adopt statutory provisions more restrictive than those currently in effect.

Required Participation

State Residual Market Plans. Most states in which the Company's property and casualty insurance subsidiaries write business have collective pools, underwriting associations, reinsurance facilities, assigned risk plans and/or other types of residual market plans, the largest being the NC Facility and the SC Facility, pursuant to which coverages not normally available in the voluntary market are shared by all companies writing that type of business in that state. Participation is usually based on the ratio of the Company's share of the voluntary market in a given state.

South Carolina Automobile. The SC Facility is an unincorporated, non-profit administrative state-sponsored plan. The SC Facility provides a mechanism for insurance companies conducting business in the state of South Carolina to cede mandated, high-risk coverages under automobile policies to the SC Facility and to share the cost of those coverages ceded. Every insurer authorized to write automobile liability insurance in South Carolina is required to participate in the SC Facility. When policyholders whose premiums have been ceded to the SC Facility incur a loss, the member company that issued the policy adjusts the loss and subsequently is reimbursed by the SC Facility for the loss and LAE incurred by the member company. The SC Facility has also created a pool of "Designated Agents," which are agencies usually comprised of a single independent agent who had lost his or her access to the voluntary automobile market. Designated Agents are assigned to one of the SC Facility's servicing carriers. Prior to October 1, 1996, the cession or retention of physical damage coverage was dictated by whether or not the risk was "pointed" or "clean." Prior to that date only clean risk physical damage could be ceded to the SC Facility. Effective October 1, 1996, however, physical damage was removed from the mandate and the SC Facility agreed to accept any physical damage, pointed or clean, provided that the SC Facility-filed premium rates were used.

In 1997, the South Carolina General Assembly passed legislation that transforms the SC Facility into the SCAAIP, a JUA, effective March 1, 1999. As of March 1, 1999, insurance companies could no longer cede new business to the SC Facility. Non-servicing carriers continued to cede renewals to the SC Facility until October 1, 1999 and servicing carriers are permitted to cede renewals to the SC Facility until March 1, 2002. All renewals ceded after March 1, 1999 must be ceded at the rate level approved for the SC Facility. The SCAAIP began accepting business on March 1, 1999. The initial rate level for the JUA was approximately 150% of the then current SC Facility rate. The legislation also allowed the current Designated Agents of the SC Facility to receive voluntary contracts without jeopardizing their Designated Agent status.

National Flood Insurance Program. FEMA's Federal Insurance Administration manages the NFIP. The NFIP regulations established the Financial Assistance/Subsidy Arrangement pursuant to which the NFIP Administrator and private sector insurers participate in the Write-Your-Own Program. Under the Write Your Own Program, insurers that are party to a Financial Assistance/Subsidy Arrangement may issue, in the NFIP name, a Standard Flood Insurance Policy, the form and substance of which is approved by the NFIP Administrator. Insurers are responsible for all aspects of service, including policy issuance, endorsements and renewals of policies and the adjudication of claims brought under the policies, while the NFIP Administrator monitors the performance levels of all insurers participating in the Write Your Own Program. The Company is required to furnish FEMA such summaries and analyses of information, including claims information, as may be necessary to carry out the purposes of the National Flood Insurance Act of 1968, as amended.

Competition and Other Factors

The Company operates in highly competitive industry markets. Many of its competitors have greater financial resources and are rated by A. M. Best. The Company has elected not receive a rating from A.M. Best. In general, the Company competes with both large national writers and smaller regional companies in each state in which it operates. These competitors include other companies that, like the Company, serve the agency market as well as companies that sell insurance directly to policyholders. Direct writers may have certain competitive advantages over agency writers, including increased name recognition, increased customer base loyalty and, potentially, reduced acquisition costs.

Nonstandard Automobile Insurance Business. The Company competes in North Carolina with the major carriers for nonstandard voluntary automobile insurance business. The nonstandard automobile insurance business is price sensitive and certain competitors of the Company have, from time to time, decreased their prices in an apparent attempt to gain market share. Although the Company's pricing is inevitably influenced to some degree by that of its competitors, management believes that it is generally not in its best interest to match such price decreases; choosing instead to compete on the basis of underwriting criteria and superior service to its agents and insureds. Competition in the North Carolina market is driven not only by price, but also by premium financing. The North Carolina market is sensitive to the down payment required on a nonstandard automobile policy. For this reason, the Company offered premium financing through PBP, its premium finance company, through mid December 2001. In December 2001, the Company placed PBP into runoff and introduced an installment bill program directly administered by UIC. Under the program, UIC bills the insured monthly for premiums due and collects from the insured an installment fee. Additionally, UIC continues to offer premium finance alternatives to its insureds through a number of unaffiliated premium finance companies.

Flood Program. Factors influencing the choice of a competitor over the Company include ability to offer homeowners or other property products to agents, ability to increase commission rates and on-line policy issuance capability. The Company has been impacted by not having a homeowners product to complement its flood insurance, especially in Florida. Thus, the Company entered into a joint marketing agreement with Sunshine State Insurance Company, in which the Company has an equity ownership interest of 21.49%, that gives the Company's agents access to a homeowners product. In addition, the competitive nature of the flood insurance market prompted the Company to introduce new technology to its agency force, including internet-based policy rating and flood zone determination services.

Adjusting Services. INS operates in an intensely competitive environment. Many of its competitors sustain regional, multi-regional and national operations capable of servicing claims for all lines of insurance coverage. INS' continuing challenge is to provide customer service superior to that of its competitors in order to retain its existing customer base and attract new customers. Further, revenues in INS' catastrophe adjusting operations are substantially dependent upon unpredictable coastal weather-related events. Therefore, INS must look to diversify and expand its catastrophe operations beyond its current concentration in the Atlantic and Gulf coastal regions of the United States into the interior and western regions of the country, which are prone to a variety of additional weather-related catastrophes such as tornadoes, hailstorms, earthquakes and floods.

Commercial Lines. The Company continues to focus on small businesses in developing its "Main Street" book of business, but competition in this market is intense. The Company competes with large national and regional carriers, many with higher A.M. Best ratings than the Company, which influences the decisions of many commercial insurance customers. In addition, companies offering workers' compensation coverage may hold some competitive advantage over the Company as the Company does not offer this coverage. The Company is reinsuring its book of business with A rated carriers in an attempt to minimize the effects of not having its own A.M. Best rating. The Company is also investigating certain niche markets in which it believes the competition will be less and the lack of an A.M. Best rating will have little impact.

Employees

At December 31, 2001 and 2000, the Company and its subsidiaries employed a total of 296 and 329 employees, respectively. The Company believes that its relationship with its employees is good.

Item 2. Properties

The Columbia, South Carolina headquarters, containing approximately 126,000 square feet of occupied space, is owned by Charles H. Powers, the Company's majority shareholder and Chairman of the Board of Directors, and leased by the Company through 2003 for its property and casualty insurance and claims operations. The Winston-Salem, North Carolina office is the base of UIC's operations. That office contains approximately 18,000 square feet and is leased through 2005. AFS is located in Rancho Cordova, California. AFS leases approximately 5,300 square feet, with the lease expiring in 2002. Some additional premises are leased by the Company in other locations in which it operates. Management believes that these facilities are sufficient for the Company's current and foreseeable future needs.

Item 3. Legal Proceedings

(a) Litigation was initiated in the United States District Court for the Middle District of Florida, Tampa Division in November 2001 by QualSure Holding, a Florida property and casualty insurance holding company that was formerly known as Magna Holding Corporation, and involves three of the Company's wholly-owned subsidiaries SCIC, Catawba, and CAIC, who are the three defendants to the litigation and who collectively own 30.625% of the stock of QualSure Holding. There are five plaintiffs QualSure Holding; QualSure and QualSure Underwriting Agencies, Inc., which are subsidiaries of QualSure Holding; and Fenelon Ventures II LLC and N.E.M. (West Indies) Insurance Ltd., two stockholders of QualSure Holding. The eight entities involved in the litigation are all parties to a January 20, 2000 Securities Purchase Agreement concerning the purchase of QualSure Holding stock, a January 21, 2000 Stockholders Agreement that governs the rights of the stockholders in, among other things, disposing of their stock in QualSure Holding, and numerous other documents that provide for the management and control of QualSure Holding.

In or about June 2001, SCIC, Catawba, and CAIC entered into negotiations to sell their investments in QualSure Holding to an unrelated third party. On November 2, 2001, the plaintiffs initiated the litigation against SCIC, Catawba, and CAIC by filing a Complaint, a motion for a preliminary injunction, and a motion for expedited discovery. Plaintiffs filed their First Amended Complaint on December 13, 2001; the allegations in the First Amended Complaint are substantially similar to the allegations in the original Complaint. The First Amended Complaint alleges that SCIC, Catawba and CAIC improperly divulged confidential information belonging to QualSure Holding in their negotiations with the third party. Plaintiffs generally allege that defendants' dissemination of certain information regarding QualSure Holding's policyholders and QualSure Holding's calculations of "Probable Maximum Loss" injured QualSure Holding in its efforts to obtain reinsurance for 2002. The First Amended Complaint alleges claims for breach of contract (based on a confidentiality provision in

the Stockholders' Agreement), breach of fiduciary duties (for defendants' alleged dissemination of the confidential information), and misappropriation of confidential and proprietary information and trade secrets (under Florida's Uniform Trade Secrets Act). Plaintiffs seek compensatory damages in excess of $75, punitive damages, and preliminary and permanent injunctive relief.

Defendants filed a motion to disqualify plaintiffs' lead law firm, which was representing the Company in certain matters at the time the plaintiffs initiated the litigation. The Court granted the motion on December 13, 2001. In addition, defendants filed a motion to dismiss the First Amended Complaint on December 14, 2001, on the ground that the First Amended Complaint fails to state claims against SCIC, Catawba, and CAIC upon which relief may be granted. That motion is now fully briefed and is pending a decision. Meanwhile, each side has propounded and responded to written discovery requests. SCIC, Catawba and CAIC have not as yet filed their answers to the First Amended Complaint, nor have they filed their response to plaintiffs' motion for a preliminary injunction.

Management believes SCIC, Catawba and CAIC have meritorious defenses to the foregoing action and it will be vigorously contested.

(b) In February 2002, litigation was initiated in the District Court of Shelby County, Texas, in a lawsuit styled Mary Masterson, individually and on behalf of all others similarly situated, vs. America's Flood Service, Inc., et al. The litigation involves both the Company and its wholly-owned subsidiary, AFS, and is in its very earliest stages, with appearances and responsive pleadings due by early April. The pleadings allege that a putative class of persons in Texas received facsimile advertisements in violation of the federal Telephone Consumer Protection Act ("TCPA"). The plaintiffs seek statutory minimum damages of five hundred dollars per fax, plus additional damages of up to one thousand five hundred dollars per fax for allegedly knowingly violating the TCPA.

(c) The Company and its subsidiaries are parties to various other lawsuits generally arising in the normal course of their insurance and ancillary businesses. The Company does not believe that the eventual outcome of such suits will have a material effect on the financial condition or results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders by the Company during the fourth quarter of 2001.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

(a) Market Information

The Company's common stock is quoted and traded on the National Association of Securities Dealers Over-the-Counter Bulletin Board ("OTC Bulletin Board") under the symbol "SBIG." In November 2000, the Company announced that it had been delisted from the National Association of Security Dealers Automated Quotation System ("NASDAQ") for failing to meet the minimum bid price, market value of public float and net tangible asset requirements set forth in NASDAQ Marketplace Rules. The following table sets forth the range of high and low closing bid prices as reported on either NASDAQ or the OTC Bulletin Board. Such bid prices represent inter-dealer quotations, without retailer mark-up, mark-down or commission and may not necessarily represent actual transactions. On March 15, 2002 the last reported bid price of the Company's common stock on the OTC Bulletin Board was $2.80 per share.

	High	Low
2002		
First quarter (through March 15, 2002)	$ 2.80	$ 1.75
2001		
First quarter	$ 1.88	$ 0.59
Second quarter	3.10	1.70
Third quarter	2.74	2.00
Fourth quarter	2.70	2.00
2000		
First quarter	$ 2.00	$ 1.50
Second quarter	2.00	0.94
Third quarter	1.44	0.56
Fourth quarter	1.00	0.55

(b) Holders

There were approximately 4,381 shareholders of record as of March 15, 2002.

(c) Dividends

There have been no dividends declared by the Company on its common stock during the past 5 years, and the Board of Directors does not presently intend to pay any cash dividends on common stock in the foreseeable future. The Company is a legal entity separate and distinct from its subsidiaries. As a holding company, the primary sources of cash needed to meet its obligations, including the redemption of its special stock and principal and interest payments on its outstanding debt, are dividends and other permitted payments, including management fees, from its subsidiaries and affiliates. The Company's insurance subsidiaries are regulated as to their payment of dividends by their respective state of domicile's insurance laws. The Company's payment of cash dividends is at the discretion of the Board of Directors and is based on its earnings, financial condition, capital requirements, and other relevant factors.

The Company has 50,000 shares of $0.625 Cumulative, Convertible, Redeemable, Nonvoting Special Preferred Stock and 209,000 shares of $0.620 Cumulative, Convertible, Redeemable, Nonvoting Special Preferred Stock issued and outstanding at December 31, 2001. These obligations pay quarterly dividends at an annual rate of $0.625 per share and $0.62 per share, respectively. The Company paid a

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total of $161, $168 and $168 in dividends on these obligations in 2001, 2000 and 1999, respectively. Each issue of the Special Stock has a redemption date of August 15, 2002.

On March 28, 2002, the Company issued 800,000 shares of $10 par value Adjustable Rate Cumulative Nonvoting Preferred Special Stock to its majority shareholder and Chairman of the Board of Directors for an aggregate purchase price of $8,000. The proceeds from the transaction were used to repay the outstanding balance of the Credit Facility. The Adjustable Rate Cumulative Nonvoting Preferred Special Stock will pay quarterly dividends at an annual adjustable rate of a pre-determined spread over LIBOR. The Adjustable Rate Cumulative Nonvoting Preferred Special Stock was issued in a transaction exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder.

Item 6. Selected Financial Data

The following selected historical financial data for each of the five years ended December 31, 2001 is derived from the Company's audited consolidated financial statements. The selected data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7) and the consolidated financial statements and accompanying notes (Item 8) included elsewhere herein.

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	2001	2000	1999	1998	1997
FINANCIAL CONDITION:					
Total cash and investments	$ 45,874	$ 48,707	$ 59,614	$ 64,250	$ 51,793
Total assets	150,638	170,666	254,803	295,563	234,618
Total debt	7,721	10,159	14,986	16,250	3,036
Special stock	2,590	2,700	2,700	2,700	2,200
Shareholders' equity	16,974	11,992	26,557	35,588	37,544
Shareholders' equity per share	2.17	1.53	3.39	4.58	4.86
RESULTS OF OPERATIONS:					
Revenues:					
Commission and service income	$ 36,272	$ 35,890	$ 45,652	$ 49,298	$ 44,105
Property and casualty premiums earned	14,433	25,137	53,344	22,762	6,580
Credit life premiums earned				13	156
Net investment and other interest income	3,901	4,627	4,220	4,645	3,887
Net realized (loss) gain	(211)	(225)	338	54	529
Policy fees and other income	2,913	4,693	4,779	4,645	112
Total revenues	$ 57,308	$ 70,122	$ 108,333	$ 81,417	$ 55,369
Income (loss) before effect of change in accounting principle	$ 4,366	$ (15,361)	$ (7,536)	$ (2,293)	$ 4,003
Effect of change in accounting principle				(601)	
Net income (loss)	$ 4,366	$ (15,361)	$ (7,536)	$ (2,894)	$ 4,003
Basic earnings (loss) per share before change in accounting principle	$ 0.54	$ (1.98)	$ (0.99)	$ (0.31)	$ 0.57
Basic loss per share effect of change in accounting principle				(0.08)	

	2001	2000	1999	1998	1997
Basic earnings (loss) per share after change in accounting principle	$ 0.54	$ (1.98)	$ (0.99)	$ (0.39)	$ 0.57
Diluted earnings (loss) per share before change in accounting principle	$ 0.53	$ (1.98)	$ (0.99)	$ (0.31)	$ 0.55
Diluted loss per share effect of change in accounting principle				(0.08)	
Diluted earnings (loss) per share after change in accounting principle	$ 0.53	$ (1.98)	$ (0.99)	$ (0.39)	$ 0.55

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The selected financial data and consolidated financial statements and related notes thereto should be read in conjunction with the following discussion as they contain important information for evaluation of the Company's financial condition and operating results.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and assumptions on historical experience and on various other factors that are believed to be

reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management has identified the following policies as critical in understanding and e